April 15, 2021

*via electronic mail*
**SECURITIES AND EXCHANGE COMMISSION**
Secretariat Building, PICC Complex,
Roxas Boulevard, Pasay City, 1307

ATTENTION : **DIR. VICENTE GRACIANO P. FELIZMENIO, JR.**
Markets and Securities Regulation Department

*via PSE EDGE*
**PHILIPPINE STOCK EXCHANGE, INC.**
PSE Tower, 28th Street cor. 5th Avenue,
Bonifacio Global City, Taguig City

ATTENTION : **MS. JANET A. ENCARNACION**
Head, Disclosure Department

*via electronic mail*
**PHILIPPINE DEALING & EXCHANGE CORP.**
Market Regulatory Services Group
29th Floor BDO Equitable Tower
8751 Paseo de Roxas, Makati City 1226

ATTENTION : **ATTY. MARIE ROSE M. MAGALLEN-LIRIO**
Head – Issuer Compliance and Disclosures Department

Gentlemen:

Attached is the SEC Form 17-A (Annual Report 2020) of Aboitiz Power Corporation for your files.

Kindly acknowledge receipt hereof.

Thank you.

Very truly yours,

**ABOITIZ POWER CORPORATION**
By:

**MANUEL ALBERTO R. COLAYCO**
Corporate Secretary

Aboitiz Power Corporation
NAC Tower, 32nd St. Bonifacio
Global City 1634 Taguig City, NCR

Tel no. (63-2) 886-2800

www.aboitizpower.com

**COVER SHEET**

C 1 9 9 8 0 0 1 3 4

S.E.C. Registration Number

A B O I T I Z P O W E R C O R P O R A T I O N

( Company's Full Name )

3 2 N D S T R E E T , B O N I F A C I O G L O B A L

C I T Y , T A G U I G C I T Y , M E T R O M A N I L A

P H I L I P P I N E S

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

**MANUEL ALBERTO R. COLAYCO**

Contact Person

**02- 8886-2338**

Company Telephone Number

| Fiscal Year | Annual Report | Annual Meeting |
|---|---|---|
| 1 2 3 1 | 1 7 - A | 4th Monday of April<br>0 4 2 6 |
| *Month* *Day* | FORM TYPE | *Month* *Day* |

N/A

Secondary License Type, if Applicable

**SEC**

Dept. Requiring this Doc

N/A

Amended Articles Number/Section

Total No. of Stockholders

**x**

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

S T A M P S

**Remarks** = Pls. use black ink for scanning purposes

**SECURITIES AND EXCHANGE COMMISSION**

**SEC FORM 17-A**

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

1. For the year ended **2020**

2. SEC Identification Number **C199800134** 3. BIR TIN **200-652-460-000**

4. Exact name of registrant as specified in its charter **Aboitiz Power Corporation**

5. **Philippines**
Province, country or other jurisdiction of incorporation

6. Industry Classification Code

7. **32nd Street, Bonifacio Global City, Taguig City** **1634**
Address of principal office Postal Code

8. **(02) 8886-2800**
Issuer's telephone number, including area code

9. **N/A**
Former name or former address, if changed since last report

10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Section 4 and 8 of the RSA.

| Title of Each Class | Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding |
|---|---|
| **Common** | **7,358,604,307** |
| **Total Debt (as of December 31, 2020)** | **₱228,327,722,000.00** |

**Fixed-Rate Peso Retail Bonds Issued by the Company:**

| Issue Date | Series | Amount of Issuance | Maturity Date | Tenor |
|---|---|---|---|---|
| September 2014 | Series A | ₱6.6 billion | September 2021 | 7 years |
| September 2014 | Series B | ₱3.4 billion | September 2026 | 12 years |
| July 2017 | Series A | ₱3 billion | July 2027 | 10 years |
| October 2018 | Series B | ₱7.7 billion | January 2024 | 5.25 years |
| October 2018 | Series C | ₱2.5 billion | October 2028 | 10 years |
| October 2019 | Series D | ₱7.25 billion | October 2026 | 7 years |
| July 2020 | Series E | ₱9 billion | July 2022 | 2 years |
| July 2020 | Series F | ₱550 million | July 2025 | 5 years |
| March 2021 | Series A | ₱8 billion | March 2026 | 5 years |

For a discussion on the Company's bond issuances, please refer to Part I Item 1 (I)(b).

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

Yes (✓) No ( )

If yes, state the name of such stock exchange and the classes of securities listed therein:

**Philippine Stock Exchange** **Common**

12. Check whether the registrant:

    **(a)** has filed all reports required to be filed by Section 17 of the Securities Regulation Code (SRC) and SRC Rule 17.1 thereunder or Section 11 of the RSA and RSA Rule 11 (a)-1 thereunder, and Sections 25 and 177 of the Revised Corporation Code of the Philippines, during the preceding 12 months (or for such shorter period that the registrant was required to file such reports);

    Yes (✓) No ( )

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

    Yes (✓) No ( )

13. State the aggregate market value of the voting stock held by non-affiliates of the registrant. The aggregate market value shall be computed by reference to the price at which the stock was sold, or the average bid and asked prices of such stock, as of a specified date within sixty (60) days prior to the date of filing. If a determination as to whether a particular person or entity is an affiliate cannot be made without involving unreasonable effort and expense, the aggregate market value of the common stock held by non-affiliates may be calculated on the basis of assumptions reasonable under the circumstances, provided the assumptions are set forth in this Form.

    For 2020, aggregate voting stock of registrant held outside of its affiliates and/or officers and employees totaled 1,411,376,387 shares (for details please refer to the attached notes to financial statements and Schedule H of this report) while its market price per share was ₱26.55, as of December 29, 2020.

    Based on this data, total market value of registrant's voting stock not held by its affiliates and/or officers and employees was computed to be ₱37,472,043,074.85.

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

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

    Yes ( ) No (✓)

**DOCUMENTS INCORPORATED BY REFERENCE**

15. If any of the following documents are incorporated by reference, briefly describe them and identify the part of SEC Form 17-A into which the document is incorporated:

    (a) Any annual report to security holders:
    - 2020 Audited Financial Statements (with BIR ITR Filing Reference)
    - 2020 Consolidated Audited Financial Statements and Supplementary Schedules
    - Integrated Annual Corporate Governance Report
    - 2020 Annual and Sustainability Report

    (b) Any information statement filed pursuant to SRC Rule 20:
    - SEC Form 20-IS (Information Statement) for 2021 Annual Stockholders' Meeting

    (c) Any prospectus filed pursuant to SRC Rule 8.1:
    - None.

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## PART 1 – BUSINESS AND GENERAL INFORMATION

### Item 1. Business

#### (1) Business Development

Aboitiz Power Corporation ("AboitizPower", the "Company", or the "Issuer") was incorporated on February 13, 1998 in Cebu City, Philippines as a holding company for the Aboitiz Group's investments in electricity generation and distribution. Ownership in AboitizPower was opened to the public through an initial public offering of its common shares in the PSE on July 16, 2007. As of March 23, 2021, AboitizPower has a market capitalization of ₱176 bn, with a common share price of ₱23.95 per share as of March 23, 2021.

Driven by the pursuit of creating a better future for its customers, its host communities, and the nation, AboitizPower's business operations have developed into four strategic business units: (a) Power Generation, (b) Power Distribution, (c) Retail Electricity Services (RES), and (d) Distributed Energy. The Company will continue to pursue its international aspirations with a continued focus on renewable energy projects in wind, hydro, an solar in high-growth geographic markets with acceptable regulatory environments.

The power generation business of AboitizPower is among the leaders in the Philippines in terms of installed capacity.[1] Moreover, AboitizPower has the second largest distribution utility, in terms of captive customer connections and energy sales[2], the second largest (in terms of number of customers) and third largest (in terms of share in total retail market demand) RES company.[3] AboitizPower is a pioneer in building and the operation of run-of-river hydropower plants in the country. Today, through its renewable energy Subsidiaries, AboitizPower has the largest installed capacity of renewable energy under its market control.[4]

AboitizPower through its Subsidiaries, Joint Ventures, and Associates, is a leading player in the Philippine power industry with interests in privately-owned power generation companies, RES services, and distribution utilities throughout the Philippines, from Benguet in the north to Davao in the south.

AboitizPower's portfolio of power generating plants consist of a mix of renewable and non-renewable sources and of baseload and peaking power plants. This allows the Company to address the 24-hour demand of the country with its coal and geothermal plants handling baseload demand, while the hydropower, solar, and oil-based plants handle intermediate to peaking demand. Most of these plants are also capable of providing ancillary services, which are also critical in ensuring a reliable grid operation. Its Generation Companies have an installed capacity which is equivalent to a 16.45% market share of the national grid's installed generating capacity.[5] As of February 28, 2021, AboitizPower owns 4,429 MW of net attributable capacity, of which 3,494 MW is currently operating. The Company plans to double in size by the end of the decade and targets increasing its capacity to more than 9,000 MW by 2030. This will come from a portfolio of renewables and selective baseload builds, with the optionality for either coal or gas facilities. AboitizPower's renewable investments are held primarily through its wholly-owned Subsidiary, Aboitiz Renewables, Inc. (ARI) and its Subsidiaries and Joint Ventures. AboitizPower is a pioneer in the building and operation of run-of-river mini hydropower plants in the country.

AboitizPower also owns interests in nine Distribution Utilities in Luzon, Visayas, and Mindanao, including Visayan Electric and Davao Light & Power Co., Inc. (Davao Light), the second and third largest distribution utilities in the Philippines, respectively. AboitizPower's Subsidiaries engaged in the distribution of electricity sold a total of 7,151,601 MWh during 2020.

AboitizPower's power generation business supplies power to various customers under power supply contracts, ancillary service procurement agreements (each, an "ASPA"), and for trading in the Wholesale Electricity Spot Market (WESM). The power distribution business is engaged in the distribution and sale of electricity to end-users, and the RES and Others segment includes retail electricity sales to various offtakers that are considered eligible contestable customers ("Contestable Customers") and provision of electricity-related services, such as

[1] Based on Energy Regulatory Commission (ERC) Resolution No. 5 dated June 18, 2019
[2] Based on DOE's Distribution Development Plan 2016-2025
[3] Based on ERC Competitive Retail Electricity Market Monthly Statistical Data as of November 2020
[4] Based on ERC Resolution No. 02, Series of 2020 dated 12 March 2020
[5] Based on ERC Resolution No. 5, dated June 18, 2019

installation of electrical equipment. AboitizPower's Subsidiaries engaged in the supply of retail electricity sold a total of 3.26 Terawatt hours (TWh) during 2020.

As of March 23, 2021, Aboitiz Equity Ventures Inc. (AEV) owns 77.00% of the outstanding capital stock of AboitizPower, 7.54% is owned by directors, officers, and other related parties, while the remainder was owned by the public.

Neither AboitizPower nor any of its Subsidiaries has ever been the subject of any bankruptcy, receivership or similar proceedings.

*History and Milestones*

The Aboitiz Group's involvement in the power industry began when members of the Aboitiz family acquired a 20% ownership interest in Visayan Electric in the early 1900s. The Aboitiz Group's direct and active involvement in the power distribution industry can be traced to the 1930s, when Aboitiz & Company, Inc. (ACO) acquired Ormoc Electric Light Company and its accompanying ice plant, Jolo Power Company, and Cotabato Light and Power Company (Cotabato Light). In July 1946, the Aboitiz Group further strengthened its position in power distribution in the Southern Philippines when it acquired Davao Light, which is now the third largest privately-owned distribution utility in the Philippines in terms of customers and annual gigawatt hour (GWh) sales.

In December 1978, ACO divested its ownership interests in Ormoc Electric Light Company and Jolo Power Company and focused on the more lucrative franchises held by Cotabato Light, Davao Light, and Visayan Electric.

In response to the Philippines' pressing need for adequate power supply, the Aboitiz Group ventured into power generation, becoming a pioneer and industry leader in hydroelectric energy. In 1978, the Aboitiz Group incorporated Hydro Electric Development Corporation (HEDC), which carried out feasibility studies (including hydrological and geological studies), hydroelectric power installation and maintenance, and developed hydroelectric projects in and around Davao City. On June 26, 1990, the Aboitiz Group also incorporated Northern Mini-Hydro Corporation (now Cleanergy, Inc.), which focused on the development of mini-hydroelectric projects in Benguet province in northern Luzon. By 1990, HEDC and Cleanergy had commissioned and were operating 14 plants with combined installed capacity of 36 MW. In 1996, the Aboitiz Group led the consortium that entered into a Build-Operate-Transfer (BOT) agreement with NPC to develop and operate the 70-MW Bakun AC hydroelectric plant (the "Bakun AC Hydro Plant") in Ilocos Sur.

The table below sets out milestones in AboitizPower's development since 1998:

| Year | Milestones |
|---|---|
| 1998 | Incorporated as a holding company for the Aboitiz Group's investments in power generation and distribution. |
| 2005 | Consolidated its investments in mini-hydroelectric plants in a single company by transferring all of HEDC's and Cleanergy's mini hydroelectric assets to Hedcor, Inc. (Hedcor). |
| 2007 | Entered into a share swap agreement with AEV in exchange for AEV's ownership interest in the following distribution utilities:<br>(i) An effective 55% equity interest in Visayan Electric;<br>(ii) A 100% equity interest in each of Davao Light and Cotabato Light;<br>(iii) An effective 64% ownership interest in Subic Enerzone; and<br>(iv) An effective 44% ownership interest in San Fernando Electric Light & Power Co., Inc. (SFELAPCO). |
| | As part of the reorganization of the power-related assets of the Aboitiz Group, the Company:<br>(i) Acquired 100% interest in Mactan Enerzone Corporation (Mactan Enerzone) and 60% interest in Balamban Enerzone Corporation (Balamban Enerzone) from AboitizLand; and<br>(ii) Consolidated its ownership interests in Subic Enerzone Corporation (Subic Enerzone) by acquiring the combined 25% interest in Subic Enerzone held by AEV, SFELAPCO, Okeelanta Corporation, and PampangaSugar Development Corporation.<br><br>These acquisitions were made through a Share Swap Agreement, which involved the issuance of the Company's 170,940,307 common shares issued at the IPO price of ₱5.80 per share in exchange for the foregoing equity interests in Mactan Enerzone, Balamban Enerzone, and SubicEnerzone. |

| Year | Milestones |
|---|---|
| | Together with its partner, Statkraft Norfund Power Invest AS of Norway, through SN Aboitiz Power-Magat, acquired possession and control of the Magat Plant following its successful bid in an auction by the Power Sector Assets and Liabilities Management Corporation (PSALM). |
| | Formed Abovant Holdings, Inc. (Abovant) with the Vivant Group as the investment vehicle for the construction and operation of a coal-fired power plant in Toledo City, Cebu ("Cebu Coal Project"). Abovant entered into a Memorandum of Agreement (MOA) with Global Business Power Corporation (Global Power) of the Metrobank group for the acquisition of a 44% equity interest in Cebu Energy Development Corporation (Cebu Energy). |
| | Therma Power, Inc. (TPI) entered into a MOA with Taiwan Cogeneration International Corporation (TCIC) for the Subic Coal Project, an independent coal-fired power plant in the Subic Bay Freeport Zone. Redondo Peninsula Energy, Inc. (RP Energy) was incorporated as the project company. |
| | Acquired 50% of East Asia Utilities Corporation (EAUC) from El Paso Philippines Energy Company, Inc. and 60% of Cebu Private Power Corporation (CPPC). |
| | Purchased 34% equity ownership in STEAG State Power, Inc. (STEAG Power) from Evonik SteagGmbH in August 2007. |
| | Purchased Team Philippines Industrial Power II Corporation Industrial Power II Corp.'s 20%equity in Subic Enerzone. |
| 2008 | SN Aboitiz Power–Benguet submitted the highest bid for the Ambuklao-Binga HydroelectricPower Complex. |
| | Acquired Tsuneishi Holdings (Cebu), Inc. (THC)'s 40% equity ownership in Balamban Enerzone, bringing AboitizPower's total equity in Balamban Enerzone to 100%. |
| 2009 | AP Renewables, Inc. (APRI) acquired the 234-MW Tiwi geothermal power facility in Albay and the 449.8 MW Makiling-Banahaw geothermal power facility in Laguna (collectively referred to as the "Tiwi-MakBan Geothermal Facilities"). |
| | Therma Luzon, Inc. (TLI) became the Independent Power Producer Administrator (IPPA) forthe 700-MW contracted capacity of the Pagbilao Coal-Fired Power Plant ("Pagbilao Plant"), becoming the first IPPA of the country. |
| 2010 | Therma Marine, Inc. (TMI), acquired ownership over Mobile 1 (Power Barge 118) and Mobile 2 (Power Barge 117) from PSALM. |
| 2011 | Meralco PowerGen Corporation (MPGC), TCIC, and TPI entered into a Shareholders' Agreementto formalize their participation in RP Energy. MPGC took the controlling interest in RP Energy, while TCIC and TPI maintained the remaining stake equally. |
| | Therma Mobile, Inc. (TMO) acquired four barge-mounted floating power plants and their operating facilities from Duracom Mobile Power Corporation and EAUC. In the same year, the barges underwent rehabilitation and started commercial operations in 2013. |
| 2013 | Aboitiz Energy Solutions, Inc. (AESI) won 40 strips of energy corresponding to 40 MW capacity of Unified Leyte Geothermal Power Plant (ULGPP). The contract between AESI with PSALM withrespect to the ULGPP capacity was terminated on October 26, 2019. |
| 2014 | TPI entered into a joint venture agreement with TPEC Holdings Corporation to form Pagbilao Energy Corporation (PEC) to develop, construct, and operate the 400 MW coal-fired Pagbilao Unit 3. |
| | Therma Power-Visayas, Inc. (TPVI) was declared the highest bidder for the privatization of the Nag Power Plant Complex (NPPC). SPC Power Corporation (SPC), the other bidder, exercised its right-to-top under the Naga Power Plant Land-Based Gas Turbine Land Lease Agreement, and PSALM declared SPC as the winning bidder. After protracted legal proceedings, TPVI accepted the turn-over for the NPPC plant on July 16, 2018. |
| | Acquired 100% of Lima Enerzone Corporation (Lima Enerzone) from Lima Land, Inc. (Lima Land), a wholly-owned Subsidiary of AboitizLand. |
| | TPI entered into a Shareholders' Agreement with Vivant Group, for the latter's acquisition of20% issued and outstanding shares in Therma Visayas, Inc. (TVI). |
| 2015 | ARI formed a Joint Venture, San Carlos Sun Power, Inc. (SacaSun), with SunEdison Philippines Helios BV (SunEdison Philippines) to explore solar energy projects. In 2017, AboitizPower International Pte. Ltd. (AboitizPower International) completed the acquisition of SacaSun from SunEdison Philippines, and ownership of SacaSun was consolidated in AboitizPower. |
| | Therma South, Inc. (TSI) commenced full commercial operations of its Unit 1. |
| 2016 | TSI commenced full commercial operations of its Unit 2. |
| | TPI acquired an 82.8% beneficial ownership interest in GNPower Mariveles Coal Plant Ltd. Co. (now: |

| Year | Milestones |
|---|---|
| | GNPower Mariveles Energy Center Ltd. Co.) (GMEC) and a 50% beneficial ownership interest in GNPower Dinginin Ltd. Co. (GNPower Dinginin or GNPD). |
| | Through TPI, acquired the remaining 50% interest in EAUC from El Paso Philippines Energy Company, Inc. (El Paso). |
| | Aseagas permanently ceased operations of its 8.8-MW biomass plant in Lian, Batangas. |
| 2017 | TPVI accepted the turnover of the Naga Power Plant Complex from PSALM. |
| 2018 | Pagbilao Unit 3 started commercial operations. |
| | TVI commenced commercial operations of Unit 1. |
| | ARI formed a Joint Venture, San Carlos Sun Power, Inc. (SacaSun), with SunEdison Philippines Helios BV (SunEdison Philippines) to explore solar energy projects. In 2017, AboitizPower International completed the acquisition of SacaSun from SunEdison Philippines, and ownershipof SacaSun was consolidated in AboitizPower. |
| 2019 | TMO's facility went into preservation mode, voluntarily disconnected from the grid, and deregistered from WESM in February 2019. In April 2019, TMO registered again with Independent Electricity Market Operator of the Philippines Inc. (IEMOP) and commenced delivery of power to Meralco after signing a PSA. |
| | Completed the acquisition of a 49% voting stake and a 60% economic stake in AA Thermal, Inc. (AA Thermal) which holds the GMEC and GNPower Dinginin projects, increasing its economic interests in theGMEC and GNPower Dinginin projects to 78.32% and 72.50%, respectively. |
| | TVI commenced commercial operations of Unit 2. |
| 2020 | TPVI started commercial operations. |

AboitizPower plans to enter the rooftop solar business through Aboitiz Power Distributed Energy, Inc. (APX1) and expand the renewable energy portfolio under its Cleanergy brand. AboitizPower's Cleanergy portfolio includes its geothermal, run-of-river hydro, and large hydropower facilities. As of March 23, 2021, AboitizPower has 927 MW of attributable net sellable capacity,through its partners, under its Cleanergy brand. The Company is pushing for a balanced mix strategy – maximizing Cleanergy while taking advantage of the reliability and cost efficiency of thermal power plants.

Neither AboitizPower nor any of its Subsidiaries has been the subject of any material reclassification, merger, consolidation, or purchase or sale of a significant amount of assets not in the ordinary course of business.

**(2) Business of Registrant**

With investments in power generation, retail electricity supply, and power distribution throughout the Philippines, AboitizPower is considered one of the leading Filipino-owned companies in the power industry Based on SEC's parameters of what constitutes a significant Subsidiary under Item XX of Annex B (SRC Rule 12), the following are AboitizPower's significant Subsidiaries at present: ARI and its Subsidiaries, and Therma Power and its Subsidiaries. (Please see **Annex "A"** hereof for AboitizPower's corporate structure.)

**(a) Description of Registrant**

**(i) Principal Products**

**GENERATION OF ELECTRICITY**

AboitizPower's power generation portfolio includes interests in both renewable and non-renewable generation plants. As of December 31, 2020, the power generation business accounted for 95% of earning contributions from AboitizPower's business segments. AboitizPower conducts its power generation activities through the Subsidiaries and Affiliates listed in the table below.

The table below summarizes the Generation Companies' operating results as of December 31, 2020, compared to thesame period in 2019 and 2018:

| Generation Companies | 2020 | Energy Sold 2019 (in GWh) | 2018 | 2020 | Revenue 2019 (in mn Pesos) | 2018 |
|---|---|---|---|---|---|---|
| APRI | 3,055 | 2,968 | 2,857 | | 12,545 | 12,518 |
| Sacasun | 44 | 49 | 41 | | 269 | 197 |
| Hedcor | 161 | 226 | 172 | | 881 | 694 |
| LHC | 266 | 262 | 291 | | 787 | 970 |
| Hedcor Sibulan | 201 | 191 | 213 | 11,253 | 12,545 | 12,518 |
| Hedcor Tudaya | 33 | 29 | 32 | 250 | 269 | 197 |
| Hedcor Sabangan | 49 | 51 | 53 | 697 | 881 | 694 |
| Hedcor Bukidnon | 261 | 284 | 115 | 761 | 787 | 970 |
| SN Aboitiz Power-Magat | 1,891 | 2,054 | 2,379 | 1,399 | 1,282 | 1,385 |
| SN AboitizPower-Benguet | 1,936 | 1,975 | 2,085 | 261 | 172 | 191 |
| TLI | 6,686 | 6,812 | 6,808 | 395 | 300 | 315 |
| TSI | 1,531 | 1,393 | 1,959 | 1,418 | 1,605 | 573 |
| TVI | 2,232 | 1,710 | 269 | 5,352 | 6,608 | 7,182 |
| Cebu Energy | 2,025 | 1,900 | 1,978 | 5,668 | 6,065 | 6,070 |
| STEAG Power | 1,845 | 1,840 | 1,840 | 20,505 | 25,410 | 26,603 |
| GMEC | 5,003 | 3,909 | 5,498 | 8,276 | 9,099 | 11,141 |
| WMPC | 819 | 638 | 438 | 8,490 | 6,254 | 702 |
| SPPC | 0 | 0 | 161 | 7,719 | 8,578 | 9,728 |
| CPPC | 540 | 550 | 551 | 4,022 | 4,791 | 4,373 |
| EAUC | 226 | 383 | 368 | 17,821 | 19,373 | 23,492 |
| TMI | 743 | 1,200 | 1,432 | 1,390 | 1,158 | 1,393 |
| TMO | 381 | 938 | 814 | 668 | 1,970 | 1,694 |
| TPVI* | 3 | - | - | 30 | - | - |
| Davao Light** | 0 | 0 | 0 | Revenue Neutral | Revenue Neutral | Revenue Neutral |
| Cotabato Light** | 0 | 0 | 0 | Revenue Neutral | Revenue Neutral | Revenue Neutral |

**The TPVI plant started commercial operations on August 7, 2020 and was first dispatched based on an offer into the WESM on August 26, 2020.*

***Plants are operated as stand-by plants and are revenue neutral, with costs for operating each plant recovered by Davao Light and Cotabato Light, as the case may be, as approved by ERC. The Davao Light plant has been decommissioned since November 2018.*

***Renewables***

**Aboitiz Renewables, Inc. (ARI)**

AboitizPower has been committed to developing expertise in renewable energy technologies since commencing its operations in 1998. As of February 28, 2021, AboitizPower's renewable energy portfolio comprises attributable net sellable capacity of approximately 1,248.27 MW in operation, divided into 46 MW of solar, 912.27 MW of hydro, and 290 MW of geothermal.

AboitizPower's investments and interests in various renewable energy projects, including geothermal, large hydro, run-of-river hydro, and solar projects, are held primarily through its wholly-owned Subsidiary, ARI and its Subsidiary power generation companies. ARI was incorporated on January 19, 1995. AboitizPower, through and/or with ARI, owns equity interests in the following Generation Companies, among others:

| Generation Company | Percentage of Ownership | Plant Name (Location) | Type of Plant | Net Sellable Capacity (MW) | Attributable Net Sellable Capacity (MW) | Offtakers |
|---|---|---|---|---|---|---|
| APRI | 100% | Tiwi – Makban (Luzon) | Geothermal | 290 | 290 | WESM/ Bilaterals |
| Hedcor | 100% | Benguet 1-11 (Luzon) La Trinidad, Bineng 3, Ampohaw, FLS, Labay, Lon-oy, Irisan 1 and 3, and Sal-angan | Run-of-river hydro | 52.50 | 52.50 | FIT/ Bilaterals |
| | | Davao 1-5 (Mindanao) Talomo 1, 2, 2A, 2B, and 3 | Run-of-river hydro | 4.57 | 4.57 | Distribution utility |

| Generation Company | Percentage of Ownership | Plant Name (Location) | Type of Plant | Net Sellable Capacity (MW) | Attributable Net Sellable Capacity (MW) | Offtakers |
|---|---|---|---|---|---|---|
| | | Manolo Fortich (Mindanao) | Run-of-river hydro | 68.80 | 68.80 | FIT |
| Hedcor Sabangan | 100% | Sabangan (Luzon) | Run-of-river hydro | 14 | 14 | FIT |
| Hedcor Sibulan | 100% | Sibulan (A, B and Tudaya A) (Mindanao) | Run-of-river hydro | 49.10 | 49.10 | Distribution utility |
| Hedcor Tudaya | 100% | Tudaya (B) (Mindanao) | Run-of-river hydro | 7 | 7 | FIT |
| LHC | 100% | Bakun (Ilocos Sur, Luzon) | Run-of-river hydro | 74.80 | 74.80 | NPC (2026) |
| SacaSun | 100% | SacaSun (Visayas) | Solar | 46 | 46 | WESM |
| SN Aboitiz Power-Benguet | 60%** | Ambuklao (Benguet, Luzon) | Large Hydroelectric | 105 | 52.50 | WESM |
| | | Binga (Luzon) | Large Hydroelectric | 140 | 70 | WESM/ASPA |
| SN Aboitiz Power-Magat | 60%** | Magat (Luzon) | Large Hydroelectric | 388 | 194 | WESM/ Coops/ ASPA |
| | | Maris Main Canal 1 (Luzon) | Run-of-river hydro | 8.50 | 4.25 | FIT |
| | | | **Total** | **1,248.27*** | **927.52*** | |

*Notes:*
**Sum figures will differ due to rounding effect.*
*** The 60% equity is owned by Manila-Oslo Renewable Enterprise, Inc. (MORE).*

***Run-of-River Hydros***

**Luzon Hydro Corporation (LHC)**

LHC, a wholly-owned Subsidiary of ARI, owns, operates, and manages the run-of-river Bakun AC hydropower plant with a total installed capacity of 74.8 MW located in Amilongan, Alilem, Ilocos Sur (the "Bakun AC Hydro Plant"). LHC was incorporated on September 14, 1994.

LHC was previously ARI's Joint Venture with Pacific Hydro of Australia, a privately-owned Australian company that specialized in developing and operating power projects utilizing renewable energy sources. On March 31, 2011, ARI, LHC, and Pacific Hydro signed a MOA granting ARI full ownership over LHC. ARI assumed 100% ownershipand control of LHC on May 10, 2011.

The Bakun AC Hydro Plant was constructed and operated under the government's BOT scheme. Energy produced by the Bakun AC Hydro Plant, approximately 254 GWh annually, is delivered and taken up by NPC pursuant to a Power Purchase Agreement ("PPA") and dispatched to the Luzon Grid through the 230-kV Bauang-Bakuntransmission line of NGCP. Under the terms of its PPA, all of the electricity generated by the Bakun AC Hydro Plantwill be purchased by NPC for a period of 25 years from February 2001. The PPA also requires LHC to transfer the Bakun AC Hydro Plant to NPC in February 2026, free from liens and without the payment of any compensationby NPC.

In 2018, the Bakun AC Hydro Plant gained its ISO 22301:2012 Business Continuity Management System Certification, aligning with international standards in improving its business resilience. In 2020, it was recommended by BSi Group for Quality, Environmental, Asset Management, and Information Security Management Systems ISO re-certification while successfully transitioning to ISO 45001:2018 Occupational Safety and Health Management System.

**Hedcor, Inc. (Hedcor)**

Hedcor was incorporated on October 10, 1986 by ACO as Baguio-Benguet Power Development Corporation. ARI acquired ACO's 100% ownership interest in Hedcor in 1998.

In 2005, ARI consolidated all its mini-hydroelectric generation assets, including those developed by HEDC and Cleanergy, into Hedcor. Cleanergy is Hedcor's brand for clean and renewable energy. Hedcor owns, operates, and manages run-of-river hydroelectric power plants in Northern Luzon and Davao City, with an increased combined net sellable capacity of 57.25 MW, attributed to the addition of the La Trinidad Hydro which started operations in July 2019.

The electricity generated from Hedcor's hydropower plants are taken up by AdventEnergy, AESI, and Davao Light pursuant to PPAs with the said off-takers. Irisan 1 Hydro sells energy under the Feed-in-Tariff ("FIT") mechanism through a renewable energy payment agreement ("REPA") with the National Transmission Corporation ("Transco"). The remaining electricity is sold through the WESM.

Northern Luzon's climate is classified as having two pronounced seasons - dry from November to April and wetfor the rest of the year. Due to this classification, generation levels of Hedcor's plants, particularly those located in Northern Luzon, are typically lower during the first five months of each year.

During 2020, the Hedcor Group across the country generated a total 956 GWh of Cleanergy, which is loweras compared to 2019's 964 GWh. Over 60% of the decrease was attributable to the insufficient water supply caused by an extended *El Niño* season. Approximately 40% of the decline was due to planned and unplannedoutages. Hedcor also recorded a Weighted Unplanned Outage Factor at 0.73% in 2020, which is Hedcor's lowest figure over the past five years. This means that Hedcor's hydropower facilities have been steadily improving plant reliability as the group monitored the lowest record of unprecedented shutdown of hydropower units.

On November 18, 2020, Hedcor inaugurated its first-ever Regional Control Center. With this, all nine plants inSouthern Mindanao, composed of the five hydro facilities in Davao City and four hydro facilities in Davao del Sur owned by Hedcor, Hedcor Sibulan, and Hedcor Tudaya, respectively, can be operated remotely in a single control room. This is a significant milestone as part of the organization's multi-year digitization and integration projects which aims to connect all of Hedcor's hydro facilities to a single National Operations Control Center by 2024.

**Hedcor Sibulan, Inc. (Hedcor Sibulan)**

Hedcor Sibulan, a wholly-owned Subsidiary of ARI, owns, operates, and manages the hydropower plants composed of three cascading plants with a total installed capacity of 49.24 MW, located in Santa Cruz, Davao del Sur. Hedcor Sibulan consists of Sibulan A Hydro, Tudaya 1 Hydro, and Sibulan B Hydro. ERC issued a ProvisionalAuthority to Operate for Tudaya 1 Hydro on March 5, 2019, for Sibulan A Hydro on February 2020, and for Sibulan B Hydro on November 2020. The energy produced by the Sibulan grid is sold to Davao Light through a PSA signed in 2007. The company was incorporated on December 2, 2005.

In 2018, Hedcor Sibulan gained its ISO 22301:2014 Business Continuity Management Certification. Likewise, it has passed all recertification and surveillance audits in 2020, maintaining its certifications for Quality, Environmental, Operational Health and Safety, Asset Management, Information Security, and Business Continuity. Also, the organization was successful in its transition to ISO 45001:2018 Occupational Safety and Health management system in September 2020.

The Hedcor Sibulan plant is part of the Hedcor Group's Regional Control Center.

**Hedcor Tudaya, Inc. (Hedcor Tudaya)**

Hedcor Tudaya, a wholly-owned Subsidiary of ARI, owns, operates, and manages the run-of-river hydropowerplant with an installed capacity of 8.1 MW, located in Santa Cruz, Davao del Sur (the "Tudaya 2 Hydro Plant").The company was incorporated on January 17, 2011.

The Tudaya 2 Hydro Plant has been commercially operating since March 2014. It is currently selling energy under the FIT mechanism through a Renewable Energy Supply Agreement (RESA) with Davao del Sur Electric Cooperative, and through a REPA with Transco.

Together with Hedcor Sibulan, Hedcor Tudaya also gained its ISO 22301:2014 Business Continuity

Management Certification in 2018. Likewise, the company passed all recertification and surveillance audits in 2020, maintaining its certifications for Quality, Environmental, Operational Health and Safety, Asset Management, Information Security, and Business Continuity. Hedcor Tudaya also successfully transitioned to ISO 45001:2018 Occupational Safety and Health management system.

The Tudaya 2 Hydro Plant is part of the Hedcor Group's Regional Control Center.

**Hedcor Sabangan, Inc. (Hedcor Sabangan)**

Hedcor Sabangan, a wholly-owned Subsidiary of ARI, owns, operates, and manages the Sabangan run-of-river HEPP with a net sellable capacity of 14.96 MW (the "Sabangan Plant"). The company was incorporated on January 17, 2011.

The Sabangan Plant has been commercially operating since June 2015, and is selling under the FIT mechanism through a REPA with Transco. The plant is a pioneer hydropower plant in the Mountain Province region, harnessing the power of the Chico River.

**Hedcor Bukidnon, Inc. (Hedcor Bukidnon)**

Hedcor Bukidnon, a wholly-owned Subsidiary of ARI, owns, operates, and manages the mini hydropower plants with a combined net sellable capacity of 72.8 MW located in Manolo Fortich, Bukidnon (the "Manolo Fortich Plant"). The company was incorporated on January 17, 2011.

The Manolo Fortich Plant is composed of the 45.9-MW Manolo Fortich 1 Hydro and the 27.39-MW Manolo Fortich 2 Hydro. Both plants harness the power of the Tanaon, Amusig, and Guihean rivers. The construction of the Manolo Fortich Plant was completed in 2018.

Persistent rains in the locality that occurred during the second half of 2020 caused soil saturation, erosion, and mudslides resulting in pipe dislocations, pipe bursts, and damage to the high head penstock line of Manolo Fortich 1. Hedcor Bukidnon remains operational at a derated generating capacity, with restoration expected to be completed by the second quarter of 2021.

The Manolo Fortich Plant is selling under the FIT mechanism through RESAs with various Mindanao cooperatives and private distribution utilities.

***Large Hydros***

**SN Aboitiz Power-Magat, Inc. (SN Aboitiz Power-Magat)**

Incorporated on November 29, 2005, SN Aboitiz Power-Magat owns and operates the Magat Plant with a nameplate capacity of 360 MW located at the border of Ramon, Province of Isabela and Alfonso Lista, Ifugao (the "Magat Plant"), and the 8.5-MW run-of-river Maris Main Canal 1 HEPP located in Brgy. Ambatali in Ramon, Isabela (the "Maris Plant"). The Maris Plant, which is composed of two generator units with a nameplate capacity of 4.25 MW each, was completed in November 2017. The plant was granted entitlement to the FIT system in its operations pursuant to the COC issued by ERC in November 2017.

SN Aboitiz Power-Magat is ARI's Joint Venture with SN Power, a leading Norwegian hydropower company with projects and operations in Asia, Africa, and Latin America. In October 2020, Norway-based Scatec Solar ASA (Scatec) signed a binding agreement to acquire 100% of the shares in SN Power from Norfund for a total equity value of US$1,166 mn. On January 29, 2021, Scatec announced it has received all necessary approvals and that conditions are fulfilled to close the acquisition pursuant to the agreement with Norfund. As of March 23, 2021, SN Aboitiz Power-Magat is 60% owned by Manila-Oslo Renewable Enterprise, Inc. (MORE), while SN Power Philippines Inc. (SN Power Philippines) owns the remaining 40% equity interest.

The Magat Plant was completed in 1983 and was turned over to SN Aboitiz Power-Magat in April 2007 after winning a bidding process conducted by PSALM in December 2006. As a hydroelectric facility that can be started up in a short period of time, the Magat Plant is suited to act as a peaking plant with the capability to capture the significant upside potential that can arise during periods of high demand. This flexibility allows for the generation and sale of electricity at the peak demand hours of the day. This hydroelectric asset has minimal marginal costs, which AboitizPower believes gives it a competitive advantage in terms of economic dispatch order versus other fossil fuel-fired power plants that have significant marginal costs.

On April 25, 2019, ERC certified the Magat Plant's new Maximum Stable Load (Pmax) at 388 MW. The Magat Plant's Units 1-4 were uprated by 2 MW each, or from 95 MW to 97 MW per unit. This means that the Magat Plant is capable of producing, under normal to best conditions, up to 388 MW as compared to its nameplate capacity of 360 MW. The new Pmax of the four units was based on the capability test conducted by the NGCP sometime in 2018.

SN Aboitiz Power-Magat is an accredited provider of ancillary services to the Luzon grid. It sells a significant portion of its available capacity to NGCP, the system operator of the Luzon grid. SN Aboitiz Power-Magat's remaining capacity is sold as electric energy to the spot market through WESM and to load customers throughbilateral contracts.

Inflows during 2020 had a very varied distribution. The Magat dam's total inflows for 2020 were 121% of normal, with large inflows concentrated in the fourth quarter of the year. The effects of the *El Niño* climate were felt allthe way to the third quarter of 2020, with a transition to *La Niña* in the fourth quarter. The first half dry season of 2020 resulted in 73% of the normal total inflows. The second half wet season recorded 139% of normal inflows, with the third quarter recording only 57% of normal and record-breaking actual inflows during the fourth quarter at 215% of normal due to strong *La Niña* typhoons.

Driven by the unfavorable distribution of inflows, the Magat Plant's total sold quantities from spot energy generation and AS during 2020 was at 1.7 TWh, which is slightly lower than 2019's sold capacity of 1.8 TWh. This is equivalent to a sold capacity factor of 52%, compared to 54% in 2019. Spot and AS revenue for the year2020 was ₱4.36 bn, 27% lower than 2019's ₱5.95 bn. SN Aboitiz Power-Magat's Bilateral Contract Quantity (BCQ) revenue for 2020 was ₱727 mn, significantly higher than 2019's ₱275 mn. This was mainly driven by the lower spot market prices during 2020 compared to 2019.

In June 2019, SN Aboitiz Power-Magat switched on its first 200kW floating photovoltaic project over the Magat reservoir in Isabela. This was the first non-hydro renewable energy project of the SN Aboitiz Power Group, which is looking at other renewables and complementary technologies to expand its portfolio. The SN AboitizPower-Magat floating solar project has proven its viability, both technical and commercial. On October 21, 2020, thecompany obtained approval for the project to proceed to engineering design for a total of 67 MW. The pilot project and the initial pre-feasibility studies have shown positive results. The project is currently in the detailed feasibility study stage, which is expected to run for ten to twelve months. Initial efforts have been focused on securing all pertinent permits and endorsements, conduct of applicable stakeholder consultations, completion of environmental and social baseline studies, refinement of commercial assumptions, and completion of technical site investigations necessary for a feasibility level design. Based on the results of the pre-feasibility studies, phase one of the project will be for 67 MW with a plan to install up to 150 MW, depending on the final technical solution and layout.

SN AboitizPower–Magat's Battery Energy Storage System ("Magat BESS") project is located in Ramon, Isabela. It is an energy storage system with a 20-MW capacity and 20-MWh energy storage to be used primarily for ancillary services. Site survey works have been completed as part of the pre-construction. The project is in early works phase with tendering still in process and necessary permits being secured from various agencies and the Local Government Unit (LGU). In connection with the project, SN AboitizPower-Magat is also looking at upgrading the Magat-Santiago transmission line which is now included in the Transmission Development Plan of the NGCP. The benefit of this upgrade is to ensure full dispatch of the Magat power plant's capacity, battery energy storage system, and proposed expansion in the floating solar space.

On October 22, 2020, the Department of Energy (DOE) issued a Green Energy Option Program (GEOP) Operating Permit to SN Aboitiz Power-Magat. This permit, valid for years, authorizes the company to enter into electricity supply contracts with qualified end-users according to the GEOP or RA No. 9513 or the Renewable Energy Act of2008 ("RE Law"). SN Aboitiz Power-Magat also has a RES license valid until December 17, 2025.

SN AboitizPower-Magat retained its Integrated Management System certifications for ISO 14001 for

Environmental Management System, ISO 9001 for Quality Management System, ISO 45001 for Occupational Health and SafetyManagement Systems, and ISO 55001 Asset Management System, as verified and audited by DQS Philippines in2019. The company recorded 1.7 mn manhours without lost time incident in 2020.

**SN Aboitiz Power-Benguet, Inc. (SN Aboitiz Power-Benguet)**

SN Aboitiz Power-Benguet is the owner and operator of the Ambuklao-Binga Hydroelectric Power Complex, which consists of the 105-MW Ambuklao HEPP (the "Ambuklao Plant") and the 140-MW Binga HEPP (the "BingaPlant"), located in Brgy. Tinongdan, Itogon, Benguet Province. The company was incorporated on March 12, 2007. As of March 23, 2021, MORE owns 60% equity interest, while SN Power owns the remaining 40%.

The Ambuklao-Binga Hydroelectric Power Complex was turned over to SN AboitizPower-Benguet in July 2008.SN AboitizPower-Benguet began a significant rehabilitation project that restored the Ambuklao Plant to operating status and increased its capacity from 75 MW to 105 MW when the plant re-commenced operations in 2011. The Binga Plant also underwent refurbishment from 2010 to 2013, which increased capacity to 125 MW. In March 2017, SN Aboitiz Power-Benguet received its amended COC from ERC for all four units of the Binga Plant. The COC reflects Binga's latest uprating, raising its capacity to 140 MW. The Ambuklao and Binga Plants sell capacity from spot energy generation and ancillary services to the national transmission system and related facilities that convey power.

Inflows in Ambuklao dam during 2020 was only 75% of normal, attributable in particular to the very weak *habagat* season which usually dominates third quarter inflows in Benguet. The effects of the *El Niño* climate reached allthe way to the third quarter of 2020, and transitioned to *La Niña* in the fourth quarter. The first half dry seasonof 2020 resulted in 68% of the normal total inflows. The second half wet season recorded 77% of normal inflows, with the third quarter recording actual inflows of only 35% of normal, while the strong *La Niña* typhoons in thefourth quarter led to actual inflows at 167% of normal levels.

Although inflows were lower in the Ambuklao reservoir in 2020 compared to 2019, there was an overall higher AS Capacity Approval and spot sales for SN Aboitiz Power-Benguet. The Ambuklao Plant's total sold capacity from spot energy generation and ancillary services during 2020 was 732 GWh, which was 102% of the capacity sold in 2019 of 717 GWh. This was equivalent to a sold capacity factor of 80% during 2020, as compared to the 78%during 2019. The Binga Plant's total sold capacity from spot energy generation and AS in 2020 was 1.00 TWh, or 97% of the 1.03 TWh sold capacity in 2019. This is equivalent to a sold capacity factor of 82% for 2020, compared to 84% in 2019.

The resulting combined spot and AS revenue of the Ambuklao and Binga Plants for 2020 was ₱4.20 bn, compared to ₱5.29 bn in 2019. SN Aboitiz Power-Benguet's BCQ revenue for 2020 was ₱973 mn, which was significantly lower than 2019's BCQ revenue loss of ₱359 mn. This was mainly driven by the lower spot market prices during2020 compared to 2019.

Both the Ambuklao and Binga Plants have retained their Integrated Management System certifications (ISO 14001 Environmental Management System, ISO 9001 Quality Management System, and ISO 55001 for Asset Management) in 2020. The company also successfully migrated and was certified as ISO 45001 Occupational Health & Safety Management System from OHSAS 18001. The Ambuklao and Binga Plants jointly have more than 4.7 mn man hours of no lost time incident in 2020.

***Geothermal***

**AP Renewables, Inc. (APRI)**

APRI, a wholly-owned Subsidiary of ARI, is one of the leading renewable power companies in the country. It owns the 234 MW Tiwi geothermal power facility in Albay and the 449.8 MW Makiling-Banahaw geothermalpower facility in Laguna (the "Tiwi-MakBan Geothermal Facilities") located in Albay, Laguna, and Batangas. These geothermal facilities were acquired by APRI from PSALM in July 2008 and were formally turned over to APRI onMay 25, 2009.

The Tiwi-MakBan Geothermal Facilities produce clean energy that is reasonable in cost, efficient in operation, and environment-friendly. As a demonstration of APRI's commitment to providing world-class services, adhering to environmental management principles to reduce pollution, complying with regulations, and ensuring a safe and healthy workplace, the company has been issued Integrated Management System (IMS) certifications by TÜV Rheinland Philippines that include the International Organization for Standardization (ISO) 9001:2015 (Quality), ISO 14001:2015 (Environment), and OSHAS (Occupational Health and Safety Series) 18001:2007 (Health and Safety).

On August 24, 2018, APRI and Philippine Geothermal Production Company, Inc. (PGPC) signed a Geothermal Resources Supply and Services Agreement ("GRSSA") for the supply of steam and drilling of new production wells for the Tiwi-MakBan Geothermal Facilities. The GRSSA effective date will run until the expiration of APRI's initial DOE operating contract term on October 22, 2034, thereby ensuring the long-term operations of the facilities. Under the GRSSA, PGPC has committed to drill at least 12 new production wells, with a minimum of 50 MW aggregated individual well capacity, by 2023 in order to increase steam availability. The GRSSA also provides for more equitable and competitive fuel pricing in the long run.

The Tiwi-MakBan Geothermal Facilities have generally operated at par or better than industry standards. APRI routinely evaluates and implements various projects while improving coordination with PGPC to improve efficiency levels and counteract the challenges of a declining steam supply.

APRI was granted a RES license on February 18, 2020 which is valid until February 17, 2025.

***Solar***

**Maaraw San Carlos Holdings, Inc. (Maaraw San Carlos) and San Carlos Sun Power Inc. (SacaSun)**

SacaSun owns and operates the 59-megawatt peak (MWp) solar photovoltaic (PV) power generation plant located in the San Carlos Ecozone, Barangay Punao, San Carlos City, Negros Occidental (the "SacaSun Plant"). The projectwas inaugurated on April 19, 2016.

SacaSun was incorporated on July 25, 2014, initially as a Joint Venture between ARI and SunEdison Philippines. On December 4, 2017, AboitizPower acquired 100% effective equity ownership in SacaSun.

As of February 28, 2021, the energy generated from the SacaSun Plant benefited more than 6,774 homes within the Visayas Grid and displaced the energy equivalent to 16,495,254 gallons of gasoline or approximately 161,525,725 pounds of coal.

Maaraw San Carlos is the holding company of SacaSun. It was incorporated on April 24, 2015, and is effectively owned by AboitizPower, through its wholly-owned Subsidiaries, ARI and AboitizPower International.

**Aboitiz Power Distributed Energy, Inc. (APX1) and Aboitiz Power Distributed Renewables Inc. (APX2)**

APX1 and APX2 (formerly: Kookabura Equity Ventures, Inc.) are the project companies engaged in the business of operating rooftop PV solar systems in the distributed energy space. APX1 and APX2 are wholly-owned Subsidiaries of AboitizPower through ARI. APX1 and APX2 were incorporated in November 2016 and May 2002, respectively.

APX1 is a registered Philippine Economic Zone Authority (PEZA) company intended to serve customers operating within PEZA zones.

As of February 28, 2021, APX1 has a total of 3.2044 MWp rooftop solar projects, either operating under a Power Purchase Agreement or as a turnkey solution for customers. A number of rooftop PV solar systems were also commissioned in 2020, with an additional 1.722MWp of projects currently under development.

*Renewables Pipeline*

**SN Aboitiz Power-Generation, Inc. (SN Aboitiz Power-Gen)**

SN Aboitiz Power-Gen implements the SN Aboitiz Power Group's Business Development Program, which aims to grow the SN Aboitiz Power Group's renewable energy portfolio by looking at potential power projects in the Philippines, primarily within its current host communities in Northern Luzon.

One of SN Aboitiz Power-Gen's most significant projects in 2020 is the proposed 390-MW Alimit hydropowercomplex in Ifugao, which consists of the 120-MW Alimit hydropower plant, the 250-MW Alimit pumped storage facility (which is currently on hold due to market constraints), and the 20-MW Olilicon hydropower plant (the"Alimit Project").

The Alimit hydropower complex project completed its feasibility study phase and the Free Prior and Informed Consent (FPIC) process with the indigenous communities in the covered areas. The Environmental Compliance Certificate (ECC) for the complex has been issued by the Department of Environment and Natural Resources (DENR). However, the project has since been put on hold since ground engagements and activities have beenrestricted by the COVID-19 pandemic.

Pursuant to the mandate of adding capacity, the Magat BESS and floating solar projects are expected to contribute 20 MW and 67 MW, respectively, to SN Aboitiz Power Group's portfolio. The company continues to explore and screen potential energy storage and renewable energy projects in the Philippines.

SN Aboitiz Power-Gen was incorporated on March 10, 2011. As of March 23, 2021, 60% equity interest in the company is owned by MORE, with the remaining 40% owned by SN Power Philippines.

*Non-Renewables*

**Therma Power, Inc. (TPI)**

AboitizPower's investments and interests in various non-renewable energy projects are held primarily through its wholly-owned Subsidiary, TPI and its Subsidiary power generation companies. TPI was incorporated on October 26, 2007. As of March 23, 2021, AboitizPower, by itself, through and/or with TPI, owns equity interests in the following:

| Generation Company | Percentage Ownership | Plant Name (Location) | Project Type | Net Sellable Capacity (MW) | Attributable Net Sellable Capacity (MW) | Off-takers |
|---|---|---|---|---|---|---|
| **Coal Group** | | | | | | |
| TLI | 100% | Pagbilao (Luzon) | Coal-fired | 700 | 700 | Bilaterals/WESM |
| PEC | 50% | Pagbilao 3 (Luzon) | Coal-fired | 388 | 194 | Bilaterals |
| TSI | 100% | TSI Plant (Mindanao) | Coal-fired | 260 | 260 | Bilaterals |
| TVI | 80% | TVI Plant (Visayas) | CFB | 300 | 240 | Bilaterals/WESM |
| TPVI | 100% | Naga Coal Fired PowerPlant (Visayas) | Bunker-C fired | 39.27 | 39.27 | WESM |
| Cebu Energy | 26.4% | Cebu Energy (Visayas) | CFB | 216 | 57.02 | Bilaterals |
| GMEC | 78.32% | Mariveles Project (Luzon) | Coal-fired | 632 | 494.98 | Bilaterals/WESM |
| STEAG Power** | 34% | STEAG Power Plant (Mindanao) | Coal-fired | 210 | 71.40 | NPC (2031) |

| Generation Company | Percentage Ownership | Plant Name (Location) | Project Type | Net Sellable Capacity (MW) | Attributable Net Sellable Capacity (MW) | Off-takers |
|---|---|---|---|---|---|---|
| **Oil Group** | | | | | | |
| CPPC** | 60% | CPPC Plant (Visayas) | Bunker-C fired | 64 | 38.40 | Distributionutility |
| EAUC | 100% | EAUC Plant (Visayas) | Bunker-C fired | 43.50 | 43.50 | Bilaterals |
| SPPC** | 20% | SPPC Plant (Mindanao) | Bunker-C fired | 55 | 11 | N/A |
| TMI | 100% | Power Barge Mobile 1 (Mindanao) | Barge- mounted | 96 | 96 | Bilaterals |
| | | Power Barge Mobile 2 (Mindanao) | Barge- mounted | 96 | 96 | Bilaterals |
| TMO | 100% | Power Barges Mobile 3-6(Luzon) | Barge- mounted | 200 | 200 | Distribution utility/WESM |
| WMPC** | 20% | WMPC Plant (Min-danao) | Bunker-C fired | 100 | 20 | Bilaterals |
| Cotabato Light** | 99.94% | Bunker Cotabato (Mindanao) | Bunker-C fired | 4.45 | 4.45 | N/A |
| | | | **Total** | **3,404.62** | **2,566.23*** | |

* Sum figures will differ due to rounding effect
** Directly owned by AboitizPower

***Oil Group***

**Therma Marine, Inc. (TMI)**

TMI, a wholly-owned Subsidiary of TPI, owns and operates Power Barges Mobile 1 (previously known as PB 118) and Power Barges Mobile 2 (previously known as PB 117), which have a total generating capacity of 200MW. Power Barges Mobile 1 is currently moored at Barangay San Roque, Maco, Davao De Oro, while Power Barges Mobile 2 is moored at Barangay Sta. Ana, Nasipit, Agusan del Norte. The company was incorporated on November 12, 2008.

The 192 MW dependable capacities of TMI are currently contracted with the NGCP in an Ancillary Services Procurement Agreement (ASPA). TMI is now registered as a WESM Trading Participant beginning January 8, 2020, in anticipation of WESM in Mindanao.

TMI Hybrid BESS is one of two battery energy storage system projects of AboitizPower. Located in Maco, Compostela Valley, TMI Hybrid BESS has a storage capacity of 49 MW and is intended to be used for ancillary services. Development activities are ongoing to integrate the battery energy storage system with TMI's Maco oil barge. The TMI Hybrid BESS project is expected to commence commercial operations in 2022.

**Therma Mobile, Inc. (TMO)**

TMO, a wholly-owned Subsidiary of TPI, operates four barge-mounted power plants located at the Navotas Fish Port, Manila, which it acquired on May 27, 2011. The barge-mounted power plants have an installed generating capacity of 231 MW. TMO operates with a net available capacity of 165 MW. The company was incorporated on October 20, 2008.

On January 7, 2019, TMO notified Meralco that it will physically disconnect from Meralco's system and will deregister as a Trading Participant in the WESM effective February 5, 2019. After evaluating the circumstancesand the options available, TMO decided to preserve its bunker C-fired diesel power plants. Notices were alsosent to PEMC, DOE, ERC, and IEMOP, following applicable legal notice requirements.

Afterwards, TMO signed aone-year PSA with Meralco that expired on April 25, 2020.

Thereafter on July 14, 2020, TMO and NGCP entered into ASPAs for Reactive Power Support and Dispatchable Reserve. Both ASPAs have been provisionally approved by the ERC.

**East Asia Utilities Corporation (EAUC)**

EAUC, a wholly-owned Subsidiary of TPI, is the owner and operator of a 44-MW Bunker C-fired power plant within Mactan Export Processing Zone I (MEPZ I), located in Lapu-Lapu City, Cebu. The company supplies the power requirements of the MEPZ I locators, and began supplying power through the WESM on December 26,2010. EAUC was incorporated on February 18, 1993.

EAUC has received awards by the DENR-EMB for its commendable role in the Metro Cebu Airshed Governing Board, and by IEMOP for its exemplary compliance in the spot market.

**Therma Power Visayas, Inc. (TPVI)**

TPVI, a wholly-owned Subsidiary of TPI, is the company that was awarded the winning bid for the privatization of the 25.3-hectare NPPC located at Naga City, Cebu. The company was incorporated on October 8, 2007.

Following protracted legal proceedings, on May 23, 2018, PSALM issued a Certificate of Effectivity of the Notice of Award originally issued on April 30, 2014 in favor of TPVI. Thereafter, PSALM and TPVI executed the Asset Purchase Agreement and Land Lease Agreement of the NPPC.

On July 16, 2018, PSALM physically turned over the NPPC to TPVI. On August 7, 2020, TPVI commenced commercial operations and has been trading in the WESM.

**Cebu Private Power Corporation (CPPC)**

CPPC owns and operates a 70-MW Bunker C-fired power plant located in Cebu City (the "CPPC Plant"), which is one of the largest diesel-powered plants on the island of Cebu. The company was incorporated on July 13, 1994. Commissioned in 1998, the CPPC plant was constructed to supply 62 MW of power to Visayan Electric. CPPC’s current PSA with Visayan Electric is set to expire in 2023.

CPPC is a Joint Venture between AboitizPower and the Vivant Group. As of March 23, 2021, AboitizPower beneficially owns 60% of CPPC.

**Southern Philippines Power Corporation (SPPC)**

SPPC owns and operates a 55-MW Bunker C-fired power plant in Alabel, Sarangani, a town outside General Santos City in Southern Mindanao. The company was incorporated on March 15, 1996.

As of March 23, 2021, AboitizPower has a 20% equity interest in SPPC, a Joint Venture among AboitizPower, Alsing Power Holdings, Inc., and Tomen Power (Singapore) Pte. Ltd.

**Western Mindanao Power Corporation (WMPC)**

WMPC owns and operates a 100-MW Bunker C-fired power station located in Zamboanga City, Zamboanga Peninsula in Western Mindanao. The company was incorporated on March 15, 1996.

As of March 23, 2021, AboitizPower has a 20% equity interest in WMPC, a Joint Venture among AboitizPower,Alsing Power Holdings, Inc., and Tomen Power (Singapore) Pte. Ltd.

***Coal Group***

**Therma Luzon, Inc. (TLI)**

TLI, a wholly-owned Subsidiary of TPI, was the first IPPA in the country, and assumed the role of the registered trader of the contracted capacity of the 700-MW net (2x350 MW net) coal-fired power plant located in Pagbilao, Quezon (the "Pagbilao Plant"). TLI was incorporated on October 20, 2009.

As the IPPA, TLI is responsible for procuring the fuel requirements of, and selling the electricity generated by, the Pagbilao Plant. The Pagbilao Plant is currently owned and operated by TeaM Energy Corporation (TeaM Energy). Under the IPPA agreement, TLI has the right to receive the transfer of Pagbilao Unit 1 and Unit 2 at the end ofthe Energy Conversion Agreement. Over the years, TLI's capacity was contracted to various cooperatives, privatedistribution utilities, directly connected customers, and to affiliate RES. TLI was granted a RES license on August 12, 2020 which is valid until August 11, 2025.

**Pagbilao Energy Corporation (PEC)**

PEC owns and operates the 400-MW Unit 3 coal-fired power plant (Pagbilao Unit 3) within the Pagbilao PowerStation, located in Pagbilao, Quezon. PEC is a Joint Venture between AboitizPower and TeaM Energy, throughtheir respective Subsidiaries, TPI and TPEC Holdings Corporation. Pagbilao Unit 3 is not covered by either TLI's IPPA with PSALM or TeaM Energy's BOT contract with NPC/PSALM, and commenced operations in March 2018.

Through TPI, AboitizPower has 50% equity interest in PEC, while TPEC Holdings Corporation owns the remaining 50% as of March 23, 2021.

The output of Pagbilao Unit 3 is sold to TLI and TPEC.

**Therma South, Inc. (TSI)**

TSI, a wholly-owned Subsidiary of TPI, owns and operates the 300-MW net (2x150MW net) circulating fluidizedbed (CFB) coal-fired power plant located in Davao City and Sta. Cruz, Davao del Sur. TSI was incorporated onNovember 18, 2008. Commercial operations for Unit 1 and Unit 2 began in September 2015 and February 2016,respectively.

TSI contributes to the continuing growing power requirements of Mindanao by providing stable and cost-effective base load power. It supplies power to various private distribution utilities and energy cooperatives. The company seeks to sustain the positive impact it has brought to its host communities through various educational, livelihood, and enterprise development programs, benefitting children, students, small and medium enterprise owners, and its employees.

**Therma Visayas, Inc. (TVI)**

TVI owns and operates the 300-MW net (2x150 MW net) CFB coal-fired power plant located in Toledo City, Cebu. Commercial operations for Unit 1 and Unit 2 began in April and August 2019, respectively.

AboitizPower, through TPI, effectively owns 80% equity interest of TVI as of March 23, 2021. The remaining 20% is held by Vivant Group.

TVI supplies power to Visayan Electric and its RES Affiliates – AESI, AdventEnergy, and Prism Energy, Inc. (Prism Energy).

**Abovant Holdings, Inc. (Abovant) and Cebu Energy Development Corporation (Cebu Energy)**

Abovant is a Joint Venture between AboitizPower and the Vivant Group as the holding company for shares inCebu Energy. The company was incorporated on November 28, 2007.

Cebu Energy was incorporated on December 5, 2008 by Abovant and Global Formosa Power Holdings, Inc. (Global Formosa), a Joint Venture between Global Business Power Corporation and Flat World Limited. The company owns the 3x82-MW CFB coal-fired power plant situated within the Toledo Power Complex in Barangay Daanlungsod, Toledo City, Cebu. The first unit was commissioned in February 2010, while the second and third units were commissioned in the second and fourth quarters of 2010, respectively. Cebu Energy declared commercial operations on February 26, 2011, and is the first commercial clean-coal facility in the country.

Cebu Energy consistently ensures delivery of the highest level of service, and actively undertakes accreditations on Quality Management System (ISO 9001:2015), Environmental Management System (ISO 14001:2015), and Occupational Health and Safety Management System (OHSAS 18001:2007). The company provides power to the province of Cebu and its neighboring province, Bohol. Likewise, Cebu Energy has an existing ASPA with NGCP to help maintain a reliable electric Grid system.

As of March 23, 2021, Abovant has a 44% equity interest in Cebu Energy, while Global Formosa owns the remaining 56%. Consequently, AboitizPower, through TPI, holds a 26.4% effective ownership interest in Cebu Energy.

**Redondo Peninsula Energy, Inc. (RP Energy)**

RP Energy was incorporated on May 30, 2007 to construct, own, and operate the 2x300-MW (net) coal-fired power plant located in the Redondo Peninsula of Subic Bay within the Subic Bay Freeport Zone (SBFZ), Subic, Zambales.

RP Energy was originally a Joint Venture between AboitizPower and TCIC. MPGC acquired a majority interest in RP Energy by virtue of a share purchase agreement with TPI on July 22, 2011. As of March 23, 2021, AboitizPower, through TPI, and TCIC each retained a 25% stake in RP Energy.

**STEAG State Power Inc. (STEAG Power)**

STEAG Power is the owner and operator of a 210 MW (net) coal-fired power plant located in PHIVIDEC Industrial Estate in Misamis Oriental, Northern Mindanao. The company was incorporated on December 19, 1995. The STEAG Power Plant consisting of two units was built under a BOT arrangement and started commercial operations on November 15, 2006. STEAG Power has a 25-year PPA with NPC, which is backed by a Performance Undertaking issued by the Philippine government. One of its two power plant units is currently on economic shutdown as required by NPC/PSALM in accordance with the PPA due to the pandemic quarantine effects and high water level of hydrowater plants. The partial economic shutdown is projected to last until March 31, 2021. STEAG Power ended 2020 with a plant availability rate of 90.11%.

STEAG Power entered into two coal supply agreements in December 2019 that secured the plant's fuel requirements for the next three years on a fixed base and option tonnage.

As of March 23, 2021, AboitizPower has 34% equity interest in STEAG Power following the purchase of said equity from Evonik Steag GmbH (now STEAG GmbH or STEAG). STEAG and La Filipina Uy Gongco Corporation (LFUGC) currently hold the remaining 51% and 15% equity, respectively, in STEAG Power.

**AA Thermal, Inc.**

On May 2, 2019, AboitizPower completed its acquisition of 49% voting stake and 60% economic stake in AA Thermal, AC Energy Inc.'s (AC Energy) thermal platform in the Philippines.

The AA Thermal platform initially consists of AC Energy's limited partnership interests in GMEC and GNPD, where AboitizPower, through TPI, already holds direct partnership interests.

**GNPower Mariveles Energy Center Ltd. Co. (GNPower Mariveles or GMEC)**

GMEC, formerly known as GNPower Mariveles Coal Plant Ltd. Co., is a private limited partnership organized on May 13, 2007 and established to undertake the development, construction, operation, and ownership of an approximately 2x316 MW (net) pulverized coal-fired power plant located in Mariveles, Bataan, Philippines (the "Mariveles Project"). GMEC registered its Amended Articles of Partnership to reflect GMEC's change in partnership name, which was subsequently approved by the SEC on October 14, 2020.

The Mariveles Project is located within an industrial zone on a 60-hectare coastal site near the port of

Mariveles, Bataan. The project site lies near the northern entrance to Manila Bay, providing easy and safe shipping accessfrom the West Philippine Sea. The Mariveles Project commenced on January 29, 2010 and was declared commercially available in 2013.

The electricity produced by the Mariveles Project is exported through a 230kV high voltage transmission line owned and operated by NGCP. Substantially all of the capacity of the Mariveles Project is contracted under long term PPAs with highly-rated distribution utilities and Contestable Customers, through its designated RES, GNPower Ltd. Co.

In October 2016, TPI acquired the partnership interests held by the affiliated investment funds of The Blackstone Group L.P. in World Power Holdings, L.P. (currently registered as Therma Mariveles Holdings L.P.) and Sithe Global Power, L.P. (currently registered as Therma Dinginin L.P.). Following its receipt of the necessary approvals fromthe Board of Investments (BOI) and PCC, TPI completed the acquisition of GMEC and GNPD on December 27,2016. Beginning October 13, 2017, through its general and limited partners, AboitizPower's sharing percentage on GMEC's: (i) profits and losses and (ii) distributions, including net distributable liquidation proceeds, has been at 66.0749%.

On March 7, 2018, AboitizPower completed the restructuring of its share ownership structure in GMEC by transferring its direct ownership of GMEC from the offshore subsidiaries of TPI to TPI itself, and the eventual dissolution and liquidation of the offshore intermediary subsidiaries that used to own the GMEC shares.

Effectively, the partnership interests in GMEC are owned by: (i) TPI; (ii) ACE Mariveles Power Ltd. Co., a Joint Venture between AC Energy, Inc. (ACE), a wholly-owned subsidiary of Ayala Corporation, and Power Partners Ltd. Co. (Power Partners); and (iii) Power Partners.

**GNPower Dinginin Ltd. Co. (GNPower Dinginin or GNPD)**

GNPD is a limited partnership organized and established on May 21, 2014 with the primary purpose of developing, constructing, operating, and owning a 2x668 MW (net) supercritical coal-fired power plant to be located in Mariveles, Bataan.

GNPD started the construction of Unit 1 in September 2016, with delivery thereof targeted to take place by thesecond quarter of 2021. The partnership also proceeded with the expansion of the power plant and achieved its financial closing for Unit 2 in December 2017, with expected target delivery thereof in the fourth quarter of 2021. To date, GNPD has signed numerous Power Purchase and Sale Agreements with highly-rated distribution utilities and RES.

GNPD's construction is conducted in two phases: (i) the first phase is for Unit 1 and its associated ancillary facilities as well as the balance of plant, and (ii) the second phase is for Unit 2, an additional identical 668MW(net) unit, and its associated ancillary facilities. The electricity that will be produced by Unit 1 of GNPD will be exported through the existing 230kV high voltage transmission line owned and operated by NGCP. Once NGCP's 500kV high voltage transmission line is completed, energy from both GNPD's Unit 1 and Unit 2 will be exported through the same.

On December 27, 2016, TPI completed the acquisition of the partnership interests held by the affiliated investment funds of The Blackstone Group, L.P in World Power Holdings, L.P. (currently registered as Therma Mariveles Holdings L.P.) and Sithe Global Power, L.P. (currently registered as Therma Dinginin L.P.). AboitizPower's sharing percentage on GNPD's (i) profits and losses and (ii) distributions therein, through its general and limited partners, was eventually reduced to 40%.

In 2018, AboitizPower, through TPI, restructured its share ownership structure in GNPD and transferred direct ownership of GNPD from the offshore subsidiaries of TPI to TPI itself, resulting in TPI directly owning a 45% partnership interest in GNPD by December 31, 2018.

In 2019, GNPD renewed its registration with the Freeport Area of Bataan (FAB). As a FAB Registered Enterprise, GNPD is entitled to the incentives granted under Republic Act No. 9728, the organic law creating the FAB.

The GNPower Dinginin project is in the final stages of construction but continues to face challenges due to the COVID-19 pandemic and travel restrictions. Due to these circumstances, commercial operations dates for Units 1 and 2 are expected to commence in third quarter 2021 and first quarter 2022, respectively.

GNPD is co-developed by Power Partners, AC Energy, and TPI. As of March 23, 2021, AboitizPower owns a 70% effective partnership interest in GNPD.

**Other Generation Assets**

As of February 28, 2021, Cotabato Light maintains a stand-by maximum capacity of 4.15-MW Bunker C-fired power plant capable of supplying approximately 13.80% of its requirements.

**Future Projects**

AboitizPower assesses the feasibility of any new power generation project. Factors taken into consideration include the proposed project's land use requirements, access to a power grid, fuel supply arrangements, availability of water, local requirements for permits and licenses, acceptability of the project to the communities and people it will affect, ability of the project to generate electricity at a competitive cost, and the existence of potential purchasers of the electricity generated. For the development of a new power project, the Company, its partners, and its suppliers are required to obtain all national and local permits and approvals before the commencement of construction and commercial operations, including those related to the project site, construction, environment, land use planning/ zoning, operations licenses, and similar approvals.

**DISTRIBUTION OF ELECTRICITY**

The Aboitiz Group has more than 85 years of experience in the Philippine power distribution sector.

With ownership interests in nine Distribution Utilities, the Company believes that it is currently one of the largest electricity distributors in the Philippines. AboitizPower's Distribution Utilities collectively supply electricity to franchise areas covering a total of 18 cities and municipalities and five economic zones across Luzon, Visayas, and Mindanao.

In 2020, the wholly-owned Distribution Utilities and Visayan Electric completed a rebranding initiative to modernize the look and feel of the brands and visually show their relation to AboitizPower.

The Distribution Utilities' earnings contribution to AboitizPower's business segments in 2020 was equivalentto 28.03%. The Distribution Utilities had a total customer base of 1,068,820 as of year-end 2020, compared to 1,030,726 as of end-2019, and 995,828 as of the end of 2018.

The table below summarizes the key operating statistics of the Distribution Utilities for each of the past three years:

| Company | Electricity Sold (MWh) | | | Peak Demand (MW) | | | No. of Customers | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2020 | 2019 | 2018 | 2020 | 2019 | 2018 | 2020 | 2019 | 2018 |
| Davao Light | 2,476,991 | 2,633,920 | 2,468,192 | 452 | 454 | 421 | 440,304 | 420,666 | 404,574 |
| Cotabato Light | 170,363 | 173,114 | 165,409 | 32 | 31 | 31 | 45,044 | 43,449 | 41,681 |
| Visayan Electric | 3,119,850 | 3,500,781 | 3,159,032 | 583 | 601 | 547 | 462,699 | 450,088 | 437,823 |
| SFELAPCO | 686,694 | 714,948 | 665,425 | 134 | 140 | 134 | 116,293 | 112,091 | 107,536 |
| Subic Enerzone | 262,393 | 329,633 | 423,939 | 56 | 62 | 100 | 3,477 | 3,473 | 3,343 |
| Mactan Enerzone | 99,927 | 117,433 | 123,276 | 21 | 22 | 22 | 87 | 87 | 85 |
| Balamban Enerzone | 92,771 | 101,885 | 100,554 | 28 | 27 | 27 | 29 | 34 | 31 |

| Company | Electricity Sold (MWh) | | | Peak Demand (MW) | | | No. of Customers | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2020 | 2019 | 2018 | 2020 | 2019 | 2018 | 2020 | 2019 | 2018 |
| Lima Enerzone | 242,455 | 249,394 | 224,175 | 49 | 44 | 39 | 882 | 834 | 755 |
| Malvar Enerzone | 158 | 51 | N/A | 0.12 | 0.06 | N/A | 5 | 4 | N/A |
| **Total** | **7,151,601** | **7,821,159** | **7,330,002** | **1,355** | **1,382** | **1,320** | **1,068,820** | **1,030,726** | **995,828** |

**Visayan Electric Company, Inc. (Visayan Electric)**

Visayan Electric is the second largest privately-owned distribution utility in the Philippines in terms of customer size and annual MWh sales. The company supplies electricity to a region covering 674 square kilometers (sq. kms.) in the island of Cebu with a population of approximately 1.7 mn. Visayan Electric has 19 power substations and one mobile substation that serve the electrical power needs of various cities, municipalities, and barangaysin the island and province of Cebu.

Visayan Electric is the Aboitiz Group's first involvement in the power industry, with the acquisition by some family members of 20% ownership interest in the early 1900s. Directly and through its predecessors-in-interest, the company has been in the business of distributing electricity in Cebu since 1905. In 1928, Visayan Electric Company, S.A. was granted a 50-year distribution franchise by the Philippine Legislature. The franchise was renewed in September 2005 for a period of 25 years or until September 2030.

As of 2020, Visayan Electric's total systems loss is at 6.84%. This includes a feeder loss level of 4.94%, which is below the government-mandated feeder loss cap of 6.00%.

Visayan Electric has energized 100% of all the barangays, and electrified 99.60% of all the households within its franchise area. A goal of 100% total electrification is set on December 31, 2022, a year earlier than the national goal set by the DOE.

Visayan Electric is true to its vision of becoming a world-class electric utility by implementing innovations such as the implementation of a full digital substation using IEC 61850 station and process bus for its Paknaan substation. The newest application for distribution automation, fault location, isolation, and service restoration (FLISR), is an ongoing project to be applied to four feeders within the franchise.

Visayan Electric's Underground Distribution System (UDS) project, which began in 2013, aims to convert overhead conductors to underground cables along Cebu City's Sinulog Route with a total length of approximately five kilometers (kms). To date, approximately 3.3 kms have been completed.

Visayan Electric has reinforced and improved the existing capacity and reliability of its 23kV West Cluster with the addition of another 33 MVA Power Transformer in the Calamba Substation. This will enhance electricity service for the increasing demand of both commercial and densely residential customers within its franchise area.

Another milestone for Visayan Electric is the construction and completion of the Visayan Electric System Control Center building. This dedicated building was constructed to safeguard the operation of all the substations and remotely-operated devices installed across the entire franchise area.

As of March 23, 2021, AboitizPower directly holds a 55.26% equity interest in Visayan Electric. 34.81% is owned by the Vivant Group.

**Davao Light & Power Company, Inc. (Davao Light)**

Davao Light is the third largest privately-owned electric distribution utility in the country in terms of customer size and annual kWh sales. Its franchise area covers two cities and three municipalities in the Davao region, with a population of approximately 1.8 mn and a total area of 3,561 sq. kms.

Davao Light was incorporated on October 11, 1929, and was acquired by the Aboitiz Group in 1946. The company's original 50-year franchise, covering Davao City, was granted in November 1930 by the Philippine Legislature. On

December 26, 2020, the President signed RA No. 11515 into law, extending Davao Light's franchise for an additional 25 years from 2025, or until 2050.

Thirty-five percent (35%) of the company's power supply mix is from renewable energy sources, including NPC-PSALM, Hedcor Sibulan, Hedcor Bukidnon, and Hedcor's Talomo plant.

Davao Light continuously upgrades its distribution network infrastructure to increase capacity and adopts digital technology in its substations to enhance the reliability and flexibility in the sub-transmission and distribution network. Its UDS project along C.M Recto St., Davao City which commenced in 2019 has completed civil works construction and installation of electrical equipment and is currently in the testing and commissioning stage.

Davao Light retained its certification for the ISO 9001:2015, or the Quality Management System (QMS), and passed the surveillance audit for ISO 45001:2018 - Occupational Health and Safety (OH&S) Management System and ISO 14001:2015 – Environmental Management (EM) System.

During 2020, Davao Light's total systems loss was at 7.88%. This included a feeder loss of 5.09%, which was below the government-mandated feeder loss cap of 6%.

**Cotabato Light and Power Company (Cotabato Light)**

Cotabato Light supplies electricity to Cotabato City and portions of the municipalities of Datu Odin Sinsuat and Sultan Kudarat, Maguindanao, with its franchise covering a land area of 191.20 sq. kms. Incorporated in April 1938, Cotabato Light's original 25-year franchise was granted by the Philippine Legislature through RA No. 3341in June 1939. The most recent renewal of the franchise was in June 2014 for a period of 25 years, or until 2039.

Cotabato Light also maintains a standby 4.45-MW Bunker C-fired plant capable of supplying approximately 13.98% of its franchise area requirements. The standby power plant, capable of supplying electricity in cases of supply problems with its power suppliers or NGCP and for the stability of voltage whenever necessary, is another benefit available to Cotabato Light's customers.

Cotabato Light's total systems loss in 2020 was 8.88%. This included a feeder loss of 8.24% which was above the government-mandated feeder loss cap of 6.00%. Cotabato Light is continuously innovating its strategies and processes to reduce its system losses.

As of March 23, 2021, AboitizPower directly owns a 99.94% equity interest of Cotabato Light.

**San Fernando Electric Light & Power Co., Inc. (SFELAPCO)**

SFELAPCO was incorporated on May 17, 1927 and was granted a municipal franchise in 1927. The most recent renewal of its franchise was in March 2010 for a period of 25 years.

SFELAPCO's franchise in the City of San Fernando, Pampanga covers an area of 78.514 sq. kms. and the municipality of Floridablanca and Brgys. Talang and Ligaya, with an estimated area of 175.5 sq. kms. As of February 28, 2021, it includes 616.342 circuit km 13.8-kV medium voltage lines and 1,015.309 circuit km of 240v low voltage distribution lines.

During 2020, SFELAPCO's systems loss was 4.95%. This included a feeder loss of 3.60%, which was below the government-mandated feeder loss cap of 6%.

As of March 23, 2021, AboitizPower has an effective equity interest of 43.727% in SFELAPCO.

**Subic Enerzone Corporation (Subic Enerzone)**

On June 3, 2003, Subic Enerzone was incorporated as a Joint Venture owned by a consortium including Davao Light, AEV, and SFELAPCO, among others, to undertake management and operation of the SBFZ power distribution utility.

As of February 28, 2021, Subic Enerzone served a total of 3,531 customers, consisting of 84 industrial locators, 1,256 commercial locators, 2,070 residential customers, 102 streetlights and 19 industrial locators under RES.

In 2020, Subic Enerzone's systems loss was at 3.20%. This included a feeder loss of 2.60%, which was below the government-mandated feeder loss cap of 6.00%.

As of March 23, 2021, AboitizPower owns, directly and indirectly through Davao Light, a 99.98% equity interestin Subic Enerzone.

**Mactan Enerzone Corporation (Mactan Enerzone)**

Mactan Enerzone was incorporated in February 2007 when AboitizLand spun off the power distribution systemof its Mactan Export Processing Zone II (MEPZ II) project. The MEPZ II project, which was launched in 1995, was operated by AboitizLand under a BOT agreement with the Mactan-Cebu International Airport Authority (MCIAA).

Mactan Enerzone sources its power from SN Aboitiz Power-Magat and Green Core Geothermal Incorporated pursuant to a CSEE.

As of February 28, 2021, Mactan Enerzone served a total of 53 captive industrial locators, 28 captive commercial locators, and six industrial locators under RES.

In 2020, Mactan Enerzone's total systems loss was 0.97%. This included a feeder loss of 0.43%, which was below the government-mandated feeder loss cap of 6.25%.

As of March 23, 2021, AboitizPower owns a 100% equity interest of Mactan Enerzone.

**Balamban Enerzone Corporation (Balamban Enerzone)**

Balamban Enerzone was incorporated in February 2007 when CIPDI, a Joint Venture between AboitizLand and THC, spun off the power distribution system of the West Cebu Industrial Park – Special Economic Zone (WCIP-SEZ). WCIP-SEZ is a special economic zone for light and heavy industries located in Balamban, Cebu.

As of February 28, 2021, Balamban Enerzone served a total of 11 captive industrial customers, 12 captive commercial customers, and six contestable industrial customers.

In 2020, Balamban Enerzone's total systems loss was 0.43%. This included a feeder loss of 0.17%, which was below the government-mandated feeder loss cap of 6.25%.

As of March 23, 2021, AboitizPower directly owns a 100% equity interest of Balamban Enerzone.

**Lima Enerzone Corporation (Lima Enerzone)**

Lima Enerzone was incorporated as Lima Utilities Corporation on June 5, 1997 to serve and provide locators within the Lima Technology Center (LTC) with a reliable and stable power supply.

As of February 28, 2021, Lima Enerzone served a total of 96 captive industrial locators, 17 captive commercial locators, 767 captive residential customers, eight street lamps, and 18 industrial locators under RES.

In 2020, Lima Enerzone's total systems loss was 5.36%. This included a feeder loss of 0.64%, which was below the government-mandated feeder loss cap of 6.25%.

As of March 23, 2021, AboitizPower directly owns a 100% equity interest of Lima Enerzone.

**Malvar Enerzone Corporation (Malvar Enerzone)**

Malvar Enerzone was incorporated on June 9, 2017 to serve and provide locators within the Light Industry& Science Park IV (LISP IV) in Malvar, Batangas. Malvar Enerzone is expected to manage the construction, installation, operation, and maintenance of the power distribution of LISP IV for 25 years. LISP IV is expected to have two 50MVA transformers to provide reliable and quality power to locators, which are mostly from manufacturers and exporters.

In 2020, Malvar Enerzone's total systems loss was 21.98% due to the energization of the two 50MVA power transformer at very minimal load factor. This included a feeder loss of 0.45%, which was below the government-mandated feeder loss cap of 6.25 %.

As of March 23, 2021, AboitizPower directly owns a 100% equity interest of Malvar Enerzone.

**RETAIL ELECTRICITY AND OTHER RELATED SERVICES**

One of the objectives of electricity reform in the Philippines is to ensure the competitive supply of electricity at the retail level. With the start of commercial operations of Open Access, large-scale customers are allowed to obtain electricity from RES licensed by ERC.

**Aboitiz Energy Solutions, Inc. (AESI)**

AESI is engaged in the business of a retail energy supplier and energy consolidator. It was granted a license to act as a RES valid until October 28, 2022. The company was incorporated on August 11, 1998.

AESI served 42 customers at the start of commercial operations of Open Access on June 26, 2013. For the year2020, AESI supplied retail electricity to a total of 205 customers, with total energy consumption of 2,027.20 mn kWh. As of March 23, 2021, AboitizPower owns a 100% equity interest of AESI.

**Adventenergy, Inc. (AdventEnergy)**

AdventEnergy was specifically formed to serve Contestable Customers who are located in economic zones. It was granted a license to act as a RES valid until June 17, 2022. The company was incorporated on August 14,2008.

AdventEnergy differentiates itself from competition by sourcing most of its electricity requirements from a renewable source. As a result, an increasing number of companies are opting to source a part, if not the majority, of their electricity supply from AdventEnergy as an environmental initiative.

During 2020, AdventEnergy supplied retail electricity to 68 customers with a total consumption of 1,057.29 mn kWh.

As of March 23, 2021, AboitizPower owned a 100% equity interest of AdventEnergy.

**Prism Energy, Inc. (Prism Energy)**

Prism Energy was incorporated in March 2009 as a Joint Venture between AboitizPower and Vivant Corporation. It was granted a license to act as a RES valid until May 22, 2022.

Prism Energy is envisioned to serve Contestable Customers in the Visayas region. As a RES, Prism Energy provides its customers with contract options for electricity supply that is based on their operating requirements. During 2020, Prism Energy supplied retail electricity to 43 customers with a total energy consumption of 179.92 mn kWh.

As of March 23, 2021, AboitizPower directly owned a 60% equity interest in Prism Energy.

**SN Aboitiz Power – Res, Inc. (SN Aboitiz Power - RES)**

SN Aboitiz Power-RES is the retail arm of the SN Aboitiz Power Group. It caters to Contestable Customers and electricity consumers using an average of at least 1 MW in the last twelve months across all industries under Open Access. It offers energy supply packages tailored to its customers' needs and preferences.

As of March 23, 2021, MORE owns a 60% equity interest in SN Aboitiz Power-RES, with the remaining 40% owned by SN Power Philippines.

### (ii) Sales

The operations of AboitizPower and its Subsidiaries and Affiliates are based only in the Philippines.

Comparative amounts of revenue, profitability and identifiable assets are as follows:

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| Gross Income | ₱110,377 | ₱125,635 | ₱131,572 |
| Operating Income | 26,880 | 28,856 | 36,497 |
| Total Assets | **₱397,925** | **₱410,469** | **₱389,662** |

*Note: Values are in Million Pesos. Operating income is operating revenue net of operating expenses.*

Comparative amounts of revenue contribution and corresponding percentages to total revenue by business group are as follows:

| | 2020 | | 2019 | | 2018 | |
|---|---|---|---|---|---|---|
| Power Generation | ₱74,647 | 55% | ₱84,379 | ₱74,647 | 55% | ₱84,379 |
| Power Distribution | 42,991 | 32% | 47,448 | 42,991 | 32% | 47,448 |
| Retail Electricity Supply | 16,477 | 12% | 24,566 | 16,477 | 12% | 24,566 |
| Services | 1,308 | 1% | 1,965 | 1,308 | 1% | 1,965 |
| **Total Revenue** | **135,423** | **100%** | **158,358** | **135,423** | **100%** | **158,358** |
| Less: Eliminations | -25,046 | | -32,723 | -25,046 | | -32,723 |
| **Net Revenue** | **₱110,377** | | **₱125,635** | **₱110,377** | | **₱125,635** |

*Note: Values are in Million Pesos.*

### (iii) Distribution Methods of the Products or Services

**Power Generation Business**

The AboitizPower's Generation Companies sell their capacities and energy through bilateral PSAs with private distribution utilities, electric cooperatives, RES, other large end-users, and through the WESM. The Company has Subsidiaries and Affiliates that sell ancillary services through ASPAs with NGCP. The majority of AboitizPower's Generation Companies have transmission service agreements with NGCP for transmission of electricity to the Grid.

**Distribution Utilities Business**

Ancillary Services are necessary to help ensure a reliable and stable Grid, which co-exist with the energy marketor WESM. NGCP signs ASPAs with AS-certified generators to fulfill specific ancillary service requirements per Grid. Currently, SN Aboitiz Power-Magat, SN Aboitiz Power-Benguet, TMI, TMO, TLI, APRI, Cebu Energy, and WMPC have ASPAs with NGCP. In the Luzon grid, the SN Aboitiz Power Group delivers regulating, contingency, and dispatchable reserves, blackstart service, and reactive power support through its Ambuklao, Binga, and Magat Plants. In addition, TLI's Pagbilao and APRI's Makban plants are delivering contingency reserves and Reactive Power Support AS, respectively. In Visayas, AboitizPower delivers Contingency Ancillary Service through Cebu Energy. TMI provides both contingency and dispatchable reserves requirements in Mindanao.

In addition, the run-of-river hydroelectric power plants - Tudaya Hydro 2, Irisan Hydro 1, Sabangan, and Manolo Fortich 1, - all in commercial operations, have been approved for inclusion in the FIT system. Hedcor, Hedcor Tudaya, Hedcor Sabangan, and Hedcor Bukidnon, the legal entities that own and operate the foregoing plants, have entered into REPAs with Transco, in its capacity as FIT-Allowance ("FIT-All") Administrator, for the collection and payment of the FIT. In the absence of WESM in Mindanao, Tudaya Hydro 2, and Manolo Fortich Hydro 1 have entered into RESAs with their host DUs or electric cooperatives. Currently, Hedcor Bukidnon is in the process of converting the COC of 27.387 MW Manolo Fortich 2 to FIT-COC.

AboitizPower's Distribution Utilities have exclusive distribution franchises in the areas where they operate. Each Distribution Utility has a distribution network consisting of a widespread network of predominantly overhead lines and substations. Customers are classified according to voltage levels based on their electricity consumption and demand. Large industrial and commercial consumers receive electricity at distribution voltages of 13.8 kV, 23 kV, 34.5 kV, and 69 kV, while smaller industrial, commercial, and residential customers receive electricity at 240V or 480 V.

With the exception of Malvar Enerzone, all of AboitizPower's Distribution Utilities have entered into transmission service contracts with NGCP for the use of NGCP's transmission facilities to receive power from PSALM to their respective independent power producers to their respective customers. All customers that connect to the Distribution Utilities' distribution lines are required to pay a tariff approved by ERC.

**Retail Electricity Supply Business**

AdventEnergy and AESI have existing electricity supply contracts to ensure continuous supply of power to their customers. These companies maintain a portfolio of energy-based supply contracts from renewable and non-renewable sources to secure reliable and affordable electricity for its customers. These electricity supply contracts involve a mix of fixed rate and margin-based electricity fees that are updated year on year to ensure that supply is maintained at competitive rates. Prism Energy primarily serves contestable customers under the Visayan Electric franchise.

**(iv) New Products/Services**

Other than the ongoing Greenfield and/or rehabilitation projects undertaken by AboitizPower's Generation Companies, AboitizPower and its Subsidiaries do not have any publicly announced new products or services as of March 23, 2021.

**(v) Competition**

**Power Generation Business**

AboitizPower continues to face competition in both the development of new power generation facilities and the acquisition of existing power plants. Competition for financing these activities, as well as the demand for use of renewable energy sources, remains to be a challenge to AboitizPower's growth and portfolio of assets.

The global pandemic has resulted in a decrease in the consumption of power across the Philippines and this is expected to continue in the short term. With suppressed demand, competition among generation companiesis expected to increase as they seek contracts to make up for lost consumption. Nevertheless, AboitizPower believes the Philippines still has long term energy requirements that will continue to grow, attracting many competitors - including multinational development groups and equipment suppliers - to explore opportunities in power generation projects in the Philippines. Accordingly, competition for and from new power projects may increase in line with the expected long-term economic growth trajectory of the Philippines.

In particular, AboitizPower is expected to face competition from leading multinationals such as AES Corporation, TeaM Energy, The Electricity Generating Public Company Limited (EGCO), and Korea Electric Power Corporation, as well as power generation facilities owned or controlled by Filipino-owned companies such as Global Business Power Corporation, AC Energy, First Gen Corporation, DMCI Holdings, Inc., Meralco PowerGen Corporation, and SMC Global Power.

With the commencement of retail competition and Open Access, these foreign and local generation companies have already set up their own RES business, which include Direct Power RES, and Ecozone Power Management Inc. RES. Of these, the largest player in terms of number of registered Contestable Customers is MPower RES.[6] The main strength of this largest player is its association with the country's largest distribution utility, Meralco, and the goodwill that comes from its size and dominance.

**Retail Electricity Supply Business**

Based on ERC's Competitive Retail Electricity Market Monthly Statistical Data as of December 2020, there are 44 RES companies and 25 Local RES companies participating in the Open Access markets in Luzon and Visayas. The Meralco group, through its RES companies, has the largest market share at 35.16%. AboitizPower, through

[6] Based on ERC's Competitive Retail Electricity Market Report released in December 2020.

its RES companies, has the second-largest market share at 21.46%,[7] with contracted capacity of 843.26 MW[8]as of December 2020.

The increase in the number of power plants, the number of RES companies, and volatile oil and coal prices have also increased the level of competition in the Open Access market. RES companies have resorted to both aggressive pricing and contractual concessions.

AboitizPower believes that its portfolio, consisting of different types of energy sources with a mix of renewables and non-renewables, allows it to be flexible in both pricing and reliability of supply, thus enhancing its competitiveness.

**Distribution Utilities Business**

Each of AboitizPower's Distribution Utilities currently have franchises to distribute electricity in the areas covered by its franchises.

**(vi) Sources of Raw Materials and Supplies**

**Power Generation Business**

The Generation Companies produce energy using the following fuel types based on attributable net selling capacity: 17% hydropower, 8% geothermal, 1% solar, 58% coal, and 16% oil. In 2020, renewable fuel sources comprised 27% of attributable net selling capacity, while thermal accounted for 73%.

AboitizPower's run-of-river hydropower facilities harness the energy from the flow of water from neighboring rivers to generate electricity. The hydroelectric companies on their own, or through NPC as in the case of LHC, possess water permits issued by National Water Resources Board (NWRB), which allow them to utilize the energy from a certain volume of water from the applicable source of the water flow.

APRI's steam requirement for its geothermal power generation continues to be supplied by PGPC. The terms of the steam supply are governed by a Geothermal Resources Supply and Services Agreement under which priceof steam is ultimately indexed to the Newcastle Coal Index and the Japanese Public Utilities coal price. APRI andPGPC signed a new agreement on August 24, 2018 under which PGPC will drill 12 new production wells with aminimum of 50 MW aggregated individual well capacity by 2023.

Oil-fired plants use Bunker-C fuel to generate electricity. SPPC and WMPC source fuel from Pilipinas Shell Petroleum Corporation and Phoenix Petroleum, respectively. Each of EAUC, CPPC, TMI, TMO, and TPVI has a fuel supply agreement with Shell, Phoenix Petroleum, and/or PTT Philippines Corporation. The fuel prices under these agreements are pegged to the Mean of Platts Singapore index.

TLI has long-term coal supply contracts for both the performance and blending coal requirements of Pagbilao Units 1 and 2. Likewise, a three-year coal supply contract for Pagbilao Unit 3 was signed in 2019.

TVI entered into a long-term coal supply agreement with one of its established coal sources after its successful test firing of another source of coal. Nevertheless, sourcing and evaluation of other coal sources are ongoing for supply diversification and security.

Likewise, TSI has annual coal supply contracts for its coal plant in Davao. It applies the same sourcing strategy as that of TLI and TVI where evaluation of other potential coal sources is being conducted in order to establish the most competitive and optimum fuel supply mix.

GNPD, GMEC, STEAG Power, and Cebu Energy also have long-term coal supply agreements.

[7] Excluding SFELAPCO which is 20.284% owned by AboitizPower.
[8] Excluding SFELAPCO which is 20.284% owned by AboitizPower.

**Power Distribution Business**

The rates at which the Distribution Utilities purchase electricity from affiliated Generation Companies are established pursuant to bilateral agreements. These agreements are executed after the relevant Generation Company has successfully bid for the right to enter into a PSA with a Distribution Utility.These agreements are entered into on an arms'-length basis, on commercially reasonable terms, and must be approved by the ERC.

To address long-term power supply requirements, Davao Light and Cotabato Light entered into 25-year PSCs with TSI for 100 MW and 5 MW, respectively, and started drawing their contracted capacity in September 2015.In June 2016, Davao Light and TSI filed a Joint Manifestation with ERC stating that they agreed to supplementand modify their supply contract to 108 MW.

In anticipation of higher demand and lower allocation from PSALM, Davao Light entered into a 10-year PSC with San Miguel Consolidated Power Corporation (SMCPC) for a supply of 60MW in 2016. SMCPC began supplying the 60-MW contracted capacity in February 2018. Davao Light also renewed its Contract to Supply Electric Energy (CSEE) with PSALM for a period of three years from 2018, 2019, and 2020 for 133 MW, 140 MW, and 140 MW, respectively. To cover its peak demand requirement for 2018 to2021, Davao Light has Non-Firm ESAs with TMI and WMPC for up to 45MW and 60MW, respectively. Furthermore, Davao Light also contracted a 50MW Emergency Power Supply Agreement with SMCPC for 2020 in anticipation of the reported slight *El Niño* in the first quarter that may affect the production of hydroelectric plants of PSALM.

To address long-term power supply requirements, Visayan Electric entered into a 25-year Electric Power Purchase Agreement (EPPA) with Cebu Energy in October 2009 for the supply of 105 MW. In December 2010, Visayan Electric signed a five-year PSA with GCGI for the supply of 60 MW at 100% load factor which was extended for another ten years in October 2014. Visayan Electric also has a PPA with CPPC which is set to expire in 2023, and a 15-year PSA with TVI for the supply of 150 MW beginning 2018.

Malvar Enerzone has a power supply contract with Batangas II Electric Cooperative, Inc. to meet the ecozone's power requirements until its electricity demand is stable.

The provisions of the Distribution Utilities' PPAs are governed by ERC regulations. The main provisions of each contract relate to the amount of electricity purchased, the price, including adjustments for various factors suchas inflation indexes, and the duration of the contract. Distribution Utilities also enter into PSAs with various generation companies.

**Transmission Charges**

AboitizPower's Distribution Utilities have existing Transmission Service Agreements (TSAs) with the NGCP for the use of the latter's transmission facilities in the distribution of electric power from the Grid to its customers, which are valid until the dates specified below:

| Distribution Utility | Valid until |
|---|---|
| Davao Light | January 25, 2024 |
| Lima Enerzone | July 25, 2022 |
| Mactan Enerzone | January 25, 2020* |
| Balamban Enerzone | January 25, 2020* |
| SFELAPCO | December 25, 2023 |
| Cotabato Light | August 25, 2023 |
| Visayan Electric | January 24, 2024 |
| Subic Enerzone | August 25, 2023 |

* The TSA renewals of MEZ and BEZ are currently being finalized for execution with NGCP. Delays are related to restrictions caused by the COVID-19 pandemic.

The Distribution Utilities have negotiated agreements with NGCP in connection with the security deposit to secure their obligations to the NGCP under the TSAs. Malvar Enerzone has already applied and submitted the requirements for connection to the Grid.

**(vii) Major Customers**

**Power Generation Business**

As of December 31, 2020, out of the total electricity sold by AboitizPower's Generation Companies, approximately 93% is covered by bilateral contracts with, among others, private distribution utilities, electric cooperatives, and industrial and commercial companies. The remaining, approximately 7%, is sold by the Generation Companies through the WESM.

**Retail Electricity Supply Business**

As of February 28, 2021, AboitizPower's RES business has approximately 294 Contestable Customers with active contracts, from a wide number of industries, including property development, meat processing, semiconductors, steel, and cement. AboitizPower thus believes that this diversity will insulate its RES business from downturns in any one industry.

**Power Distribution Utilities**

AboitizPower's Distribution Utilities have wide and diverse customer bases. As such, AboitizPower believes that loss of any one customer is not expected to have a material adverse impact onthe Company. The Distribution Utilities' customers are categorized into four principal categories:

(a) *Industrial customers.* Industrial customers generally consist of large-scale consumers of electricity within a franchise area, such as factories, plantations, and shopping malls;
(b) *Residential customers.* Residential customers are those who are supplied electricity for use in a structure utilized for residential purposes;
(c) *Commercial customers.* Commercial customers include service-oriented businesses, universities, and hospitals; and
(d) *Other customers.* Customers not falling under any of the above categories.

Government accounts for various government offices and facilities are categorized as either commercial or industrial depending on their load. Each Distribution Utility monitors government accounts separately and further classifies them to local government accounts, national government accounts, or special government accounts like military camps. Streetlights have a different rate category and are thus monitored independently.

**(viii) Transactions with and/or Dependence on Related Parties**

AboitizPower and its Subsidiaries (the "Group"), in their regular conduct of business, have entered into transactions with Associates and other related parties principally consisting of professional and technical services, power sales and purchases, advances, various guarantees, construction contracts, aviation services, and rental fees. These are made on an arm's-length basis as of the time of the transactions.

Details of the significant account balances of the foregoing related party transactions of the Group can be found in the accompanying consolidated financial statements of the Company.

**(ix) Patents, Copyrights, Franchises**

**Generation Business**

Power generation is not considered a public utility operation under RA No. 9136 or the Electric Power Industry Act of 2001 (EPIRA). Thus, a franchise is not needed to engage in the business of power generation. Nonetheless, no person or entity may engage in the generation of electricity unless such person or entity has secured a COC from ERC to operate a generation facility and has complied with the standards, requirements, and other termsand conditions set forth in the said COC.

In its operations, a generation company is required to comply with technical, financial and environmental standards. It shall ensure that facilities connected to the Grid meet the technical design and operation criteriaof the Philippine Grid Code, Philippine Distribution Code, and Philippine Electrical Code. It shall also conform with financial standards and comply with applicable environmental laws, rules and regulations.

Cotabato Light has its own generation facilities and is required under the EPIRA to obtain a COC. Davao Light's generation facility was decommissioned last November 26, 2018. For IPPAs such as TLI, the COCs issued to the IPPs of the relevant generation facilities are deemed issued in favor of the IPPAs. As such, the IPPAs are also bound to comply with the provisions of the Philippine Grid Code, Philippine Distribution Code, WESM rules, and applicable rules and regulations of ERC.

AboitizPower's HEPPs are also required to obtain water permits from NWRB for the water flow used to run their respective hydroelectric facilities. These permits specify the source of the water flow that the Generation Companies can use for their hydroelectric generation facilities, as well as the allowable volume of water that can be used from the source of the water flow. Water permits have no expiration date and require their holders to comply with the terms of the permit with regard to the use of the water flow and the allowable volume.

AboitizPower, its Subsidiaries, and Affiliates are in various stages of development of several projects. Some of these projects have been awarded renewable energy service contracts by DOE.

The Generation Companies and Cotabato Light, a Distribution Utility, possess COCs for their power generation plants, details of which are as follows:

| Title of Document | Issued under the Name of | Power Plant | | | | | Economic Life/Term of COC | Date of Issuance |
|---|---|---|---|---|---|---|---|---|
| | | Name | Type | Location | Capacity | Fuel | | |
| COC No. 18-12-M-00330L | Hedcor, Inc. | Irisan 3 | Hydroelectric Power Plant | Tadiangan, Tuba, Benguet | 1.20 MW | Hydro | November 5, 2018 - November 4, 2023 | December 11, 2018 |
| COC No.18-12-M-00334L | Hedcor, Inc. | Bineng 3 | Hydroelectric Power Plant | Bineng, La Trinidad, Benguet | 5.625 MW | Hydro | November 5, 2018 - November 4, 2023 | December 11, 2018 |
| COC No. 18-12-M-00329L | Hedcor, Inc. | Ampohaw | Hydroelectric Power Plant | Banengbeng, Sablan, Benguet | 8.00 MW | Hydro | November 5, 2018 - November 4, 2023 | December 11, 2018 |
| COC No. 18-12-M-00336L | Hedcor, Inc. | Sal-angan | Hydroelectric Power Plant | Ampucao, Itogon, Benguet | 2.40 MW | Hydro | November 5, 2018 - November 4, 2023 | December 11, 2018 |
| COC No. 17-04-M-00032L | Hedcor, Inc. | Irisan 1 | Hydroelectric Power Plant | Brgy. Tadiangan, Tuba, Benguet | 3.89 MW | Hydro | April 30, 2017 – April 29, 2022 | April 19, 2017 |
| COC No. 20-08-M-00061M | Hedcor, Inc. | Talomo 1 | Hydroelectric Power Plant | Brgy. Malagos, Davao City | 1 MW | Hydro | February 16, 2020 - February 15, 2025 | August 12, 2020 |
| COC No. 20-08-M-00062M | Hedcor, Inc. | Talomo 2 | Hydroelectric Power Plant | Brgy. Mintal, Davao City | 0.6 MW | Hydro | February 16, 2020 - February 15, 2025 | August 12, 2020 |

| Title of Document | Issued under the Name of | Power Plant | | | | | | Date of Issuance |
|---|---|---|---|---|---|---|---|---|
| | | Name | Type | Location | Capacity | Fuel | Economic Life/Term of COC | |
| COC No. 20-08-M-00063M | Hedcor, Inc. | Talomo 2A | Hydroelectric Power Plant | Upper Mintal, Davao City | 0.65 MW | Hydro | February 16, 2020 - February 15, 2025 | August 12, 2020 |
| COC No. 20-08-M-00064M | Hedcor, Inc. | Talomo 2B | Hydroelectric Power Plant | Upper Mintal, Davao City | 0.3 MW | Hydro | February 16, 2020 - February 15, 2025 | August 12, 2020 |
| COC No. 20-08-M-00065M | Hedcor, Inc. | Talomo 3 | Hydroelectric Power Plant | Catalunan, Pequeño, Davao City | 1.92 MW | Hydro | February 16, 2020 - February 15, 2025 | August 12, 2020 |
| COC No. 18-12-M-00327L | Hedcor, Inc. | Ferdinand L. Singit Plant | Hydroelectric Power Plant | Poblacion, Bakun, Benguet | 6.40 MW | Hydro | November 5, 2018 - November 4, 2023 | December 11, 2018 |
| COC No. 18-12-M-00335L | Hedcor, Inc. | Lower Labay | Hydroelectric Power Plant | Ampusongan, Bakun, Benguet | 2.40 MW | Hydro | November 5, 2018 - November 4, 2023 | December 11, 2018 |
| COC No. 18-12-M-00328L | Hedcor, Inc. | Lon-oy | Hydroelectric Power Plant | Poblacion, Bakun, Benguet | 3.60 MW | Hydro | November 5, 2018 - November 4, 2023 | December 11, 2018 |
| COC No. 15-05-M-56M | Hedcor Sibulan, Inc. | Sibulan A – Unit 1<br>Sibulan A – Unit 2 | Hydroelectric Power Plant | Brgy. Sibulan, Sta. Cruz, Davao del Sur | 8.164 MW<br>8.164 MW | Hydro | 25 years | May 18, 2015* |
| COC No. 15-05-M-54M | Hedcor Sibulan, Inc. | Sibulan B – Unit 1<br>Sibulan B – Unit 2 | Hydroelectric Power Plant | Brgy. Sibulan, Sta. Cruz, Davao del Sur | 13.128 MW<br>13.128 MW | Hydro | 25 years | May 18, 2015* |
| COC No. 19-03-M-00346M | Hedcor Sibulan, Inc. | Tudaya 1 | Hydroelectric Power Plant | Sta. Cruz, Davao del Sur | 6.65 MW | Hydro | March 10, 2019- March 9, 2024 | March 5, 2019 |
| COC No. 18-06-M-00017L | Luzon Hydro Corporation | Bakun AC | Hydroelectric Power Plant | Amilongan, Alilem, Ilocos Sur | 74.80 MW | Hydro | July 30, 2018 – July 29, 2023 | June 20, 2018 |
| COC No. 19-03-M-00013M | Hedcor Tudaya, Inc. | Tudaya 2 – Unit 1<br>Tudaya 2 – Unit 2 | Hydroelectric Power Plant | Sta. Cruz, Davao del Sur | 5.362 MW<br>2.775 MW | Hydro<br>Hydro | April 11, 2019-April 10, 2024 | March 5, 2019 |
| COC No. 15-09-M-00023L | Hedcor Sabangan, Inc. | Sabangan Hydro | Hydroelectric Power Plant | Brgy. Namatec, Sabangan, Mountain Province | 14.96 MW | Hydro | 25 years | September 29, 2015* |
| COC No. 19-06-M-00174M | Hedcor Bukidnon, Inc. | Manolo Fortich 1 | Hydroelectric Power Plant | Brgy. Santiago, Manolo Fortich, Bukidnon | 45.936 MW | Hydro | June 18, 2019-June 17, 2024 | June 18, 2019 |
| COC No. 19-06-M-00175M | Hedcor Bukidnon, Inc. | Manolo Fortich 2 | Hydroelectric Power Plant | Brgy. Dalirig, Manolo Fortich, Bukidnon | 27.387 MW | Hydro | June 18, 2019-June 17, 2024 | June 18, 2019 |

| Title of Document | Issued under the Name of | Power Plant | | | | | | Date of Issuance |
|---|---|---|---|---|---|---|---|---|
| | | Name | Type | Location | Capacity | Fuel | Economic Life/Term of COC | |
| COC No. 17-04-M-15911M | Cotabato Light and Power Company, Inc. | N/A | Bunker C-Fired Diesel Engine | CLPC Compound, Sinsuat Ave., Rosary Heights I, Cotabato City | 9.927 MW | Diesel / Bunker C | January 10, 2017 - January 9, 2022 | April 19, 2017 |
| | | | Blackstart | | 10 kW | Diesel | | |
| COC No. 18-03-M-00002V | East Asia Utilities Corporation | N/A | Bunker C/Diesel Fired Power Plant | Barrio Ibo, MEPZ 1, Lapu-Lapu City, Cebu | 49.60 MW | Bunker C/ Diesel | June 11, 2018 – June 10, 2023 | March 27, 2018 |
| COC No. 18-03-M-00001V | Cebu Private Power Corporation | N/A | Bunker C/Diesel Fired Power Plant | Old Veco Compound, Brgy. Ermita, Carbon, Cebu City | 70.59 MW | Bunker C/ Diesel | June 4, 2018 – June 3, 2023 | March 27, 2018 |
| COC No. 18-12-M-00020M | Western Mindanao Power Corporation | N/A | Bunker C-Fired Power Plant | Malasugat, Sangali, Zamboanga City | 112 MW | Bunker C/Diesel | August 27, 2018 – August 26, 2023 | December 4, 2018 |
| | | N/A | Blackstart | | 160 kW | Diesel | | |
| COC No. 18-12-M-00021M | Southern Philippines Power Corporation | N/A | Bunker C-Fired Diesel Power Plant | Brgy. Baluntay, Alabel, Sarangani Province | 61.72 MW | Bunker C/ Diesel | August 27, 2018 – August 26, 2023 | December 4, 2018 |
| | | | Blackstart | | 160 kW | Diesel | | |
| COC No. 15-11-M-2860L | SN Aboitiz Power – Magat, Inc. (Magat Hydroelectric Power Plant) | Magat Hydroelectric Power Plant – Unit 1 | Hydroelectric Power Plant | Ramon, Isabela and A. Lista, Ifugao | 90 MW | Hydro | 25 years | November 11, 2015* |
| | | Magat Hydroelectric Power Plant – Unit 2 | | | 90 MW | | | |
| | | Magat Hydroelectric Power Plant – Unit 3 | | | 90 MW | | | |
| | | Magat Hydroelectric Power Plant – Unit 4 | | | 90 MW | | | |
| | | Magat Hydroelectric Power Plant | Blackstart | | 600 kW | Diesel | 25 years | |
| COC No. 18-04-M-00150L | SN Aboitiz Power – Magat, Inc. | Maris Main Canal I Hydroelectric Power Plant | Hydroelectric Power Plant | Brgy. Ambatali, Ramon, Isabela | 8.50 MW | Hydro | April 4, 2018 – April 3, 2023 | April 4, 2018 |
| COC No. 17-03-M-00309L | SN Aboitiz Power – Benguet, Inc. | Binga Hydroelectric Power Plant – Unit 1 | Hydroelectric Power Plant | Brgy. Tinongdan, Itogon, Benguet | 35.02 MW | Hydro | March 12, 2017 - March 11, 2022 | March 9, 2017 |
| | | Binga Hydroelectric Power Plant – Unit 2 | Hydroelectric Power Plant | | 35.02 MW | | | |
| | | Binga Hydroelectric Power Plant – Unit 3 | Hydroelectric Power Plant | | 35.02 MW | | | |

| Title of Document | Issued under the Name of | Power Plant | | | | | | Date of Issuance |
|---|---|---|---|---|---|---|---|---|
| | | Name | Type | Location | Capacity | Fuel | Economic Life/Term of COC | |
| | | Binga Hydroelectric Power Plant – Unit 4 | Hydroelectric Power Plant | | 35.02 MW | | | |
| | | Binga Hydroelectric Power Plant | Blackstart Generator Set | | 320 KW | Diesel | | |
| | | Binga Hydroelectric Power Plant | Diesel Auxiliary Generator Set | | 330.40 KW | Diesel | | |
| COC No. 16-08-M-00087L | SN Aboitiz Power – Benguet, Inc. | Ambuklao Hydroelectric Power Plant – Unit 1 | Hydroelectric Power Plant | Brgy. Ambuklao, Bokod, Benguet | 34.85 MW | Hydro | August 31, 2016 - August 30, 2021 | August 18, 2016 |
| | | Ambuklao Hydroelectric Power Plant – Unit 2 | | | 34.85 MW | | | |
| | | Ambuklao Hydroelectric Power Plant – Unit 3 | | | 34.85 MW | | | |
| | | Ambuklao Hydroelectric Power Plant | Auxiliary Generator Set | | 320 KW | Diesel | | |
| | | Ambuklao Hydroelectric Power Plant | Blackstart Generator Set | | 314 KW | Diesel | | |
| COC No. 16-06-M-00016M | STEAG State Power, Inc. | N/A | Coal Fired Power Plant | Phividec Industrial Estate, Balascanas, Villanueva, Misamis Oriental | 232 MW | Coal | August 30, 2016 - August 29, 2021 | June 13, 2016 |
| | | | Emergency Generating Set | | 1.25 MW | Diesel | | |
| COC No. 15-03-S-00013M | STEAG State Power, Inc. | N/A | Diesel Engine | Phvidec Industrial Estate, Villanueva, Misamis Oriental | 400 kW | Diesel | 25 years | March 25, 2015* |
| COC No. 15-05-M-00007L | AP Renewables, Inc. | Makban – Bay, Plant A | Geothermal Power Plant | Brgy. Bitin, Bay, Laguna | 63.2 MW | Geo-thermal Steam | 23 years | May 4, 2015* |
| | | Makban – Bay, Plant A | | | 63.2 MW | | | |
| | | Makban – Bay, Plant D | | | 20.0 MW | | | |
| | | Makban – Bay, Plant D | | | 20.0 MW | | | |
| COC No. 15-05-M-00008L | AP Renewables, Inc. | Makban – Calauan, Plant B | Geothermal Power Plant | Brgy. Limao, Calauan, Laguna | 63.2 MW | Geo-thermal Steam | 23 years | May 4, 2015* |
| | | Makban – Calauan, Plant B | | | 63.2 MW | | | |
| | | Makban – Calauan, Plant C | | | 55.0 MW | | | |
| | | Makban – Calauan, Plant C | | | 55.0 MW | | | |

| Title of Document | Issued under the Name of | Power Plant | | | | | | Date of Issuance |
|---|---|---|---|---|---|---|---|---|
| | | Name | Type | Location | Capacity | Fuel | Economic Life/Term of COC | |
| COC No. 15-05-M-00009L | AP Renewables, Inc. | Makban – Sto. Tomas, Plant E | Geothermal Power Plant | Brgy. Sta. Elena, Sto. Tomas, Batangas | 20.0 MW | Geo-thermal Steam | 23 years | May 4, 2015* |
| | | Makban – Sto. Tomas, Plant E | | | 20.0 MW | | | |
| COC No. 15-11-M-00028L | AP Renewables, Inc. | Plant A, Unit 1 | Geothermal Power Plant | Brgy. Naga, Tiwi, Albay | 60 MW | Geo-thermal Steam | 25 years | November 26, 2015** |
| | | Plant A, Unit 2 | | | 60 MW | | | November 26, 2015* |
| COC No. 15-11-M-286rL | AP Renewables, Inc. | Plant C, Unit 5 | Geothermal Power Plant | Brgy. Cale, Tiwi, Albay | 57 MW | Geo-thermal Steam | 25 years | November 26, 2015** |
| | | Plant C, Unit 6 | | | 57 MW | | | November 26, 2015* |
| COC No. 17-05-M-00105L | AP Renewables, Inc. | MakBan Binary 1 | Geothermal Power Plant | Brgy. Sta. Elena, Sto. Tomas, Batangas | 7.0 MW | Brine | November 7, 2016 - November 6, 2021 | May 15, 2017 |
| COC No. 16-03-M-00286ggM | Therma Marine, Inc. | Mobile 1 | Diesel Power Plant | Brgy. San Roque, MACO, Compostela Valley | 100.33 MW | Diesel | 25 years | March 30, 2016 |
| | | | Blackstart | | 1.68 MW | Diesel | 5 years | |
| COC No. 16-03-M-00286bbM | Therma Marine, Inc. | Mobile 2 | Diesel Power Plant | Brgy. Nasipit, Agusan del Norte | 100.33 MW | Diesel | 25 years | March 30, 2016 |
| | | | Blackstart | | 1.68 MW | Diesel | 5 years | |
| COC No. 17-07-M-00305L | Therma Mobile, Inc. | Barge 1/ Mobile 3 | Bunker C-Fired Diesel Power Plant | Navotas Fish Port Complex, Navotas, Metro Manila | 66 MW | Bunker C/ Diesel | July 9, 2017 - July 8, 2022 | June 22, 2017 |
| COC No. 17-07-M-00306L | Therma Mobile, Inc. | Barge 2/ Mobile 4 | Bunker C-Fired Diesel Power Plant | Navotas Fish Port Complex, Navotas, Metro Manila | 56 MW | Bunker C/ Diesel | July 9, 2017 - July 8, 2022 | June 22, 2017 |
| COC No. 17-07-M-00307L | Therma Mobile, Inc. | Barge 3/ Mobile 5 | Bunker C-Fired Diesel Power Plant | Navotas Fish Port Complex, Navotas, Metro Manila | 57 MW | Bunker C/ Diesel | July 9, 2017 - July 8, 2022 | June 22, 2017 |
| COC No. 17-07-M-00308L | Therma Mobile, Inc. | Barge 4/ Mobile 6 | Bunker C-Fired Diesel Power Plant | Navotas Fish Port Complex, Navotas, Metro Manila | 52 MW | Bunker C/ Diesel | July 9, 2017 - July 8, 2022 | June 22, 2017 |
| Provisional Authority to Operate | Therma Power-Visayas, Inc. | Naga Oil-Fired Power Plant (NOPP) | Oil-Fired Power Plant | Brgy. Colon, Naga City, Cebu | 44.58 MW | Bunker C | January 6, 2021 – January 5, 2022 | December 16, 2020 |
| | | Blackstart Diesel Engine Generating Unit | Blackstart | | 440 kW | Diesel | | |
| COC No. 15-09-M-00022M | Therma South, Inc. | Unit 1 | Coal Fired Power Plant | Brgy. Binugao, Toril District, Davao City | 150 MW | Coal | January 19, 2016 - August | January 19, 2016* |

| Title of Document | Issued under the Name of | Power Plant | | | | | Economic Life/Term of COC | Date of Issuance |
|---|---|---|---|---|---|---|---|---|
| | | Name | Type | Location | Capacity | Fuel | | |
| | | Unit 2 | | | 150 MW | Coal | 31, 2020 | |
| COC No. 19-09-S-03902V | Therma Visayas, Inc. | N/A | Diesel Power Plant | Brgy. Bato, Toledo City, Cebu | 1.275 MW | Diesel | September 20, 2019 - September 19, 2024 | September 20, 2019 |
| COC No. 19-06-M-00176V | Therma Visayas, Inc. | Therma Visayas Circulating Fluidized Bed Coal-Fired Power Plant | Circulating Fluidized Bed Coal-Fired Power Plant | Sitio Looc, Brgy. Bato, Toledo City, Cebu | 353.94 MW | Coal | April 15, 2019 - April 14, 2024 | June 26, 2019 |
| COC No. 19-07-M-00040L | TeaM Energy Corporation | Pagbilao Coal Fired Power Plant | Coal Fired Thermal Power Plant | Isla Grande, Ibabang Polo, Pagbilao, Quezon | 751.4 MW | Coal | July 20, 2019 - July 19, 2024 | July 9, 2019 |
| | | | Black Start | | 800 kW | Diesel | | |
| COC No. 18-02-M-00145L | Pagbilao Energy Corporation | Pagbilao Unit 3 Coal Fired Thermal Power Plant | Coal Fired Thermal Power Plant | Isla Grande, Ibabang Polo, Pagbilao, Quezon | 420 MW | Coal | February 20, 2018 – February 19, 2023 | February 20, 2018 |
| | | | Blackstart | | 1.04 MW | Diesel | | |
| COC No. 17-11-M-00282L | GNPower Mariveles Coal Plant Ltd. Co. | Unit 1 | Coal Fired Power Plant | Brgy. Alas-asin, Mariveles, Bataan | 325.8 MW | Coal | December 3, 2017 – December 2, 2022 | November 21, 2017 |
| | | Unit 2 | | | 325.8 MW | | | |
| | | N/A | Blackstart | | 1.68 MW | Diesel | | |

*With a Provisional Authority to Operate (PAO). Awaiting issuance of renewal of COC from ERC.
** Ongoing ERC Technical Inspection for the issuance of PAO or renewed COC.

**Distribution Business**

Under EPIRA, the business of electricity distribution is a regulated public utility business that requires a franchise that can be granted only by Congress. In addition to the legislative franchise, a CPCN from ERC is also required to operate as a public utility. However, distribution utilities operating within economic zones are not required to obtain a franchise from Congress, but must be duly registered with PEZA in order to operate within the economic zone.

All distribution utilities are required to submit to ERC a statement of their compliance with the technical specifications prescribed in the Philippine Distribution Code, which provides the rules and regulations for the operation and maintenance of distribution systems, and the performance standards set out in the Implementing Rules and Regulations (IRR) of EPIRA.

Shown below are the respective expiration periods of the Distribution Utilities' legislative franchises:

| Distribution Utility | Franchise | Term | Expiry |
|---|---|---|---|
| Visayan Electric | RA No. 9339 | 25 years from effectivity of RA No. 9339. RA No. 9339 was approved on Sept. 1, 2005. | Valid until September 24, 2030 |
| | ERC Certificate No. CPCN-09-01 (ERC Decision dated January 26, 2009, ERC Case No. 2008-095 MC). | 25 years, or from September 24, 2005 to September 24, 2030 | |

| Distribution Utility | Franchise | Term | Expiry |
|---|---|---|---|
| Davao Light | RA No. 11515 | 25 years from expiration of the term granted under RA No. 8960, or from September 7, 2025 to September 7, 2050 (Lapsed into law December 26, 2020) | Valid until September 7, 2050 |
| | ERC CPCN Decision dated February 26, 2002, ERC Case No. 2001-792 | 25 years, or from September 7, 2000 to September 7, 2025 | September 7, 2025 |
| Cotabato Light | RA No. 10637 | 25 years from the expiration of theterm granted under Commonwealth Act No. 487, as amended. RA No. 10637 was approved on June 16, 2014. | Valid until June 16, 2039 |
| | ERC Certificate No. CPCN-14-001 (ERC Decision dated December 9, 2019, ERC Case No. 2013-063 MC) | 25 years, or from June 17, 2014 or until June 16, 2039 | |
| SFELAPCO | RA No. 9967 | 25 years from effectivity of RA No. 9967 (Lapsed into law on Feb. 6, 2010) | Valid until March 23, 2035 |
| | ERC Certificate No. CPCN-10-01 (ERC Decision dated August 31, 2010, ERC Case No. 2010-029 MC) | 25 years, or from March 24, 2010 to March 23, 2035 | |
| Subic Enerzone | Distribution Management Service Agreement (DMSA) between Subic Enerzone and Joint Venture of AEV-Davao Light | Notarized on May 15, 2003. Term of the DMSA is 25 years. | Valid until May 15, 2028. |

Mactan Enerzone, Balamban Enerzone, Lima Enerzone, and Malvar Enerzone which operate the power distributionutilities in MEPZ II, WCIP, LTC, and LISP IV respectively, are duly registered with PEZA as Ecozone Utilities Enterprises.

**Retail Electricity Supply Business**

Like power generation, the business of supplying electricity is not considered a public utility operation under EPIRA, but is considered a business affected with public interest. As such, EPIRA requires all suppliers of electricity to end- users in the contestable market, other than distribution utilities within their franchise areas, to obtain a license fromERC. With the implementation of Open Access in 2013, AboitizPower's RES Subsidiaries and Generation Companies with RES licenses, AESI, AdventEnergy, APRI, SN Aboitiz Power – Magat, SN Aboitiz Power – RES, Prism Energy, and TLI, have all obtained separate licenses to act as RES and Wholesale Aggregator.

**Trademarks**

AboitizPower and its Subsidiaries own, or have pending applications for the registration of, intellectual property rights for various trademarks associated with their corporate names and logos. The following table sets out information regarding the trademark applications the Company and its Subsidiaries have filed with the Philippine Intellectual Property Office (Philippine IPO), and their pending trademark applications abroad.

**Philippine IPO**

| Trademarks/ Description | Owner | Registration No./ Date Issued | Status |
|---|---|---|---|
| "A Better Future" word mark (Class Nos. 39, 40 and 42) | Aboitiz Power Corporation | 4-2010-004383/ November 11, 2010<br><br>Trademark has been renewed on November 11, 2020. | Registered |
| "Better Solutions" word mark (Class Nos. 39, 40 and 42) | Aboitiz Power Corporation | 4-2010-004384/ November 11, 2010<br><br>Trademark has been renewed on November 11, 2020. | Registered |

| Trademarks/ Description | Owner | Registration No./ Date Issued | Status |
|---|---|---|---|
| "AboitizPower" word mark (Class Nos. 39, 40 and 42) | Aboitiz Power Corporation | 4-2010-004385/ November 11, 2010<br><br>Trademark has been renewed on November 11, 2020. | Registered |
| "AboitizPower Spiral and Device" device mark with color claim (Class Nos. 39, 40 and 42) | Aboitiz Power Corporation | 4-2010-004380/ February 10, 2011<br><br>Trademark has been renewed on February 10, 2021. | Registered |
| "Cleanergy" word mark (Class No. 40) | Aboitiz Power Corporation | 4-2001-007900/ January 13, 2006<br><br>Trademark has been renewed on January 13, 2016. | Registered |
| "Cleanergy" word mark for the additional goods and services (Class Nos. 39 and 42) | Aboitiz Power Corporation | 4-2019-000850/ June 9, 2019 | Registered |
| "Cleanergy Get It and Device" device mark with color claim (Class Nos. 39, 40 and 42) | Aboitiz Power Corporation | 4-2010-004381/ November 11, 2010<br><br>Trademark has been renewed on November 11, 2020. | Registered |
| "Cleanergy Got It and Device" device mark (Class Nos. 39, 40 and 42) | Aboitiz Power Corporation | 4-2010-004382/ November 11, 2010<br><br>Trademark has been renewed on November 11, 2020. | Registered |
| "AboitizPower and Device" device mark with color claim (Class Nos. 39, 40 and 42) | Aboitiz Power Corporation | 4-2010-004379/ February 10, 2011<br><br>Trademark has been renewed on February 10, 2021. | Registered |
| Subic EnerZone Corporation and Logo trademark (Class No. 39) | Subic EnerZone Corporation | 4-2006-007306/ August 20, 2007<br><br>Trademark has been renewed on August 20, 2017. | Registered |
| Subic EnerZone Corporation and Logo<br>Word mark and device (Class No. 39) | Subic EnerZone Corporation | 4-2006-007305/ August 20, 2007<br><br>Trademark has been renewed on August 20, 2017. | Registered |
| "Subic EnerZone Corporation" word mark (Class No. 39) | Subic EnerZone Corporation | 4-2006-007304/ June 4, 2007<br><br>Trademark has been renewed on June 4, 2017. | Registered |
| "Cotabato Light" Logo (Class No. 39) | Cotabato Light and Power Corporation | 4-2019-502915/ May 29, 2019 | Registered |
| "Davao Light" Logo (Class No. 39) | Davao Light and Power Corporation | 4-2019-502917/ May 29, 2019 | Registered |
| "Balamban Enerzone" Logo (Class No. 39) | Balamban Enerzone Corporation | 4-2019-502910/ May 29, 2019 | Registered |
| "Mactan Enerzone" Logo (Class No. 39) | Mactan Enerzone Corporation | 4-2019-502911/ May 29, 2019 | Registered |
| "Lima Enerzone" Logo (Class No. 39) | Lima Enerzone Corporation | 4-2019-502912/ May 29, 2019 | Registered |
| "Malvar Enerzone" Logo (Class No. 39) | Malvar Enerzone Corporation | 4-2019-502913/ May 29, 2019 | Registered |
| "Subic Enerzone" Logo (Class No. 39) | Subic Enerzone Corporation | 4-2019-502914/ May 29, 2019 | Registered |
| "Visayan Electric" Logo (Class No. 39) | Visayan Electric Company, Inc. | 4-2019-015288/ August 29, 2019 | Registered |
| "MORE" Logo (Class 35) | Manila-Oslo Renewable Enterprise, Inc. | 4-2018-00018077/February 21, 2019 | Registered |
| "SN ABOITIZ POWER" Logo GROUP (Class 35 & 40) | Manila-Oslo Renewable Enterprise, Inc.,<br>SN Aboitiz Power-Magat, Inc., and SN | 4-2018-00018076/October 10, 2018 | Registered |

| Trademarks/ Description | Owner | Registration No./ Date Issued | Status |
|---|---|---|---|
| | Aboitiz Power-Benguet, Inc. | | |
| "SN ABOITIZ POWER-BENGUET, INC." Logo | SN Aboitiz Power-Benguet, Inc. | 4-2014-00005209/ December 29, 2016 | Registered |
| "NURTURE NATURE, NURTURE LIFE" Logo | SN Aboitiz Power-Benguet, Inc. | 4-2011-00001049/ May 19, 2011 | Registered |
| "SNAP ABOITIZ POWER-MAGAT, INC." Logo | SN Aboitiz Power-Magat, Inc. | 4-2014-00005208/March 9, 2017 | Registered |
| "THE POWER TO MAKE A DIFFERENCE" Logo | SN Aboitiz Power-Magat, Inc. | 4-2011-001048/ May 26, 2011 | Registered |
| Logo | SN Aboitiz Power-Magat, Inc. | 4-2017-00018969/ June 7, 2018 | Registered |

**International Trademarks (Madrid Protocol)**

AboitizPower has the following registered international trademarks:

| Trademarks | Country of Application |
|---|---|
| AboitizPower Word Mark (Class Nos. 39, 40, 42) | World Intellectual Property Office (WIPO) |
| AboitizPower Word Mark (Class Nos. 30, 40, 42) | Vietnam |
| AboitizPower Word Mark (Class Nos. 39, 40, 42) | Indonesia |
| Cleanergy Word Mark (Class Nos. 39, 40, 42) | WIPO |
| Cleanergy Word Mark (Class Nos. 39, 40, 42) | Vietnam |
| Cleanergy Word Mark (Class Nos. 39, 40, 42) | Indonesia |
| Cleanergy Get It Device (Class Nos. 39, 40, 42) | WIPO |
| Cleanergy Get It Device (Class Nos. 39, 40, 42) | Vietnam |
| Cleanergy Get It Device (Class Nos. 39, 40, 42) | Indonesia |
| Cleanergy Got It Device (Class Nos. 39, 40, 42) | WIPO |
| Cleanergy Got It Device (Class Nos. 39, 40, 42) | Vietnam |
| Cleanergy Got It Device (Class Nos. 39, 40, 42) | Indonesia |
| AboitizPower | Myanmar |
| Aboitiz Power and Device | Myanmar |
| Cleanergy | Myanmar |
| Cleanergy Get It | Myanmar |
| Cleanergy Got It | Myanmar |

The abovementioned trademarks are also in the process of being registered in Malaysia, Vietnam, Indonesia, and the WIPO.

### (x) Government Approvals

The discussion on the need for any government approval for any principal products or services of the Company and its Subsidiaries, including COCs obtained by the Generation Companies and franchises obtained by the Distribution Utilities, is included in item (ix) Patents, Copyrights and Franchises.

### (xi) Effect of Existing or Probable Government Regulations on the Business

AboitizPower and its Subsidiaries are subject to the laws generally applicable to all Philippine corporations registered with the SEC, such as corporation law, tax laws, and the Local Government Code. All Philippine corporations are also subject to labor laws and social legislation, including RA No. 11199 or the Social Security Act of 2018, RA No. 10606 or the National Health Insurance Act of 2013, RA No. 11223 or the Universal Health Care Act, RA No. 9679 or the Home Development Mutual Fund Law of 2009, the Philippine Labor Code and its implementing rules, and DOLE mandatedwork-related programs.

The Aboitiz Group closely monitors its compliance with the laws and government regulations affecting its businesses.

**1. The Tax Reform for Acceleration and Inclusion (TRAIN Law)**

RA No. 10963, otherwise known as the Tax Reform for Acceleration and Inclusion ("TRAIN Law") was signed into law by President Duterte on December 19, 2017, and took effect on January 1, 2018. Its declared policies are to: (a)enhance the progressivity of the tax system through the rationalization of the Philippine internal revenue tax system, thereby promoting sustainable and inclusive economic growth; (b) provide, as much as possible, an equitable relief to a greater number of taxpayers and their families in order to improve levels of disposable income and increase economic activity; and (c) ensure that the government is able to provide better infrastructure, health, education, jobs, and social protection for the people.

One of the major provisions of the TRAIN Law is the staggered increase in oil and coal excise taxes. Under the TRAIN Law, rates will be adjusted gradually between 2018 and 2020. For coal, the rates will increase from ₱10 permetric ton to ₱50, ₱100, and ₱150 per metric ton, respectively, in 2018, 2019, and 2020, covering both domestic and imported coal.

Furthermore, the TRAIN Law repeals Section 9 of RA No. 9511 or the National Grid Corporation of the Philippines Act, which removes VAT exemptions on transmission charges and sale of electricity by cooperatives duly registered under the Cooperative Development Authority (CDA).

Another major change introduced by the TRAIN Law is the refund mechanism of zero-rated sales and services underthe enhanced VAT refund system. Upon the successful establishment and implementation of an enhanced Value Added Tax (VAT) refund system, refunds of creditable input tax shall be granted by the BIR within 90 days from filing of the VAT refund application with BIR, provided that all pending VAT refund claims of the taxpayer as of December 31,2017 shall be fully paid in cash by December 31, 2019.

Finally, the TRAIN Law doubled the documentary stamp tax (DST) on almost all covered instruments, except debt instruments where the increase is 50%. Only the DST on instruments pertaining to property insurance, fidelity bonds, other insurance, indemnity bonds, and deeds of sale and conveyance remain unchanged.

The TRAIN law is the first package of the Comprehensive Tax Reform Program of the Duterte administration.

On May 22, 2020, the Department of Finance, in a letter to the Senate President, proposed amendments to Senate Bill No. 1357. The proposed amendments include changing the name of the bill to *"Corporate Recovery and Tax Incentives for Enterprises Act"* ("CREATE Bill"), as well as the following, among others:

(a) An immediate five percentage point cut in the corporate income tax rate starting July 2020;
(b) Maintaining for up to nine years the status quo for registered business activities enjoying the five percent tax ongross income earned incentive; and
(c) More flexibility for the President to grant a combination of fiscal and non-fiscal incentives.

Further, the fourth package of the Tax Reform for Acceleration and Inclusion ("TRAIN Package 4") or House Bill No.304, also known as the Passive Income and Financial Intermediary Taxation Act ("PIFITA"), has introduced reforms to the taxation of passive income, financial intermediaries, and financial transactions. One of the reforms introduced is the unification of the tax rates of passive income through the imposition of a uniform rate of 15% (which would be a reduction from the prevailing 20%) on interest income, dividends, and capital gains on the sale of shares of stock. On September 9, 2019, the House of Representatives passed House Bill ("HB") No. 304, or Package 4 of the TRAIN Bill, on its third reading.

Before HB No. 304 can become effective, it needs to be considered and approved by the Senate, which may imposerevisions.

**2. Corporate Recovery and Tax Incentives for Enterprises Act (CREATE Bill)**

House Bill No. 4157, referred to as the Corporate Income Tax and Incentive Rationalization Act ("CITIRA Bill" or "Package 2") was passed and approved on third and final reading in the House of Representatives on 13

September 2019. The CITIRA Bill is the result of the re-filing of the Tax Reform for Attracting Better and Higher Quality Opportunities ("TRABAHO") Bill from the previous 17th Congress. The bill also seeks to reform the country's fiscal incentives to make it performance-based, targeted, time-bound, and transparent. This means that incentives will be granted based on the number and quality of jobs that will be created, the investments made on research and development and skills training, the capital invested for countrywide infrastructure development, among other criteria.

The Senate approved Senate Bill No. 1357 on third and final reading on November 26, 2020. Senate Bill No. 1357, also known as the "Corporate Recovery and Tax Incentives for Enterprises Act" ("CREATE Bill"), is the counterpart bill of the CITIRA Bill in the Senate. The salient features of the CREATE Bill are as follows:

(a) Effective July 1, 2020, lowering the income tax rate to 25% for domestic corporations and foreign corporations, and to 20% for domestic corporations with net taxable income not exceeding ₱5 mn and with total assets (excluding land) of not more than ₱100 mn;
(b) Lowering the Minimum Corporate Income Tax rate to 1% effective July 1, 2020 to June 30, 2023;
(c) Tax exemption on foreign-sourced dividends subject to certain conditions;
(d) Repeal of the Improperly Accumulated Earnings Tax;
(e) Repeal of the 5% Gross Income Tax ("GIT") incentive and providing for a ten-year transitory period for all firms that are currently availing of the 5% GIT;
(f) Providing fiscal incentives for activities included in the Strategic Investment Priority Plan, provided that the category of incentives shall be based on the location and industry of the registered project or activity; and
(g) Granting the President the power to modify the mix, period, or manner of availment of incentives or craft afinancial support package for a highly desirable project or a specific industrial activity.

On February 3, 2021, the House of Representatives and the Senate ratified the bicameral conference committee report of the proposed CREATE Bill. The enrolled bill was submitted to the President for his approval on February 24, 2021. The President signed the CREATE Bill into law on March 26, 2021, which is now RA No. 11534.

**3. Revised Corporation Code**

The Revised Corporation Code was signed into law on February 20, 2019 and took effect on February 23, 2019. Among the salient features of the Revised Corporation Code are:

(a) Corporations are granted perpetual existence, unless the articles of incorporation provide otherwise. Perpetual existence shall also benefit corporations whose certificates of incorporation were issued before the effectivity of the Revised Corporation Code, unless a corporation, upon a vote of majority of the stockholders of the outstanding capital stock notifies SEC that it elects to retain its specific corporate term under its current articles of incorporation.
(b) A corporation vested with public interest must submit to its shareholders and to 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.
(c) The Revised Corporation Code allows the creation of a "One Person Corporation" except for banks and quasi- banks, pre-need, trust, insurance, public and publicly-listed companies, among others. This restriction also applies with respect to incorporations as close corporations.
(d) Material contracts between a corporation and its own directors, trustees, officers, or their spouses and relatives within the fourth civil degree of consanguinity or affinity must be approved by at least two-thirds (2/3) of the entire membership of the Board, with at least a majority of the independent directors voting to approvethe same.
(e) The right of stockholders to vote in the election of directors or trustees, or in shareholders meetings, may now be done through remote communication or *in absentia* if authorized by the corporate by-laws. However, as to corporations vested with public interest, these votes are deemed available, even if not expressly stated in the corporate by-laws. The shareholders who participate through remote communication or *in absentia* are deemed present for purposes of quorum. When attendance, participation, and voting are allowed by remotecommunication or *in absentia*, the notice of meetings to the stockholders must state the requirements and procedures to be followed when a stockholder or member elects either option.
(f) In case of transfer of shares of listed companies, SEC may require that these corporations whose securities are traded in trading markets and which can reasonably demonstrate their capability to do so, to issue their securities or shares of stock in uncertificated or scripless form in accordance with SEC

rules.

The Revised Corporation Code refers to the Philippine Competition Act in case of covered transactions under said law involving the sale, lease, exchange, mortgage, pledge, or disposition of properties or assets; increase or decrease in the capital stock; incurring creating or increasing bonded indebtedness; or mergers or consolidations covered by the Philippine Competition Act thresholds.

**4. The Philippines Competition Act**

RA No. 10667 (the "Philippine Competition Act" or "PCA") was signed into law on July 21, 2015 and took effect on August 8, 2015. Its IRR was issued on June 3, 2016. This PCA aims to codify antitrust laws in the Philippines and it provides the competition framework in the country. The Philippine Competition Act was enacted to provide free and fair competition in trade, industry, and all commercial economic activities.

To implement its objectives, the Philippine Competition Act provides for the creation of a Philippine Competition Commission ("PCC"), an independent quasi-judicial agency composed of five commissioners. Among PCC's powers are to conduct investigations, issue subpoenas, conduct administrative proceedings, and impose administrative fines andpenalties. To conduct a search and seizure, PCC must apply for a warrant with the relevant court.

The Philippine Competition Act prohibits anti-competitive agreements between or among competitions, and mergers and acquisitions which have the object or effect of substantially preventing, restricting, or lessening competition. Italso prohibits practices which involve abuse of dominant position, such as selling goods or services below cost to drive out competition, imposing barriers to entry or prevent competitors from growing, and setting prices or terms that discriminate unreasonably between customers or sellers or the same goods, subject to exceptions.

The Philippine Competition Act also introduces the pre-notification regime for mergers and acquisitions, which requires covered transactions to be notified to the PCC for its approval.

The merger control regime under the Philippine Competition Act provides that, as a general rule, parties to a mergeror acquisition are required to provide notification when: (a) the aggregate annual gross revenues in, into or from thePhilippines, or value of the assets in the Philippines of the ultimate parent entity ("UPE") and that of all the entities it controls of either the acquiring or the acquired entities ("Size of Party"); and (b) the value of the transaction as determined in its IRR ("Size of Transaction"), meet the designated threshold; while parties to a joint venture transaction shall also be subject to the notification requirement if in addition to meeting the Size of Party test, either (x) the aggregate value of the assets that will be combined in the Philippines or contributed into the proposed joint venture,or (y) the gross revenues generated in the Philippines by assets to be combined in the Philippines or contributed intothe proposed joint venture, meet the thresholds.

The PCC has also released its *"Guidelines on the Computation of Merger Notification Thresholds"*, providing the method for calculation of the aggregate value of assets and gross revenues from sales for the purposes of determining whether a proposed merger or acquisition is notifiable to the PCC.

Violations of the Philippine Competition Act and its IRR carry administrative and criminal penalties. A transaction that meets the thresholds but does not comply with the notification requirements and waiting periods shall be considered void and will subject the parties to an administrative fine of 1% to 5% of the value of the transaction. Criminal penalties for entities that enter into these defined anti-competitive agreements include: (i) a fine of not less than ₱110 mn but not more than ₱275 mn; and (ii) imprisonment for two to seven years for directors and management personnel who knowingly and willfully participate in such criminal offenses. Treble damages may be imposed by the PCC or the courts, as the case may be, where the violation involves the trade or movement of basic necessities and prime commodities.

On September 15, 2017, the PCC published the 2017 Rules of Procedure ("PCC Rules") which apply to investigations, hearings, and proceedings of the PCC, except to matters involving mergers and acquisitions unless otherwise provided. It prescribes procedures for fact-finding or preliminary inquiry and full administrative investigations by PCC. The PCC Rules also include non-adversarial remedies such as the issuance of binding rulings, show cause orders, and consent orders.

On September 10, 2019, the Supreme Court of the Philippines ("SC") issued A.M. No. 19-08-06-SC, or the *"Rule onAdministrative Search and Inspection under the Philippine Competition Act"* ("Search and Inspection Rule"). The Search and Inspection Rule governs the application, issuance, and enforcement of an inspection order in relation to administrative investigations of alleged violations of the Philippine Competition Act, its implementing rules andregulations, and other competition laws.

Pursuant to RA No. 11494 or the Bayanihan to Recover as One Act ("Bayanihan 2 Act"), which was signed into lawon September 11, 2020, all mergers and acquisitions with transaction values below ₱50 bn shall be exempt from compulsory notification under the Philippine Competition Act if entered into within a period of two years from the effectivity of the Bayanihan 2 Act. Further, such mergers and acquisitions shall also be exempt from the PCC's powerto review mergers and acquisitions *motu proprio* for a period of one year from the effectivity of the Bayanihan 2 Act.However, transactions entered into prior to the effectivity of the Bayanihan 2 Act which has not yet been reviewedby the PCC, and transactions pending review by the PCC prior to the effectivity of the Bayanihan 2 Act shall notbe covered by the exemption from the PCC's power to review transactions *motu proprio*. Further, mergers and acquisitions entered into during the effectivity of the Bayanihan 2 Act may still be reviewed by the PCC *motu proprio*after one year from the effectivity of the law.

Any voluntary notification shall constitute a waiver to the exemption from review. With the Bayanihan 2 Act, the thresholds are as follows:

| Test | Old Threshold (effective March 1, 2020)[9] | New Threshold (effective September 15, 2020)[10] |
|---|---|---|
| Size of Person Test | ₱6 bn | ₱50 bn |
| Size of Transaction Test | ₱2.4 bn | ₱50 bn |

Pursuant to RA No. 11494 or the Bayanihan to Recover as One Act ("Bayanihan 2 Act"), which was signed into lawon September 11, 2020, all mergers and acquisitions with transaction values below ₱50 bn shall be exempt from compulsory notification under the Philippine Competition Act if entered into within a period of two years from the effectivity of the Bayanihan 2 Act. Further, such mergers and acquisitions shall also be exempt from the PCC's powerto review mergers and acquisitions *motu proprio* for a period of one year from the effectivity of the Bayanihan 2 Act.However, transactions entered into prior to the effectivity of the Bayanihan 2 Act which has not yet been reviewedby the PCC, and transactions pending review by the PCC prior to the effectivity of the Bayanihan 2 Act shall notbe covered by the exemption from the PCC's power to review transactions *motu proprio*. Further, mergers and acquisitions entered into during the effectivity of the Bayanihan 2 Act may still be reviewed by the PCC *motu proprio* after one year from the effectivity of the law.

**5. Foreign Investments Act of 1991**

RA No. 7042, as amended, otherwise known as the Foreign Investments Act of 1991 ("FIA"), liberalized the entry of foreign investment into the Philippines. Under the FIA, foreigners can own as much as 100% equity in domestic market enterprises 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 connection with the ownership of private land, the Philippine Constitution 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%. A corporation with more than 40% foreign equity may be allowed to lease land for a period of 25 years, renewable for another 25 years.

In addition, under the Philippine Constitution, only citizens of the Philippines or corporations or associations

[9] PCC Resolution No. 02-2020.

[10] The New Threshold will expire on September 22, 2022, or two years after the effectiveness of the Bayanihan 2 Act.

organized under the laws of the Philippines at least 60% of whose capital is owned by such citizens may engage in activities relating to the exploration, development and utilization of natural resources, which covers the utilization of natural resources for the operation of renewable energy power plants.

For the purpose of complying with nationality laws, the term "Philippine National" is defined under the FIA as any of the following:

(a) a citizen of the Philippines;
(b) a domestic partnership or association wholly-owned by citizens of the Philippines;
(c) a corporation organized under the laws of the Philippines of which at least 60% of the capital stock outstanding and entitled to vote is owned and held by citizens of the Philippines;
(d) a corporation organized abroad and registered to do 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
(e) a trustee of funds for pension or other employee retirement or separation benefits, where the trustee is a Philippine National and at least 60% of the fund will accrue to the benefit of 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, SC affirmed the validity of SEC MemorandumCircular 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 SC 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%, 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.

**6. Data Privacy Act of 2012**

The Data Privacy Act of 2012 is a comprehensive and strict privacy legislation aimed to protect the fundamental human right of privacy by: (i) protecting the privacy of individuals while ensuring free flow of information; (ii) regulating the collection, recording, organization, storage, updating or modification, retrieval, consultation, use, consolidation, blocking, erasure, or destruction of personal data; and (iii) ensuring that the country complies with international standards set for data protection through the National Privacy Commission.

Intended to protect the privacy of individuals, it mandates companies to inform individuals about their basic rights to privacy and how their personal information is collected and processed. It also ensures that all personal information must be: (i) collected and processed with lawful basis, which includes consent, and only for reasons that are specified, legitimate, and reasonable; (ii) handled properly, ensuring its accuracy and retention only for as long as reasonablyneeded; and (iii) discarded properly to avoid access by unauthorized third parties.

Since the effectivity of its IRR on September 9, 2016, all legal entities of AboitizPower have complied with the following mandatory provisions: (i) appointment of a Data Protection Officer; (ii) conduct of a privacy impact assessment; (iii) creation of a privacy knowledge management program; (iv) implementation a privacy and data protection policy; and (v) establishment of a breach reporting procedure. The IRR also provides that companies with at least 250 employees or access to the personal and identifiable information of at least 1,000 individuals are required to register their data processing systems with the National Privacy Commission. The IRR further specifies the only instances when data sharing is allowed, to wit: (a) data sharing is authorized by law, provided that there are adequate safeguards for data privacy and security, and processing adheres to principles of transparency, legitimate purpose and proportionality; (b) in the private sector, data sharing for commercial purposes is allowed upon: (i) consent of data subject, and (ii) when covered by a data sharing agreement; (c) data collected from parties other than the data subject for purpose of research shall be allowed when the personal data is publicly available; and (d) data sharing among government agencies for purposes of public function or provision of a public service shall be covered by a data sharing agreement.

In 2017, AboitizPower launched its data privacy compliance program which is aligned to the implementation of the Information Security Management System (ISMS) for the entire Aboitiz Group. This includes the development and implementation of Data Privacy policies, manuals, supporting guidelines, and procedures. Since then, AboitizPower and its Business Units have been able to establish a fundamental awareness of data privacy principles and the related ISMS philosophies, through various learning channels. The Company maximized the use of e-learning modules, online training platforms, and webinars during the COVID-19 pandemic to minimize the need for physical meetings.

In 2020, AboitizPower rolled out an integrated 1AP Incident Management process, which provides uniform governance across its Business Units on: (a) incident notification, (b) assessment, (c) resolution, (d) verification and stand-down, (e) evidence handling, (f) post-event investigation, (g) business recovery, and (h) incident wrap- up. It includes, among other incident types, information security and data privacy breaches. AboitizPower builds and continues to improve business continuity resilience, especially with regard to Information Security and Data Breach Management.

**7. Registration under Board of Investments (BOI)**

Under Executive Order (EO) No. 226, otherwise known as the Omnibus Investments Code, as amended, a BOI-registered enterprise enjoy certain incentives, both financial and non-financial, provided such enterprise invests in preferred areas of investment enumerated in the Investment Priorities Plan annually prepared by the Government. However, prior to registration with BOI, the enterprise must first satisfy the minimum equity required to finance the project applied equivalent to 25% of the estimated project cost, or as may be prescribed by BOI. Such incentives include: (i) income tax holiday; (ii) exemption from taxes and duties on imported spare parts; (iii) exemption from wharfage dues and export tax, duty, impost and fees; (iv) reduction of the rates of duty on capital equipment, spareparts and accessories; (v) tax exemption on breeding stocks and genetic materials; (vi) tax credits; (vii) additional deductions from taxable income; (viii) employment of foreign nationals; (ix) simplification of customs procedure; and (x) unrestricted use of consigned equipment.

***Policies and Regulations Relating to the Power Industry***

**1. WESM in Mindanao**

On May 4, 2017, the DOE issued DC 2017-05-0009 entitled *"Declaring the Launch of WESM in Mindanao and Providing Transition Guidelines"*. This DOE Circular took effect on June 7, 2017, with the following pertinent provisions:

(a) Establishment of Mindanao WESM Transition Committee, which will be one of the committees under the PEMC Board;
(b) Launch of WESM in Mindanao on June 26, 2017, with the commencement of full commercial operations dependent on various conditions precedent, including installation of metering facilities, approval of the Price Determination Methodology by ERC, and trial operations of the WESM, among others;
(c) Conduct of the Trial Operation Program for the WESM;
(d) Automatic termination of IMEM; and
(e) Implementation of an Interim Protocol to govern the dispatch and scheduling of power generation plants, while the WESM is still not operational.

WESM in Mindanao was originally targeted to start in October 2018, but was deferred because some conditions precedent for full commercial operations were not yet complied. Trial operations were conducted starting 2018 toensure the readiness of eventual WESM participants in Mindanao. As of March 23, 2021, participants are still awaiting the announcement of the commercial operations date for WESM in Mindanao.

**2. Independent Electricity Market Operator (IEMOP)**

On February 4, 2018, DOE issued Circular No. DC2018-01-0002, setting the policy governing the establishment of an independent market operator (IMO) of the WESM. The policy on IMO outlines the mandates of DOE and ERC over the IMO, its guiding principles, composition, including a board composed of at least five members, its functions, WESM's new governing and governance structure, and the conditions for transition.

The IMO transition plan called for the formation of a new company called the IEMOP as an independent market operator, with PEMC remaining as WESM's governing body. Previously, the PEMC oversaw both the operations andgovernance functions of WESM. The transition also entails the reconstitution of the PEMC Board, with the DOE Secretary relinquishing his chairmanship, paving the way for a PEMC independent of government.

On September 26, 2018, IEMOP formally took over operations of the WESM from PEMC. IEMOP facilitates the registration and participation of generating companies, distribution utilities, directly connected customers or bulkusers, suppliers and contestable customers in the WESM. It also determines the hourly schedules of generating units that will supply electricity to the Grid, as well as the corresponding spot-market prices of electricity via its Market Management System.

Currently, the IEMOP is under legislative review by the House Committee on Energy specifically on its roles and functions as well as the legal basis for its establishment. This is in response to several House Resolutions calling for the review of the IEMOP in aid of legislation.

On October 22, 2020, the DOE promulgated Department Circular No. DC2020-10-0021, which adopted amendments to the WESM Rules for the implementation of an Independent Market Operator.

**3. Proposed Amendments to the EPIRA**

Since the enactment of the EPIRA in 2001, members of Congress have proposed various amendments to the law and its IRR. A summary of the significant proposed amendments are as follows:

(a) Classification of power projects as one of national significance and imbued with public interest;
(b) Exemption from VAT on the sale of electricity by generation companies;
(c) Modification of the definition of the term "Aggregator," which is proposed to refer to a person or entity engaged in consolidating electric power demands of end-users of electricity in the contestable market,for the purpose of purchasing, reselling, managing for optimum utilization of the aggregated demand, or simply pooling the tendering process in looking for a supply of electricity on a group basis;
(d) Requirement for distribution utilities to conduct public and competitive selection processes or Swiss challenges for the supply of electricity and to fully or adequately contract their future and current energy and demand requirements;
(e) Grant of access to electric cooperatives over the missionary electrification fund collected through universalcharges;
(f) Exclusion of the following items from the rate base charged by Transco and distribution utilities to the public: corporate income tax, value of the franchise, value of real or personal property held for possible future growth, costs of over-adequate assets and facilities, and amount of all deposits as a condition for rendition and continuation of service;
(g) Regulation of generation, transmission, distribution, and supply rates to allow Return-on-Rate-Base (RORB)up to 12%;
(h) Classification of power generation and supply sectors as public utilities, which would be required to secure legislative franchises;
(i) Prohibition of cross-ownership between generation companies and distribution utilities or any of their subsidiaries, affiliates, stockholders, officials or directors, or the officials, directors, or other stockholders of such subsidiaries or affiliates, including the relatives of such stockholders, officials or directors within the fourth civil degree of consanguinity;
(j) Prohibition against or restriction on distribution utilities from sourcing electric power supply requirements,under bilateral electric power supply contracts, from a single generation company or

from a group of generating companies wholly-owned or controlled by the same interests;

(k) Lowering of the allowable extent of ownership, operation and control of a company or related groups as determined from the installed generating capacity of the Grid and/or nationally installed generating capacity;
(l) Exemption or deferral of the privatization of some assets of NPC, such as the Unified Leyte (Tongonan) Geothermal Complexes, Agus and Polangui Complexes, and Angat Dam;
(m) Expansion of the definition of host communities to include all barangays, municipalities, cities and provinces or regions where hydro generation facilities are located and where waterways or water systems that supplywater to the dam or hydroelectric power generating facility are located;
(n) Prohibition on distribution utilities, except rural electric cooperatives to recover systems losses and placing a 5% cap on recoverable system loss;
(o) Imposition of a uniform franchise tax for distribution utilities equivalent to 3% of gross income in lieu of alltaxes;
(p) Grant of authority for NPC to generate and sell electricity from remaining assets;
(q) Removal of the requirement of a joint congressional resolution before the President may establish additionalpower generating capacity in case of imminent shortage of supply of electricity
(r) Creation of a consumer advocacy office under the organizational structure of ERC; and
(s) Extension of lifeline rates.

**4. Implementation of the Performance-based Rating-setting Regulation (PBR)**

On December 13, 2006, ERC issued the Rules for Setting Distribution Wheeling Rates (RDWR) for privately-owned distribution utilities entering Performance-based Regulation (PBR) for the second and later entry points, setting out the manner in which this new PBR rate-setting mechanism for distribution-related charges will be implemented. PBR replaces the RORB mechanism, which has historically determined the distribution charges paid by customers. Under PBR, the distribution-related charges that distribution utilities can collect from customers over a four-year regulatory period is set by reference to projected revenues which are reviewed and approved by ERC and used by ERC to determine the distribution utility's efficiency factor. For each year during the regulatory period, the distribution utility's distribution-related charges are adjusted upwards or downwards taking into consideration the utility's efficiency factor as against changes in overall consumer prices in the Philippines.

ERC has also implemented a Performance Incentive Scheme (PIS) whereby annual rate adjustments under PBR will take into consideration the ability of a distribution utility to meet or exceed service performance targets set by ERC,such as the: (a) average duration of power outages; (b) average time of restoration to customers; and (c) average time to respond to customer calls, with utilities being rewarded or penalized depending on their ability to meet these performance targets.

The second regulatory period of Cotabato Light ended on March 31, 2013, while that of Visayan Electric and DavaoLight ended on June 30, 2014. In addition, the second regulatory period of Subic Enerzone and SFELAPCO ended onSeptember 30, 2015. The reset process for the subsequent regulatory period, however, has been delayed due to the issuance by ERC in 2013 of an Issues Paper on the Implementation of PBR for distribution utilities under RDWR.Said paper aims to revisit various matters relating to the reset process. ERC has solicited comments from industryparticipants and has been holding public consultations on the Issues Paper.

On December 22, 2015, *Matuwid na Singil sa Kuryente Consumer Alliance, Inc. (MSK)* filed a petition proposing a modified RORB methodology or a modified PBR methodology, wherein the distribution utilities' capital expendituresand rate recovery thereon are approved in advance but the charges to the customers will only commence after theinvestments have actually been made and validated by ERC auditors. Public consultations were held on various datesin Metro Manila, Cebu, and Davao.

Through ERC Resolution No. 25 Series of 2016 dated July 12, 2016, ERC adopted the Resolution Modifying the RDWR for Privately Owned Distribution Utilities Entering PBR. Based on said Resolution, the Fourth Regulatory Period shall be as follows:

(a) Cotabato Light: April 1, 2017 to March 31, 2021
(b) Davao Light and Visayan Electric: July 1, 2018 to June 30, 2022
(c) SEZ and SFELAPCO: October 1, 2019 to September 30, 2023

On November 21, 2016, ERC posted for comments the draft Regulatory Asset Base (RAB) Roll Forward Handbook forPrivately Owned Electricity Distribution Utilities. Public consultations were conducted on said document.

The reset process for the fourth regulatory period has not yet started for all private distribution utilities as the abovementioned ERC rules have not been published yet for its effectivity.

In June 2019, ERC posted for comments its draft Rules for Setting Distribution Wheeling Rates and Issues Paper for the Regulatory Reset of the First Entry Group (Meralco, Cagayan de Oro Electric and Dagupan Electric). Various public consultations were held in the month of July 2019. However, during the July 29, 2019 PBR public consultation, *Matuwid na Singil sa Kuryente (MSK)* called the attention of ERC to act first on its 2015 petition on rate methodologybefore proceeding with the reset process. MSK then filed a petition for rulemaking entitled *In the Matter of Petition for Rules Change in Rate Setting Methodology for Distribution Wheeling Rate - Repeal of the Performance-Based Rate Making (PBR) Regulation and Return to Previous Return-on-Rate-Base (RORB) with Modification*, docketed as ERC Case No. 2015-008 RM. ERC issued its Decision dated September 24, 2020 on MSK's petition denying its petition to revert to RORB, without prejudice to its right to submit its comments in the revision of the rules during the next ratereset process of the distribution utilities.

ERC also conducted Power 101 and PBR briefing sessions to various other consumer groups who said that they cannot intelligently comment on the PBR rules without understanding the concepts.

Due to the rules change on PBR, all AboitizPower Distribution Utilities have not undergone the third regulatory period reset. The ERC has engaged the services of Royal Asia Appraisal Corporation to consult on matters relating to PBRand the next regulatory reset. In January 2020, ERC requested private DUs to submit actual or historical expenditurecovering the lapsed period. Due to the lockdown and quarantine restrictions, as well as unresolved clarifications as to what has to be provided to the ERC raised by DUs to the ERC through clarificatory meetings, private DUs were not able to provide the data within the timeframe given by ERC.

In relation to this, the ERC issued show cause orders, all dated October 29, 2020, against Cotabato Light (docketed as ERC Case No. 2020-097 SC), Visayan Electric (docketed as ERC Case No. 2020-098 SC), Davao Light (docketed as ERC Case No. 2020-104 SC), and Subic Enerzone (docketed as ERC Case No. 2020-107 SC), requesting the foregoing DUs to explain why they should not be penalized for the incomplete submission of the data requested by the ERC for its actual expenditure review. On January 7, 2021, the foregoing DUs submitted their respective explanations, including a manifestation that all required data has been submitted as of December 29, 2020. ERC has yet to resolve these cases. If found liable, penalty for violation is ₱50,000.00 per DU, pursuant to ERC Resolution No. 03, series of 2009.

On March 16, 2021, the ERC issued the draft Rules for Distribution Wheeling Rates and Issues Paper, which puts thePBR regulatory reset in motion. Stakeholders were asked to provide comments to the draft Rules until April 12, 2021.

**5. ERC Regulation on Systems Loss Cap Reduction**

In April 2018, ERC issued Resolution No. 10, Series of 2018 entitled *"A Resolution Clarifying the System Loss Calculation Cap and Providing the Effectivity of the Rules for Setting the Distribution Loss Cap"*. This set of rules provide for thenew Distribution System Loss (DSL) cap that can be recovered and charged by distribution utilities to its customers, beginning in the May 2018 billing period.

Under the ERC resolution, the DSL cap for private utilities was set at 6.5% for 2018, 6.25% for 2019, 6.00% for 2020, and 5.50% for 2021. The aforementioned caps are exclusive of sub-transmission and substation losses. The aforementioned rules also provide for a performance incentive scheme (PIS), which is a price-linked reward for distribution utilities, with the goal of reducing the DSL passed on to customers and to promote efficiency in distribution systems in the long term.

The rules allow distribution utilities to use an alternative method in determining an individualized DSL cap that it shall apply subject to the approval of ERC. The individualized cap has two components: one for technical loss (determined using load flow simulations on the distribution utilities' reference distribution system) and another for non-technical loss (which represents the level of non-technical loss that minimizes the costs to consumers). In determining the reasonable level of the individualized DSL cap, costs and benefits must be analyzed from the viewpoint of the customer.

In 2018, Cotabato Light filed an Application for the Individualized Distribution System Loss Cap, requesting, among others, that it be exempted from the 6.5% cap pending the filing and approval of its application for Individualized DSL cap of 7.48% in Technical Loss and 1.77% in Non-Technical Loss and sought approval to use the previous 8.5% DSL capinstead. The case is still pending with ERC as of March 23, 2021.

**6. Competitive Selection Process**

On June 11, 2015, DOE promulgate Department Circular No. DC2015-06-0008 ("2015 DOE Circular") which mandated all distribution utilities to undergo competitive selection processes ("CSP") in securing PSAs after the effectivity of the said circular. The 2015 DOE Circular also authorized ERC to adopt a set of guidelines for the implementation of the CSP. The 2015 DOE Circular took immediate effect following its publication on June 30, 2015.

On October 20, 2015, ERC issued Resolution No. 13, Series of 2015, entitled, *"A Resolution Directing All Distribution Utilities (DUs) to Conduct a Competitive Selection Process* (CSP) in the Procurement of their Supply to the Captive Market" ("ERC CSP Rules"). This resolution provides that a PSA shall be awarded to a winning Generation Companyfollowing a competitive selection process or by direct negotiation, after at least two failed CSPs. For PSAs which were already executed but were not yet filed with the ERC and those that were still in the process of negotiation during the time of the effectivity of the ERC CSP Rules, the relevant distribution utility already had to comply with the CSPrequirement before its PSA application would be accepted by the ERC. The ERC CSP Rules took immediate effect following its publication on November 7, 2015.

ERC Resolution 13, Series of 2015, was restated in ERC Resolution No. 1, Series of 2016, entitled, *"A Resolution Clarifying the Effectivity of ERC Resolution No. 13, Series of 2015."* ERC Resolution No. 1, Series of 2016, extended the date of the effectivity of the CSP requirement from November 7, 2015 to April 30, 2016. It further stated that all PSAs executed on or after the said date would be required, without exception, to comply with the provisions of the ERC CSP Rules.

On February 1, 2018, DOE promulgated DC No. DC2018-02-0003 ("2018 DOE Circular") entitled "Adopting and Prescribing the Policy for the Competitive Selection Process in the Procurement by the Distribution Utilities of Power Supply Agreements for the Captive Market." Through this Circular, DOE issued its own set of guidelines ("DOE CSP Rules") for the procurement by distribution utilities of PSAs for the Captive Market.

Under the DOE CSP Rules, all PSAs shall be procured through CSP, except for the following instances: (1) generationproject owned by the distribution utility funded by grants or donations; (2) negotiated procurement of emergency power supply; (3) provision of power supply by any mandated Government-Owned and Controlled Corporation foroff-grid areas prior to, and until the entry of New Power Providers (NPP); and (4) provision of power supply by thePSALM through bilateral contracts. A PSA may also be entered into by direct negotiation if the CSP fails twice. The DOE CSP Rules took effect upon its publication on February 9, 2018.

The validity of ERC CSP Rules and ERC Resolution No. 1, Series of 2016, was challenged before the SC on the ground that ERC, in issuing the said resolutions, amended the 2015 DOE Circular and effectively postponed the date of effectivityof the CSP requirement. Consequently, on May 3, 2019, the SC in the case of *Alyansa Para sa Bagong Pilipinas, Inc. v. ERC (G.R. No. 227670)*, declared the first paragraph of Section 4 of the ERC CSP Rules and ERC Resolution No. 1, Series of 2016, as void ab initio. The SC further ruled that all PSAs submitted to ERC on or after June 30, 2015 shall comply with the CSP and that upon compliance with the CSP, the power purchase cost resulting from such compliance shall retroact to the date of the effectivity of the complying PSA, but in no case earlier than June 30, 2015, for purposes of passing on the power purchase cost to the consumers.

In December 2020, the DOE posted a draft Department Circular amending the 2018 DOE Circular. The final version has not yet been published as of March 23, 2021.

**7. Adopting a General Framework Governing the Provision and Utilization of Ancillary Services in the Grid**

On December 4, 2019, DOE issued Department Circular No. DC2019-12-0018 entitled *"Adopting a General Framework governing the utilization of Ancillary Services (AS) in the Grid"* ("AS Circular"). The policy seeks to ensure the reliability, quality and security of the supply of electricity by adhering to principles that will provide the safe and reliable operation of the grid by taking into account the entry of emerging technologies and the intermittency of variable renewableenergy generating resources.

Included in the policy is the creation of an Ancillary Services Technical Working Group (AS-TWG) that will render technical assistance and advice to DOE in developing further policies on AS. One of the main functions of the AS-TWG is to review the Philippine Grid Code (PGC) (2016 edition) to address issues on the implementation of new AS categories and Primary Response requirement. The circular orders the System Operator to ensure optimal procurement of therequired Ancillary Services.

Pending the harmonization of AS-related issuances and review of the relevant provisions of PGC 2016, the classification and required levels of AS shall be in accordance with the AS categories prior to PGC 2016.

According to the AS Circular, prior to the commercial operation of the Reserve Market, the Systems Operator ("SO") shall ensure compliance with its obligation to procure the required level and specifications of AS in line with the following:

(a) Regulating, Contingency, and Dispatchable Reserves shall be procured through firm contracts only;
(b) Reactive Power Support AS and Black Start AS shall be procured through firm contracts only; and
(c) The protocol for the central scheduling of energy and contracted reserves in the WESM shall still apply,in accordance with the WESM Rules and relevant Market Manuals.

Upon the commercial operation of the Reserve Market, the following shall govern the procurement of AS:

(a) SO shall procure Regulating, Contingency, and Dispatchable Reserves through firm contracts and the ReserveMarket provided that the contracted levels per reserve region shall be as follows:
    i) Regulating Reserve - Equivalent to 50% of the Regulating Reserve requirement;
    ii) Contingency Reserve - Equivalent to 50% of the dependable capacity of the largest generating unit;
    iii) Dispatchable Reserve - Equivalent to 50% of the dependable capacity of the second largest generating unit

**8. Ancillary Services Pricing and Cost Recovery Mechanism**

Reserves are forms of ancillary services that are essential to the management of power system security. The provision of reserves facilitates orderly trading and ensures the quality of electricity.

On December 2, 2014, DOE issued Circular No. 2014-12-0022, otherwise known as the Central Scheduling and Dispatch of Energy and Contracted Reserves. The circular aims to prepare the market participants in the integration of ancillary reserves into the WESM. The ancillary service providers will be paid based on their respective ASPAs with NGCP, while the scheduling of capacity and energy will be based on market results.

On September 14, 2018, NGCP filed a Petition seeking the Commission's approval of its proposed amendments to the Ancillary Services – Cost Recovery Mechanism, docketed as ERC Case No. 2018-005 RM. The decision of the ERC onthese amendments remains pending.

Currently, the existing cost-recovery mechanism for Ancillary Services shall continue to be implemented until a newmechanism is recommended by the AS-TWG and adopted by ERC.

**9. Energy Efficiency and Conservation Act**

RA No. 11285 or the Energy Efficiency and Conservation Act was signed into law on April 12, 2019. This act established a framework for introducing and institutionalizing fundamental policies on energy efficiency and conservation, including the promotion of efficient utilization of energy, increase in the utilization of energy efficiency and renewable energy technologies, and delineation of responsibilities among various government agencies and private entities.

Under the law, all government agencies, including government-owned corporations, are directed to ensure the efficient use of energy in their respective offices, facilities, transportation units, and in the discharge of their functions. DOE will also be authorized to develop a Minimum Energy Performance standard for the commercial, industrial, and transport sectors, and energy-consuming products including appliances, lighting, electrical equipment, and machinery, among others. DOE is also tasked to prescribe labeling rules for all energy-consuming products, devices, and equipment.

DOE will develop and enforce a mandatory energy efficiency rating and labeling system for energy-consuming products, such as air conditioners, refrigeration units, and television sets, to promote energy-efficient appliances and raise public awareness on energy saving. The law also calls for fuel economy performance labeling requirements for vehicle manufacturers, importers, and dealers. LGUs are tasked to implement the Guidelines on Energy ConservingDesign on Buildings for the construction of new buildings.
Under the Energy Efficiency and Conservation Act's IRR dated November 22, 2019, DOE can visit designated establishments to inspect energy-consuming facilities, evaluate energy-management systems and procedures, identify areas for efficiency improvement, and verify energy monitoring records and reports and other documents related to the compliance requirements within office hours and with an authorized representative of the establishment present. The IRR also calls for the commissioning of a certified conservation officer and energy manager to ensure compliance and be responsible for managing energy consumption, administering programs, and other responsibilities under the law.

Other Department Circulars promulgated by the DOE in relation to the Energy Efficiency and Conservation Act are as follows:

(a) Department Circular No. DC2020-06-0015 *"Prescribing the Guidelines of the Philippine Energy Labeling Program (PELP) for Compliance of Importers, Manufacturers, Distributors and Dealers of Electrical Appliances and other Energy-Consuming Products (ECP)"*, which aims to empower consumers in choosing energy efficient products at the point of sale, help realize energy savings and reduction of energy consumption/ bills through the use of energy efficient products; and reduce greenhouse gas emissions.
(b) Department Circular No. DC2020-06-0016 *"Prescribing the Minimum Energy Performance for Products (MEPP) covered by the Philippine Energy Labeling Program (PELP) for Compliance of Importers, Manufacturers, Distributors, Dealers and Retailers of Energy-Consuming Products)"*, which aims to eliminate the entry and sale of inefficient and substandard products in the local market; and reduce greenhouse gasemissions;
(c) Department Order No. 2020-01-0001 *"Organizing the Inter-Agency Energy Efficiency and Conservation Committee (IAEECC)"*; and
(d) Department Circular No. DC2020-12-0026 *"Adoption of the Guidelines for Energy Conserving Design of Buildings"*, aims to encourage and promote the energy conserving design of buildings and their services toreduce the use of energy with due regard to the cost effectiveness, building function, and comfort, health, safety, and productivity of the occupants.

**10. Energy Virtual One-Stop Act**

RA No. 11234 or the Energy Virtual One-Stop Shop Act (EVOSS Law) was signed into law by President Duterte on March 8, 2019 and became effective on March 29, 2019. DOE issued the IRR on June 24, 2019. Under the EVOSS Law, prospective power generation, transmission, or distribution companies can apply, monitor, and receive all thenecessary permits, and even pay for charges and fees, through the online platform called Energy Virtual One-Stop Shop (EVOSS) once it takes effect, cutting down the lengthy permitting process for the development of power projects. The EVOSS online system will be managed and maintained by DOE, while its operations will be monitored by the EVOSS Steering Committee.

EVOSS applies to all new generation, transmission, and distribution projects throughout the country as well as government agencies and other relevant entities involved in the permitting process. The system provides a secure and accessible online processing system; recognizes the legal effect, validity, and enforceability of submitted electronic documents; and develops an online payment system for all fees for securing permits or certifications. The system enables government agencies involved in pending power projects to operate under a streamlined permitting process utilizing a uniform application template and in compliance with mandated processing timelines as identified in the law. The entire process will be using a system that utilizes electronic documents and monitors permit status via an online system.

The promulgation of the EVOSS Law, along with the implementation of the online system it mandates, is expected to substantially hasten the development of power projects. It has the potential to address delays brought about by lengthy government permitting processes and ultimately encourages the private sector to invest more in the power sector.

The DOE conducted a series of virtual orientations targeting potential users to maximize utilization of the EVOSS online platform. The implementation of the EVOSS Online Platform aims to further streamline and simplify the permitting process for the electric power industry participants and prospective investors. This is with the end view of having timely completion of energy projects towards ensuring energy supply security.

**11. Net Metering**

The DOE promulgated Department Circular No. DC 2020-10-0022 or the Net Metering Program for Renewable Energy System, which aims to encourage and further promote electricity End-Users' participation in the Net Metering Program by enhancing the current policies and commercial arrangements while ensuring the economic and technical viability of the Distribution Utilities.

Pertinent provisions include:

(a) Banking of Net-Metering Credits - All Net Metering Credits shall be banked for a maximum of one calendar year. Any excess of balance Net-Metering credits at the end of each calendar year shall be forfeited.
(b) Application to Off-Grids or Isolated Grid Systems - The Net Metering Program for End-User shall be allowed even in areas not connected to the country's three major national electrical transmission grids.
(c) Publication of Hosting Capacities for Net-Metering - The Distribution Utilities shall publish in their website the respective Net-Metering programs, processes, and procedures, including hosting capacities on a per feeder or sector basis.
(d) Responsibility of the LGUs - All LGUs are enjoined to strictly comply with the provisions of RA No. 11234 (EVOSS Law), RA No. 11032 (Ease of Doing Business and Efficient Government Service Delivery Act of 2018) in processing permits and licenses related to applications for Net-Metering arrangements.
(e) Responsibility of the National Electrification Administration (NEA) - The NEA shall provide the necessary assistance in promoting the Net-Metering Program to all electric cooperatives nationwide.
(f) Development of Net Metering Guidebook - A guidebook on procedures and standards shall be developed by the DOE to be used by all stakeholders. The Renewable Energy Management Bureau shall prepare the Net Metering Guidebook, within six months from the effectiveness of this circular.

The Net Metering Program became effective on December 18, 2020.

**12. Reliability Performance Indices**

On December 16, 2020, the ERC published on its website Resolution No. 10, Series of 2020, entitled *"A Resolution Adopting the Interim Reliability Performance Indices and Equivalent Outage Days Per Year of Generating Units"*.

This resolution aims to monitor the reliability performance of all Generating Units at operations and maintenance level, regularly determine and specify the reliability performance of the Grid, aid the power industry in evaluating reliability and availability of Generating Plants, and promote accountability of Generation Companies in order to achieve greater operation and economic efficiency. It applies to all Generation Companies with Conventional and Non-Variable Renewable Energy Generating Plants connected to the Grid, including Embedded Generating Plants, which have an aggregated capacity of 5MW and above. It includes the requirement for the System Operator and Transmission Network Provider to utilize the allowable planned outage days in Table 1 of the Resolution as a guide in preparing the Grid Operating and Maintenance Program. If the System Operator and Transmission Network Provider shall utilize unplanned outages beyond what is allowed in Table 1, the same shall provide a report as to the reason for such consideration.

**13. Prescribing Revised Guidelines for Qualified Third Party**

On November 22, 2019, DOE promulgated Department Circular No. DC 2019-11-0015 also known as the *"Revised Guidelines for Qualified Third Party"*. The Qualified Third Party (QTP) Guideline Policy is an initiative that was prescribed in the EPIRA, which shall assist the distribution utilities in ensuring and accelerating the total electrification of the country.

The policy provides revisions to the existing guidelines covering the qualifications and participation of QTPs in the provision of electric services to “Unviable Areas” within the respective franchise areas of distribution utilities and electric cooperatives. As part of the Scope of the Revised QTP Guidelines, the policy shall apply to the provision ofelectricity services in defined as unviable areas, which include unserved and underserved electricity customers, within the franchise areas of distribution utilities.

In view of the DOE policy, as of March 23, 2021, the ERC is working on its amendments to the 2006 Rules on the Regulation of Qualified Third Parties Performing Missionary Electrification in Areas Declared Unviable by the DOE.

**14. Providing a Framework for Energy Storage System in the Electric Power Industry**

On September 18, 2019, DOE promulgated Department Circular No. DC2019-08-0012 also known as *“Providing a Framework for Energy Storage System in the Electric Power Industry”*, which governs the regulation and operationof energy storage systems (ESS). The increasing penetration of Variable Renewable Energy (VRE) in the country has prompted the need for the recognition of ESS as one of the technologies to manage intermittent operations of theVRE-generating plants' output thereby ensuring system stability. The issuance of the circular further hastens the entry of ESS as part of the modernization of the Philippine power sector. It finally answers questions relating to who should own and operate energy storage systems in the Philippines. The circular addresses policy gaps by providing aframework for the implementation and roll out of ESS in the country.

The circular applies to power industry participants, including power generation companies owning and/or operating ESS. The covered technologies include battery energy storage system; compressed air energy storage; flywheel energy storage; pumped-storage hydropower; and other emerging technologies that may be identified, qualified,and approved by DOE as ESS. The rules are also applicable to customers and end-users owning and/or operating ESS, which include distribution utilities; and directly connected customers. The circular also applies to qualified third parties, transmission network providers, system operators, market operators, and PEMC.

**15. Guidelines Governing the Issuance of Operating Permits to Renewable Energy Suppliers Under the Green Energy Option Program**

On July 18, 2018, DOE issued Department Circular No. DC2018-07-0019 also known as the *“Rules Governing the Establishment of the Green Energy Option Program (GEOP) in the Philippines.”* This sets the guidelines for consumers or end-users, renewable energy suppliers, and network service providers, among other stakeholders, in facilitating and implementing such energy sources under the EPIRA.

GEOP is a renewable energy policy mechanism issued pursuant to RA No. 9513 or the RE Law that provides end-users the option to choose renewable resources as their sources of energy.

Under this issuance, all end-users with a monthly average peak demand of 100kW and above for the past 12 monthsmay opt to voluntarily participate in the GEOP. Those with an average peak demand below 100 kW may also participate in the GEOP, but only after DOE, in consultation with NREB and industry stakeholders, is able to determine that the technical requirements and standards are met by the end-user. End-users with new connections can also opt to participate in the Program and choose renewable energy resources for their energy/electricity needs, provided theiraverage peak demand meets the threshold provided in the GEOP Rules. The participation of the end-users in the GEOP will be governed by a supply contract between the end-user and the renewable energy supplier, and conform with ERC rules on distributed energy resources and generation facilities.

GEOP is presently available to end-users in Luzon and Visayas only, until such time that DOE, in consultation with the NREB and industry stakeholders, determines the readiness of the Mindanao market.

Other provisions of the GEOP include the establishment of the GEOP Oversight committee, as well as the ERC issuing regulatory framework particularly in setting the technical and interconnection standards and wheeling fees, to affect and achieve the objectives of GEOP. With regard to the billing mechanism, the GEOP Rules provide that a “dual billing system” may be adopted by the end-user availing of the program.

On April 22, 2020, the DOE issued the Guidelines governing the issuance of Operating Permits to RE Suppliers underthe GEOP (DC 2020-04-0009), which sets rules and procedures in the issuance, administration, and revocation of GEOP Operating permits to RE suppliers.

**16. Promulgating the Renewable Energy Market Rules**

On December 4, 2019, DOE issued Department Circular No. DC2019-12-0016, entitled "Promulgating the Renewable Energy Market (REM) Rules", thereby officially starting the Renewable Portfolio Standards (RPS) compliance process.

The REM Rules establishes the basic rules, requirements and procedures that govern the operation of the Renewable Energy Market, which seeks to:

(a) Facilitate the efficient operation of the REM;
(b) Specify the terms and conditions entities may be authorized to participate in the REM;
(c) Specify the authority and governance framework for the REM;
(d) Provide for adequate sanctions in cases of breaches of the REM Rules; and
(e) Provide timely and cost-effective framework for resolution of disputes among REM Members and the Renewable Energy Registrar ("Registrar").

The REM is a market for the trading of Renewable Energy Certificates (RECs) in the Philippines, intended as a venue for Mandated Participants obligated by RPS to comply with their RPS requirements. REM's objective is to accelerate the development of the country's renewable energy resources.

The RPS Transition Period defines Year 0 as 2018 and the RPS Compliance Year 1 shall be the year 2020, and the intervening period shall be the Transition Period.

The REM Rules will be administered and operated by the Renewable Energy Registrar. Moving forward, operationalissues may still arise on who will be the RE Registrar.

As of March 23, 2021, the DOE is asking for public participation in the drafting of the REM Registration Manual, REM Manual (Allocation of RE Certificates for FIT-Eligible RE Generation), REM Enforcement and Compliance Manual (REM Investigation Procedures and Penalty Manual), and the REM Manual Dispute Resolution.

**17. Feed-in-Tariff System**

Pursuant to the RE Law, the FIT system is an energy supply policy aimed to accelerate the development of emergingrenewable energy sources by providing incentives, such as a fixed tariff to be paid for electricity produced from each type of renewable energy resource over a fixed period not less than 12 years.

The ERC issued Resolution No. 16, Series of 2010, otherwise known as *"Resolution Adopting the Feed-In Tariff Rules"* (the "FIT" Rules) which establishes the FIT system and regulates the method of establishing and approving the FITs and the FIT-All.

The FIT Rules are specific for each emerging renewable energy technology and to be applied only to generation facilities which enter into commercial operation after effectivity of the FIT Rules or to such parts of such existing facilities which have been substantially modified or expanded as provided under the FIT Rules.

Under the FIT Rules, the FITs are specific for each eligible renewable energy plants, which are those power facilitieswith COCs issued to them that utilize emerging renewable energy resources or to such parts of such existing facilities that have been substantially modified or expanded, which enter into commercial operation after effectivity of the FIT Rules. These include facilities intended for their owners' use, which are connected to the transmission or distributionnetworks and are able to deliver to such networks their generation or parts thereof but FIT shall only be paid for such amount of electricity actually exported to the distribution or transmission network and not utilized for their own use.

In Resolution No. 10, Series of 2012, ERC adopted the following FIT and degression rates for electricity generated from biomass, run-of-river hydropower, solar, and wind resources:

| | FIT Rate | Degression Rate |
|---|---|---|
| Wind | 8.53 | 0.5% after year 2 from effectivity of FIT |
| Biomass | 6.63 | 0.5% after year 2 from effectivity of FIT |
| Solar | 9.68 | 6% after year 1 from effectivity of FIT |
| Hydro | 5.90 | 0.5% after year 2 from effectivity of FIT |

In line with the increase in installation target for solar energy from 50 MW to 500 MW and wind energy from 200 MW to 400 MW, ERC issued Resolution No. 6 Series of 2015 approving the Solar FIT2 rate of ₱8.69/kWh for the second set of installation target. On October 6, 2015, ERC issued Resolution No. 14, Series of 2015 adopting the Wind FIT2 rate of ₱7.40/kWh. In Resolution No. 1, Series of 2017, ERC set the degressed FIT rates for hydro and biomass plants at ₱5.8705/kWh and ₱6.5969/kWh, respectively. Through a letter dated February 23, 2018, DOE informed ERC of its resolution extending the FIT for Biomass and ROR Hydro until December 31, 2019.

As the fund administrator of the FIT-All, Transco filed an application before the ERC asking for provisional authority toimplement a FIT-All rate of ₱0.2278/kWh for Calendar Year ("CY") 2020. On January 28, 2020, ERC released a decision authorizing Transco to collect a FIT-All rate of ₱0.0495/kWh, lower than the applied ₱0.2471/kWh rate for CY2019. Prior to this decision, the last approved FIT-All rate is ₱0.2226/kWh for CY2018.

On May 26, 2020, the ERC promulgated its Resolution No. 6, series of 2020, wherein the ERC resolved to approve andadopt FIT adjustments for the years 2016, 2017, 2018, 2019, and 2020, using 2014 as the base year for the CPI and forex, to be recovered for a period of five years.

On August 4, 2020, TransCo filed its Application for the FIT-All rate of CY2021 of ₱0.1881/kwh, effective the January2021 billing period. In the alternative, it asked for a FIT-All rate of ₱0.2008/kWh based on a lower Forecast National Sales to account for the impact of COVID-19 to electricity consumption.

### 18. Proposed Revisions to the Guidelines for the Financial Standards of Generation Companies

ERC is currently undergoing public consultations on its proposed Revised Guidelines for the Financial Standards of Generation Companies, under ERC Case No. 2019-001 RM. ERC proposed to revise Generation Companies' minimum annual Interest Cover Ratio or Debt Service Capability Ratio (DSCR) from 1.5x to 1.25x.

### 19. Green Energy Auction Policy

On July 14, 2020, the DOE issued guidelines on the Green Energy Auction Policy (Department Circular No. DC 2020-07-0017) which set the framework for which the DOE shall facilitate the procurement of supply from RE projects by the mandated participants under the RPS on-grid rules through a competitive process for compliance with the RPS program and as applicable for their long-term power supply requirements. The process involves a regular auction process (notice every 15th of June) to be implemented by the Green Energy Auction Committee. The Contracting Customers and the Winning Bidders will execute a Green Energy Implementation Agreement (GEIA), which involves the Market Operator (MO) as the entity to allocate energy and calculate corresponding payments. The ERC will approve the GEIA template and the Green Energy Auction Reserve (GEAR) Price. Each Winning Bidder will have its own Green Energy Tariff (pay-as-bid), which shall not be higher than the GEAR Price. On the other hand, the Contracted Customers will pay the average price, subject to the allocation/calculation of MO, per trading interval.

### 20. Bayanihan 2 Act

On September 11, 2020, the Bayanihan 2 Act was approved, which directed "all institutions providing electric, water, telecommunications, and other similar utilities to implement a minimum of 30-day grace period for the payment of utilities falling due within the period of enhanced community quarantine or modified enhanced community quarantine without incurring interests, penalties, and other charges." This is further qualified for the electric power sector, such that "the minimum 30-day grace period and staggered payment without interests, penalties, and other charges shall apply to all payments due within the period of the community quarantine in the electric power value chain to include generation companies, the transmission utility, and distribution utilities."

On October 27, 2020, the ERC posted an advisory providing more details on the implementation of the Bayanihan 2 Act.

**(xii) Amount Spent on Research and Development Activities**

AboitizPower and its Subsidiaries do not allot specific amounts or fixed percentages for research and development. All research and development activities are done by AboitizPower's Subsidiaries and Affiliates on a per project basis. The allocation for such activities may vary depending on the nature of the project.

**(xiii) Costs and Effects of Compliance with Environmental Laws**

AboitizPower's generation and distribution operations are subject to extensive, evolving, and increasingly stringent safety, health, and environmental laws and regulations. Among other things, these rules address concerns on air emissions; wastewater discharges; the generation, handling, storage, transportation, treatment, and disposal of toxic or hazardous chemicals, materials, and waste; workplace conditions; and employee's exposure to hazardous substances. Standard laws and regulations that govern business operations include Clean Air Act (RA No. 9003), Ecological Solid Waste Management Act (RA No. 9003), Clean Water Act (RA No. 9275), Toxic Chemical Substances and Hazardous and Nuclear Wastes Control Act (RA No. 6969), Philippine Environmental Impact Statement System (PD No. 1586), and Occupational Safety and Health Standards (RA No. 11058). The RE Law adds new and evolving measures that must be complied with. DOE's Energy Regulation No. 1-94 ("ER 1-94") require companies to allocate funds for the benefit of host communities for the protection of the natural environment and for the benefit of the people living within the area. Further, funds are set for the management of carbon sinks and watershed areas through a nationwide reforestation program. These laws usher in new opportunities for the Company and set competitive challenges for its businesses.

The Safety Health Environment and Security (SHES) group of AboitizPower oversees the SHES programs and activities, including the accounting of all environmental impact, within its operational control from the corporate center to the business units and facility teams. For the Generation Group, the facilities include: (a) APRI's Tiwi-MakBan plants, (b) SacaSun San Carlos plant, (c) the Benguet, Bakun, Sabangan, Sibulan A, Sibulan B, Tudaya A, Tudaya B, Manolo Fortich, and Talomo HEPPs of the Hedcor Group, (d) the SN AboitizPower Group's Ambuklao, Magat, and Maris plants, (e) the Oil Group's Cebu, Mactan, Mobile 1, Mobile 2, Mobile 3-6, and Naga plants, and (f) the Coal Group's Davao and Toledo plants. For the Distribution Utilities, the facilities include Cotabato Light, Davao Light, Visayan Electric, Balamban Enerzone, Mactan Enerzone, Lima Enerzone, and Subic Enerzone.

AboitizPower and its Subsidiaries have allocated budgets for environmental expenditures covering costs for waste disposal, remediation, pollution control, environmental initiatives, and programs. All facilities are in compliance with regulatory requirements, thus noting zero spending for remediation costs.

The alignment to international best practices in all power plants and distribution utilities are exemplified with a 100% achievement of ISO certification for the management systems of Quality, Environment, Occupational Health and Safety.

In 2020, continuous improvement in managing environmental impacts is evident, as seen in the increased total environmental management expenses at ₱71.8 mn, which is a 10% increase compared with previous year at ₱65 mn. This is composed of ₱9.7 mn for APRI, ₱13mn for Hedcor, ₱15.7 mn for the Coal Group, ₱9.8 mn for the SN AboitizPower Group; ₱7.8 mn for the Oil Group, and a total of ₱15.3 mn for the Distribution Utilities.

Of the ₱71.8 mn total environmental management expenses, ₱24.9 mn was allocated for capital expenditure aimed at improving pollution prevention and control. The following projects were implemented: (a) APRI Makban's purchase of one new unit of Continuous Ambient Monitoring Station downwind; (b) APRI installation of additional Continuous Ambient Monitoring Station at Plant A in Tiwi; (c) SN AboitizPower-Benguet HEPP's improvement and rehabilitation of sewage treatment plant, oil, water, and grease separator in both Ambukalo and Binga facilities; (d) the Oil Group's improvement of its oil water separators and sewage treatment facility in Mobile 3-6; (e) the Coal group's ongoing construction of its improvement on sewage treatment plant at the

Toledo plant; (f) offload regeneration and decontamination of transformers with Polychlorinated biphenyls at Visayan Electric; and (f) Cotabato Light's construction of new material recovery facility.

Operating expenditure projects were also implemented to improve environmental management practices on site. APRI Tiwi's projects include (a) the minimization of single-use plastics and residual wastes which resulted to a reduction of generated wastes by 5% in 2020; (b) a domestic water consumption reduction initiative that resulted in a reduction of 5% in consumed water in 2020; and (c) air dispersion modelling for mapping the extent of $H_2S$ gas within the Tiwi Geothermal Power Plant to ensure safety of its workers. Cotabato Light's projects include: (a) the improvement of its transformer yard with oil trap; and (b) purchase of color-coded bins and health care waste bins to conform to AboitizPower SHES waste management standards.

AboitizPower and its Subsidiaries received a total of 103 SHES awards, certifications and citations in 2020. It received recognition from Safety & Health Association of the Philippine Energy Sector, Inc. (SHAPES) on: (a) APRI Tiwi's Platinum Corporate Safety and Health Excellence Award and Outstanding Safety and Health Professional Platinum Award; (b) SN AboitizPower-Magat's Outstanding Safety and Health Professionals Award, Corporate Safety and Health Excellence award, Special Recognition on Occupational Health Management of COVID-19 pandemic; and (c) SN AboitizPower- Benguet's Outstanding Safety And Health Professional for seven employees, and the Corporate Safety And Health Excellence Titanium Award.

AboitizPower's Subsidiaries received charges for alleged violations of environmental standards in 2020. In connection with DENR-PAB Case No. CAR-00874-16 entitled, *In the Matter of the Water Pollution Control and Abatement Case versus Hedcor Inc., Hedcor Sabangan, Inc., and Sta. Clara International*, the respondents were directed to pay a fine of ₱200,000.00 for the alleged violation of the Clean Water Act. Payment was made for and on behalf of all the respondents by Sta. Clara International, the contractor for the Hedcor Sabangan HEPP, in compliance with its contractual obligation during the construction of the plant. Hedcor received a Notice of Violation and a Cease and Desist Order from the Forest Management Bureau of DENR for unauthorized occupation of forest land without tenurial instruments in connection with its Irisan 1 and 3 plants. An Order lifting the Cease and Desist Order was issued on October 16, 2020, wherein no penalty was imposed but an initial amount of ₱500,000.00 representing back rentals was ordered to be paid by Hedcor. Hedcor was further ordered to pay a re-computation of back rentals upon determination of the area applied for a Special Agreement on Protected Area.

AboitizPower continues to be cognizant of new opportunities to comply with regulatory requirements and improvement of systems to promote safety and prevent adverse impacts to the environment or affected ecosystems.

### (xiv) Employees

At the parent company level, AboitizPower has a total of 370 employees as of February 28, 2021. These include executives, managers, supervisory, and rank-and-file staff employees. There is no existing Collective Bargaining Agreement (CBA) covering AboitizPower employees.

The following table provides a breakdown of total employee headcount on a per business group basis, according to employees' function, as of February 28, 2021:

| Business Group | Number of Employees | | | | | Unionized Employees | Expiry of CBA |
|---|---|---|---|---|---|---|---|
| | Total | Executives | Managers | Supervisors | Rank & File | | |
| **Aboitiz Power** | 370 | 74 | 61 | 67 | 168 | 0 | N/A |
| **Generation Companies** | | | | | | | |
| Run-of-River Hydros | 415 | 13 | 21 | 48 | 333 | 118 | September 19, |
| Large Hydros | 185 | 18 | 34 | 73 | 60 | 0 | N/A |
| Geothermal | 247 | 8 | 17 | 48 | 174 | 12 | February 28, 2022(APRI) |
| Solar | 5 | 0 | 0 | 1 | 4 | 0 | N/A |
| Oil | 399 | 12 | 34 | 188 | 165 | 0 | N/A |
| Coal | 1,334 | 26 | 73 | 271 | 964 | 0 | N/A* |

| Business Group | Number of Employees | | | | | Unionized Employees | Expiry of CBA |
|---|---|---|---|---|---|---|---|
| | Total | Executives | Managers | Supervisors | Rank & File | | |
| **RES** | 5 | 0 | 1 | 1 | 3 | 0 | N/A |
| **Distribution Utilities** | 809 | 17 | 64 | 134 | 594 | 336 | December 31,2016** (Visayan Electric) June 30, 2024 (Cotabato Light) June 15, 2021 (Davao Light) May 9, 2024 (SFELAPCO) |
| **Total No. of Employees** | **3,769** | **168** | **305** | **831** | **2,465** | **466** | |

**DOLE has granted the voluntary dissolution filed by Mariveles Power Station Employees Union (MPSEU) with Registration Number RO302-BAT-1309-UR-III 001. Notice of Resolution was granted on April 1, 2020.*
*** The Secretary of Labor and Employment issued an Order dated September 6, 2019 on OS-AJ-2018-1001-0003 and a Motion for Clarification dated December 3, 2020 was purportedly filed by Visayan Electric Company, Inc. Employees Union (VECEU) on the matter of retroactivity date and is currently pending.*

The Company does not anticipate any significant increase in manpower within the next twelve months unless new development projects and acquisitions would materially require an increase.

### (xv) Major Risk/s Involved in the Business

An integral part of AboitizPower's Enterprise Risk Management efforts is to anticipate, understand and address the risks that the Company may encounter in the businesses it is involved in.

Risk Management, or the regular review of Risk Management Plans, is being conducted at least twice a year across the Group for Strategic Risks. Business Units review their Operational Risks management plans more frequently.

Risk management is integrated in the Company's strategic planning process, where teams identify the risk areas that could have an impact to the Company's strategic objectives. The Risk Management Team integrates Environment, Social and Governance (ESG) in the risk assessment process, including the enhancement of business continuity plans to ensure that climate change-related risks are properly mitigated.

Following the Group Risk Management governance structure, the Top Risks are regularly presented and discussed with Senior Management and the Board of Directors.

#### 1. Project Risks

AboitizPower has identified project risks as a top risk as it continues to grow its power generation portfolio. Project risks are largely driven by delays in commissioning and testing, commercial operations, as well as late completion and delivery of the transmission assets that will enable full dispatch of the plants in the pipeline. COVID-19-related travel restrictions, mandatory quarantine protocols, and on-site infections have also significantly affected the project milestones in 2020, and are anticipated to persist given the new COVID-19 variants. The Company's External Relations team and the Compliance teams of AboitizPower's Business Units have all been closely coordinating with the Department of Foreign Affairs, the COVID-19 Inter-Agency Task Force (IATF), and airport authorities, among others.

Project risk management plans are thoroughly defined and regularly reviewed for each project in order to track issues related to quality, safety, compliance, schedule, and resources. This ensures that identified risk control measures and recovery actions are implemented. Appropriate project insurance coverage, as well as periodic performance reviews of selected partners, reputable contractors, and third-party suppliers, are also in place.

To further mitigate project risks, delivery of transmission assets is closely coordinated with the NGCP. Operational readiness reviews are performed to ensure that new generating units are ready for commercial operations prior togoing on-line. Project post-mortem reviews are also conducted to determine key learnings that can be applied to ongoing and future projects.

To address challenges in land procurement, conversion, permitting, right-of-way, and other land-related issues, project stakeholder management plans are also developed to ensure that partners, contractors, regulatory agencies, hostcommunities, LGUs, and other key stakeholders are aligned with project execution timelines.

The COVID-19 pandemic also affected the construction of the GNPower Dinginin project. It is now in the initial stages of commissioning, but continues to face challenges due to the COVID-19 pandemic and the imposition of the travel ban on China. Construction has slowed down because of the preventive measures taken to ensure the safety of workers on-site. Due to said circumstances, the AboitizPower Group is constantly evaluating the timing of the project's commercial operations date.

**2. Regulatory Risks**

The electric power industry is characterized by a constantly evolving regulatory environment. Any shortcoming in regulatory compliance poses negative consequences in both the net income and reputation of each Business Unit and the Group. Further, the Company's results of operations and cash flow could be adversely affected by the inability to predict, influence, or respond appropriately to changes in law or regulatory schemes, including any inability or delay in obtaining expected or contracted increases in electricity tariff rates or tariff adjustments for increased expenses, or any inability or delay in obtaining or renewing permits for any facilities, could adversely impact results of operations and cash flow. The Company's business could also be adversely affected by any changes in laws or regulations, orchanges in the application or interpretation of laws or regulations in jurisdictions where power projects are located, could adversely affect the Company's business, including, but not limited to:

(a) adverse changes in tax laws;
(b) changes in the timing of tariff increases or in the calculation of tariff incentives;
(c) change in existing subsidies and other changes in the regulatory determinations under the relevant concessions;
(d) other changes related to licensing or permitting which increase capital or operating costs or otherwise affect the ability to conduct business; or
(e) other changes that have retroactive effect and/or take account of revenues previously received and exposepower projects to additional compliance costs or interfere with our existing financial and business planning.

Any of the above events may result in lower margins for the affected businesses, which could adversely affect the Group's results of operations.

For renewable assets, pricing is fixed by regulatory arrangements which operate instead of, or in addition to, contractual arrangements. Business Units that are subject to regulated tariffs bear the risk. To the extent that operating costs riseabove the level approved in the tariff, the Business Units that are subject to regulated tariffs would bear the risk. During the life of a project, the relevant government authority may unilaterally impose additional restrictions on theproject's tariff rates, subject to the regulatory frameworks applicable in each jurisdiction. Future tariffs may not permit the project to maintain current operating margins, which could have a material adverse effect on the Business Unit orthe Group, financial condition, results of operations and prospects.

To anticipate and proactively respond to changes in regulations, the Regulatory Affairs and External Relations teams of AboitizPower constantly collaborates with the DOE and the ERC to work towards a sound and sustainable regulatory and policy environment. Similarly, the AboitizPower SHES Team keeps abreast with environmental lawsand coordinates with DENR on matters pertaining to environmental compliance.

These teams, among others, actively participate in consultative processes and public consultations to provide feedback and positions on proposed laws and regulations. The Company's participation likewise ensures that its interpretation of such laws and regulations is aligned with the regulators. This is done in cooperation with organized power industry groups such as the Philippine Independent Power Producers Association (PIPPA) and Philippine Electric Plant Owners Association (PEPOA). Regular dialogues are conducted with host communities, media, non-government organizations, and the academe, to educate and update various groups about the power industry.

AboitizPower has likewise transitioned its Legal Team to strategically focus on compliance and to continually align with the Aboitiz Group's overall compliance processes. The Company is institutionalizing a compliance framework across the different business and corporate support units, and is formalizing compliance reporting requirements among the Group's compliance officers. AboitizPower has also implemented the Aboitiz Unified Compliance Management System, an Aboitiz Group-wide initiative that is based on the Governance, Risk and Compliance framework.

**3. Reputation Risk**

AboitizPower recognizes that its reputation is its single most valuable asset, a competitive advantage that allows theCompany to earn, maintain, and strengthen the trust of its stakeholders. The Company knows that its reputation today took generations to build and sustain; hence, the need to protect and enhance it progressively is imperative. Today's operating environment is characterized by increasing corporate governance standards, heightened publicconsciousness due to social media, and greater scrutiny from key stakeholders. Reputation risks result from the occurrence of, or failure to, mitigate other risks.

AboitizPower continues to strengthen stakeholder engagement activities with all its stakeholders, including its customers, employees, shareholders, lenders and insurers, regulators, host communities, and LGUs. One of the key engagement channels is ER 1-94 which allows host communities to reap financial benefits for their contribution to power plants situated in their localities. AboitizPower's assumption of the fund's administration functions has hastened fund remittance and utilization for local electrification, development and livelihood, and environment enhancement projects of host communities. Due to the COVID-19 pandemic, DOE Department Circular 2020-04-0008 dated April 6, 2020 rationalized the utilization by host LGUs of ER 1-94 funds for COVID-19 response instead. As of mid-November 2020, over 80% of the total available ER 1-94 funds have been released by DOE and AboitizPower to around 90% of the Company's host beneficiaries.

For the past two years, AboitizPower has been recognized as a constituent company in the FTSE4Good Index Series. This Index Series was created by global index provider FTSE Russell and measures the performance of companies demonstrating strong ESG practices. The Company's recent Corporate Sustainability Assessment by the highly regarded Robeco SAM group, now part of S&P Global, showed marked improvements in its ESG performance. The absolutescore of AboitizPower improved by 74% compared to last year's rating, while its percentile ranking in its global peergroup improved from 25th to 54th percentile. The Company also showed some improvements in its Sustainalytics ESG Risk Rating at 34.4, a 1.9 decrease of risk exposure from its 2019 rating. Meanwhile, the Company retained its rating of BB from the MSCI ESG Rating.

Moving forward, AboitizPower will continue to focus on addressing gaps in various risk areas of ESG. Furthermore, the Company's growth strategy remains aligned with the energy trilemma of energy security, energy equity, and environmental sustainability, but will be characterized by a strategic shift from ensuring low-cost energy to also providing energy from more sustainable sources in the next decade.

**4. Information Security Risks**

AboitizPower recognizes the vulnerabilities of global information security breaches and the increasingly complex challenges of digital transformations. Management acknowledges that information security threats should be addressed to prevent targeted and non-targeted attacks which can adversely disrupt operations and customer services, and result in serious impacts to the Company's bottom line and reputation.

In 2019, AboitizPower further strengthened its protection protocols against security threats with the implementation of the ISMS following the ISO 27001:2015 standard. For 2020, the Company's Generation and Distribution Business Groups have rolled out a uniform, Company-wide Operational Technology (OT) Security Minimum Standard.

AboitizPower aligns with the Aboitiz Group-wide Cyber Security Program, specific governance, standards, training and culture-building, and Operational Technology Security projects. OT Security projects in generation and distribution facilities are also ongoing through phased implementation until 2022. The ISMS discipline will continue to be embedded in all three pillars of Information and Operational Systems Security: People, Process, and Technology.

In efforts to achieve the desired Level 4 in Cyber Security Maturity and build an information security risk-aware culture within the Company, business continuity plans (BCP) on loss of technology scenarios are in place, annually tested, reviewed, and continually improved. AboitizPower keeps pace with current information security threat landscape,solutions, and best practices to further strengthen prevention, detection, and comprehensive response to information security threats.

**5. Business Interruption Due to Natural and Man-made Calamities and Critical Equipment Breakdown**

The loss of, and/or damage to, facilities caused by natural calamities such as earthquakes, typhoons, and floods mayresult in significant business interruptions within AboitizPower. Interruptions may also be caused by other factorssuch as critical equipment breakdown, Information Technology (IT) and OT security breaches, fires and explosions,hazardous waste spills, workplace injuries and fatalities, terrorism, and other serious risks.

Planned maintenance and overall outage management of AboitizPower's generation facilities and its critical equipment and OT infrastructure and systems are governed by asset management standards based on global best practice. All of AboitizPower's generation facilities have achieved asset management certifications based on ISO 55001:2014 standard. Recently commissioned plants will also be lined up for certification. On the other hand, distribution network availability and reliability targets have consistently been aligned with the performance bond standards set by ERC as part of the RDWR.

All Business Units have also achieved OHSAS 18001 certification, a British standard which is focused on controlling occupational health and safety hazards. AboitizPower companies are also transitioning to the ISO 45001 standard to drive a risk-based culture with more proactive approaches toward mitigating risks before they happen. To further reinforce industrial fire safety, the annual in-house training program on Fixed Fire Fighting Systems of the U.S. National Fire Protection Association is conducted for operations, maintenance, and safety personnel.

Group insurance programs that leverage on the Company's portfolio of generation and distribution assets, supported by risk modelling and quantification, are also in place. AboitizPower ensures that its Business Units have the right insurance solutions to achieve the optimal balance between retaining or transferring risks versus lowering the TotalCost of Insurable Risk. As such, business interruption insurance is procured to cover any potential loss in gross profits that may result from a major damage to critical assets.

Business Units periodically review, test, develop, update, and improve their BCP to ensure that they remain relevantwith current business conditions, and address the uncertainties and issues faced by the Company.

Some of these enhancements include (a) typhoon preparedness; (b) regular emergency drills and simulation exercises on various scenarios related to other natural and man-made calamities; and (c) post-event evaluations to ensure that employees are able to respond effectively and safely as planned.

To further improve its existing BCM framework and practices, AboitizPower has rolled out a three-year roadmap ofBusiness Continuity initiatives, which conforms to ISO 22301:2012 standards and requirements.

**6. Financial Risks**

In the course of its operations, AboitizPower and its Subsidiaries are exposed to the following financial risks:

(a) The growing multi-sectoral negative action against coal has led many financial institutions to restrict investments in coal projects. The following are important considerations of the Company's existing portfolio and strategic project pipeline, where coal concentration will significantly be reduced by the year 2030:
   (i) Financing and refinancing risks in terms of the Company's inability to borrow money to fund future coal projects. While banks are still willing to lend, the cost of project financing tends to be more expensive;
   (ii) Difficulty in insurance procurement or renewal, where insurers' policy on coal underwriting and investing are also aligned with the same global trends on sustainability and ESG issues. While insurersare still willing to cover coal plants, the resulting impact is significantly higher premium rates for coal insurance year on year. Inability to fill up 100% capacity due to the reluctance or withdrawal of some insurance markets to insure coal plants has prompted the Company to resort to self-insurance. Other noteworthy risk drivers are the hardening of the insurance market aggravated by the global economicimpact of the COVID-19 pandemic, and any significant losses on

damage to critical assets and relatedbusiness interruptions; and

(iii) Regulatory pressure, which is increasing with the recent DOE Memorandum dated December 22, 2020re: *"Advisory on the Moratorium on Endorsements for Greenfield Coal-Fired Power Projects in line withImproving the Sustainability of the Philippines' Electric Power Industry"*, effective October 27, 2020;

(b) Refinancing and liquidity risks arising from balloon / bullet payments for existing loans;

(c) Interest rate risks resulting from the increasing cost to borrow money as a result of inflation; and

(d) Forex risks in terms of forex fluctuations that may significantly affect its foreign currency-denominated placements, transactions, and borrowings. This risk is currently driven by the global COVID-19 crisis, giventhe impact it has on general currency markets; and the amount of natural hedge flows which may decline.

Aside from the negative impact to the Group's net income, these risks would also constrain any expansion and growth projects. Furthermore, defaulting on existing loans and other financial obligations will consequently put the Company's reputation at risk.

To address these risks, the Company carries out the following actions:

(a) Regular monitoring of the Company's cash position;

(b) Maintaining good relationships with the banks; Exploring alternative risk transfer options and operationalizing self-retention strategies; and

(c) Implementing the Group's Financial Risk Management Framework, which is a collaboration of the Group Risk and Treasury teams and designed to ensure a consistent approach in identifying, assessing, quantifying, andmitigating financial risks across the Group.

**7. Competition Risk**

Increasingly competitive market conditions create downward pressure on contract rates and increasing levels of commercial risk, to wit: (a) generation companies are required to participate in a transparent and competitive bidding of power supply requirements of distribution utilities and electric cooperatives through the CSP; and (b) spot prices are expected to continue to be volatile. As such, fixed pricing may potentially increase exposure to fuel and forex risk,while the inability to contract at favorable rates and commercial terms may result in further exposure to higher levels of spot market volatility.

As AboitizPower endeavors to market and contract project capacities from investments ahead of time, as well as renew expiring contracts from existing capacities, it also maximizes energy trading opportunities in the spot market. Striking this balance requires a combination of portfolio pricing and contracting strategies, and hedging of coal and forex exposure on fixed contracts. This is to ensure that plant operations are optimized, and that revenue and cashflow streams are managed.

**8. Talent Risk**

AboitizPower gears for further growth by shifting towards renewable energy sources and increasing its presence inthe international market, while ensuring the availability and reliability of existing power plants. Both growth and operational excellence thrusts demand for organic subject matter experts of critical assets.

The risk on availability, readiness, and retention of talents for critical posts is inevitably increasing. Thus, talent attraction, optimization, and retention strategies are of utmost importance. In 2019, the Company integrated Strategic and Operational Workforce Planning into the Organizational Planning processes to enable the identification of current and future talent needs. This helped shape the people strategy of AboitizPower. In 2020, key human capital initiatives to holistically address talent management risks include employer branding; building targeted talent communities; succession management and talent mapping, blended development programs linked to competencyand performance requirements (i.e., critical position understudy program, leadership and technical development and career pathing); purposive employee engagement programs; and a mental wellness initiative as part of the Company's COVID-19 business continuity plan.

**9. Pandemic Risks**

In December 2019, the COVID-19 outbreak began in China and spread to other countries, including the Philippines.

On March 10, 2020 the World Health Organization characterized COVID-19 as a pandemic. As of December 31, 2020, theDepartment of Health ("DOH") reported 474,064 COVID-19 cases nationwide with 9,244 deaths.

The Philippines remains vulnerable to exposure and spread of the disease for the following reasons: (a) the considerable number of Overseas Filipino Workers globally; (b) the impact of international travel which raises the probability of transmission; and (c) lack of the necessary infrastructure to contain the spread of the disease. In response to the recent outbreak of COVID-19, the Philippines has imposed travel bans on several affected countries, which may have an adverse impact to the AboitizPower Group's suppliers' ability to deliver, which could delay the construction of certain projects.

In a move to contain the COVID-19 outbreak, the Office of the President issued a Memorandum directive to impose stringent social distancing measures in the National Capital Region effective March 15, 2020. Presidential Proclamation No. 929 was issued the next day, declaring a State of Calamity throughout the Philippines for a period of six monthsand imposed an enhanced community quarantine throughout the island of Luzon until April 12, 2020. On March 24, 2020, Congress passed Republic Act No. 11469, known as the Bayanihan to Heal as One Act (the "Bayanihan Act") into law, which conferred emergency powers on the President. On June 25, 2020, measures under the Bayanihan Act wereimplemented to address the pandemic in the Philippines that expired without extension or replacement.

On September 11, 2020, the Bayanihan 2 Act was signed into law by President Duterte. The Bayanihan 2 Act seeks to provide a stimulus package to struggling sectors as part of the country's COVID-19 response and recovery plan, and to scrutinize the Government's implementation of programs related to the pandemic. Similar to the Bayanihan Act, the Bayanihan 2 Act confers emergency powers to President Duterte which will be in effect until December 19, 2020. Such powers include the authority to adopt measures to "conserve and regulate the distribution and use of power, fuel,energy, and water, and ensure adequate supply of the same."

Since President Duterte's declaration of the State of Public Health Emergency and, consequently, the various community quarantine guidelines on public transportation, social distancing, international travel bans, health protocols, and mandatory quarantines, the Company has been implementing flexible work arrangements, including: (a) maximizing work-from-home set-up for support employees and selected essential employees; (b) 14-day-cycleof facility lockdown duty of generation facilities; and (c) special protocols for distribution line gangs and customercenters. This is to primarily ensure the health and safety of its sites and employees while continuing to serve its customers and other stakeholders, as well as to address any constrained mobility of employees brought about by the community quarantines.

For the AboitizPower Group, the primary impact of the COVID-19 pandemic was the decrease in demand for electricity as business activities were hampered by the government-enforced community quarantines. These quarantines also resulted in reduced mobility to and from the Power Group's existing facilities, and new facilities being constructed.

The AboitizPower Group continued to provide the country with the much-needed power supply for hospitals, government institutions, and critical businesses, while ensuring the safety of its teams, partners, and communities. To address the challenges posed by the pandemic, the AboitizPower Group developed a program that combines thebest of work-from-home, two-week workshifts, and remote plant operations. This will ensure that the AboitizPower Group keeps the lights on for the country. It also assessed the current and future modes of operations. This led to the necessity of doing an organizational restructuring, allowing for resiliency and enabling the Power Group to remainefficient, competitive, and sustainable. It is in the planning stages of a return to the workplace program, but will advance with caution. The COVID-19 pandemic also impacted the construction of the GNPower Dinginin project. It is now in the initial stages of commissioning, but continues to face challenges due to the COVID-19 pandemic and theimposition of the travel ban on China. Construction has slowed down because of the preventive measures taken to ensure the safety of workers on-site. Due to said circumstances, the AboitizPower Group is constantly evaluating the timing of the project's commercial operations date.

To date, all AboitizPower power generation facilities and power distribution utilities have normalized operations. BCPs have been successfully implemented to ensure the adequate and reliable supply and distribution of electricity. These BCPs are continually and promptly updated to adhere to the health and other community quarantine protocols and guidelines issued by the DOE, ERC, DOH, DOLE, IATF, and the LGUs.

The curtailed economic activity brought about by the shutdown and/or scaled down operations of energy-intensiveindustries have resulted in significant drops in electricity demand and consumption, which in turn has affected the revenue targets of AboitizPower's generation, distribution, and retail electricity supply businesses. The Company collaborates with its customers and key stakeholders to minimize the impact of the pandemic to its PSAs for all concerned parties. Distribution Utilities have also maximized the use of social media and digital platforms to deliver customer services.

The Bayanihan 2 Act also imposes a minimum 30-day grace period for the payment of electricity and other utilities falling due within the period of community quarantine without penalty. It further provides that payments may besettled on a staggered basis in no fewer than three monthly installments. The Company is compliant with DOE circulars and ERC advisories on the grant of extension of payment to electricity consumers for bills falling due in the original and extended community quarantines, and the amortization of the cumulative amount of such electricity bills in four equal installments payable in the four succeeding billing months following the end of the community quarantines. The resulting increase in credit and collection risks have posed a challenge to the Company's cash flows.

The said circulars also provide that all private and public corporations in the power sector shall be given a similar grace period for their obligations without interest, penalties, fees and charges, as well as the same four-month amortizedpayment arrangement for all unpaid balances on obligations within the same period. This directive has eased the impact and helped manage the cash flow of AboitizPower Subsidiaries, with respect to payments due to NGCP, PSALM, IEMOP, IPPs, and suppliers of oil and steam.

The Company ensures that the supply chains for its power plants and Distribution Utilities remain stable. It also ensures that supply of coal, critical spare parts, and services from outside the country continues through a number of options, including alternative local suppliers and service providers. Close coordination with LGUs and key government agencies by AboitizPower External Relations and its Business Unit's Legal and Compliance teams facilitate the unimpeded delivery of energy-related goods and services.

**10. Emerging Risks**

Embedded in the risk management process is the continuous identification and monitoring of emerging risks. These are newly developing risks that cannot yet be fully assessed (due to high uncertainty) but could have a major impact on the organization in the future. These potential risks could be triggered by the fast-changing landscapes in the political, economic, social, technological, environmental, and legal aspects surrounding the Company's operations.

Such risks are captured and validated in the semi-annual risk assessment process and environmental scans of the strategic planning and annual organizational planning process of AboitizPower, and are subjected to further study by subject matter experts. These emerging risks are reported and discussed as part of the Group Risk ManagementCouncil and Board Risk and Reputation Management Committee regular agenda.

Stranded assets are investments that are not able to sustain a viable economic return and/or which are likely to see their economic life curtailed due to a combination of technology, regulatory, and/or market changes. There can be no assurance that the adoption of new safety, health, mining, and environmental laws and regulations, newinterpretations of existing laws, increased governmental scrutiny of safety, health, mining and environmental laws or other developments in the future will not result in the Company and its Subsidiaries from being required to upgrade, supplement, or relocate its facilities and having to incur additional capital expenditures or operating expenses to address the risk of potential stranded generation assets. In the event that future laws are enacted imposing restrictions on operations and refinancing, particularly in relation to power plants utilizing fossil fuels, certain capital expenditures or operating expenses or financing costs may not be fully recoverable.

The Philippines is a party to the 2015 Paris Agreement signed by almost 200 nations, which aims to keep the increase in global average of temperature to well below 2°C above pre-industrial levels and to limit the increase to 1.5°C in order to substantially reduce the risks and effects of climate change. As a party to the agreement, the Philippines may impose more stringent regulations, particularly on coal-fired power plant emissions by requiring expensive pollution controls on coal-fired power plants, among other measures. These measures may significantly increase costs of coal-fired power plants and, at the same time, increase the cost competitiveness of renewable energy. Recently promulgated implementing rules and regulations by the DOE on "Renewable

Portfolio Standards" also mandate electric power industry participants (such as generation companies, distribution utilities, and electric cooperatives) to source or produce a portion of their electricity requirements from eligible renewable energy resources and undertake CSPs in sourcing renewable energy. A significant portion of the captive market may shift away from coal and other hydrocarbon fuels, which may expose the coal-fired power plants of the Company to stranded-asset risk (i.e., hazard of an asset suffering from an unanticipated write-down, devaluation, or conversion to liability).

The Company is cognizant of the regulatory and market drivers in the shift towards green and sustainable business transformations. AboitizPower and its Subsidiaries are guided by its sustainability framework that looks into environmental, social and governance risks including climate-related risks of its value chains. The Company's strategy has long considered environmental sustainability as one of its key pillars. As of March 23, 2021, the Company, together with its partners, is the largest private renewable energy operator in the country with 1,544 MW in installed capacity.

AboitizPower's growth strategy remains aligned with the energy trilemma of balancing the three pillars of energy security, energy equity, and environmental sustainability. Over the last decade, the growth in energy demand has necessitated a focus on energy security and energy equity - the provision of reliable, and affordable energy for a growing economy. Having addressed energy security and energy equity via the presence of sufficient baseload capacity, AboitizPower has begun to shift focus back to environmental sustainability, and rebalancing its energy portfolio. This transition is included in the Company's sustainability agenda, with the Company targeting a mix of 50% thermal and 50% renewable energy capacity by 2030 from its current mix of 73% thermal (which are conventional or combustion power plants such as coal or fuel fired plants), and 27% renewable (which do not rely on fossil fuels).

Further, to properly assess the potential and extent of the above-mentioned risks, AboitizPower, through its holding company, AEV, signed up to become the first Philippine supporter of the international Task Force on Climate-Related Financial Disclosures ("TCFD") in early 2020. This is a voluntary commitment to adopt a defined governance structure on identifying and addressing physical and transition risks associated with climate change, as well uncovering opportunities, and improving disclosures to provide clear and reliable information to stakeholders. Under SEC Memorandum Circular No. 4, series of 2019 on the Sustainability Reporting Guidelines for Publicly-Listed Companies ("PLCs"), there is a three-year period under which PLCs can comply, which includes the adoption of the TCFD reporting template.

Such risks are captured and validated in the semi-annual risk assessment process and environmental scans of the strategic planning and annual organizational planning process of AboitizPower, and are subjected to further study by subject matter experts. These emerging risks are reported and discussed as part of the Group Risk Management Council and Board Risk and Reputation Management Committee regular agenda.

**(b) Requirements as to Certain Issues or Issuers**

**(i) Debt Issues**

**(a) Ten Billion Fixed-Rate Bonds issued in August 2014**

On August 29, 2014, SEC issued an Order of Registration and a Certificate of Permit to Sell Securities for AboitizPower's ₱10 billion (bn) retail bonds ("2014 Bonds"). BPI Capital Corporation (BPI Capital) acted as the Issue Manager and Lead Underwriter, BPI Asset Management and Trust Group (BPI AMTG) as the Trustee, and Philippine Depository & Trust Corporation (PDTC) as the Registry and Paying Agent for the transaction. The 2014 Bonds received the highest possible rating of PRS "Aaa" from Philippine Rating Services Corporation (PhilRatings). The 2014 Bonds were listed with the Philippine Dealing & Exchange Corporation (PDEx) on September 10, 2014.

The 2014 Bonds were issued in two series: (a) seven-year bonds with a fixed interest rate of 5.205% per annum; and (b) twelve-year bonds with a fixed interest rate of 6.10% per annum. Interest rate is calculated on a 30/360- day count basis and is paid quarterly in arrears every March 10, June 10, September 10, and December 10 of each year at which the bonds are outstanding, or the subsequent banking day without adjustment if such interest payment date is not a banking day. The Company has the option, but not the obligation, to redeem in whole (and not in part) any series of the outstanding 2014 Bonds, on the following dates or the immediately succeeding banking day if such date is not a banking day:

| | Early Redemption Option Dates |
|---|---|
| Series A Bonds | 5.25 years from Issue Date |
| | 6 years from Issue Date |
| Series B Bonds | 7 years from Issue Date |
| | 8 years from Issue Date |
| | 9 years from Issue Date |
| | 10 years from Issue Date |
| | 11 years from Issue Date |

AboitizPower has been paying interest to its bond holders since December 10, 2014.

*Use of Proceeds*

Following the offer and sale of the 2014 Bonds, AboitizPower received the aggregate amount of ₱10 bn as proceeds. As of December 31, 2016, the proceeds from the 2014 Bonds were fully utilized for the following projects:

(i) 400 MW (net) Pulverized Coal-Fired Expansion Unit 3 in Pagbilao, Quezon;
(ii) 68 MW Manolo Fortich Hydropower Plant Project;
(iii) 300 MW Cebu Coal Project;
(iv) 300 MW Davao Coal Project; and
(v) 14 MW Sabangan Hydropower Plant Project.

**(b) Shelf Registration of Thirty Billion Fixed-Rate Bonds issued in 2017 and 2018**

On June 19, 2017, SEC issued an Order of Registration and a Certificate of Permit to Offer Securities for AboitizPower's fixed-rate corporate retail bonds in the aggregate amount of up to ₱30 bn ("2017 Bonds"). The 2017 Bonds were registered under the shelf registration program of the SEC and are to be issued in tranches.

**Series "A" Three Billion Fixed Rate Bonds issued in July 2017**

Series "A" bonds were issued on July 3, 2017 with an aggregate amount of ₱3 bn, a tenor of ten years, and fixed interest rate of 5.3367% per annum. Interest is payable quarterly in arrears on January 3, April 3, July 3, and October 3 of each year, or the subsequent banking day without adjustment if such interest payment date is not abanking day. AboitizPower engaged BPI Capital as Issue Manager and Underwriter, BPI-AMTG as Trustee, and PDTCas the Registrar and Paying Agent. The Series "A" bonds received a credit rating of "PRS Aaa" with Stable Outlookfrom Philratings, and is listed with PDEx.

AboitizPower received the aggregate amount of ₱2.97 bn as proceeds from the offer and sale of the Series "A" bonds. AboitizPower has been paying interest to its bond holders since October 2017.

*Use of Proceeds*

As of December 31, 2017, the proceeds of the Series "A" bonds were fully utilized for the following projects:

| Name of Project | Projected Usage (Per Prospectus) | Actual Usage |
|---|---|---|
| Equity infusions into GNPD in 2017 | ₱2,206,373 | ₱1,255,745 |
| Equity infusions into GNPD in 2018 | 764,395 | 1,711,317 |
| Bond issuance costs | 29,232 | 32,938 |
| **TOTAL** | **₱3,000,000** | **₱3,000,000** |

*Note: Amounts are in thousands.*

**Series "B" and Series "C" Ten Billion Fixed Rate Bonds issued in October 2018**

Series "B" and Series "C" bonds, with an aggregate amount of ₱10 bn and an oversubscription option of ₱5 bn, were issued on October 12, 2018. The Series "B" bonds have an interest rate of 7.5095% per annum, and will mature in 2024, while the Series "C" bonds have an interest rate of 8.5091% per annum, and will mature in 2028. Interestis payable quarterly in arrears on January 25, April 25, July 25, and October 25 of each year, or the subsequent banking day without adjustment if such interest payment date is not a banking day.

AboitizPower appointed BDO Capital & Investment Corporation (BDO Capital) as Issue Manager, BDO Capital, BPICapital, and United Coconut Planters Bank as Joint Lead Underwriters, BDO Unibank, Inc. Trust & Investments Group as Trustee, and PDTC as the Registry and Paying Agent for the transaction. The Series "B" and Series "C" bonds received the highest possible rating of PRS "Aaa" from PhilRatings and are listed with PDEx.

AboitizPower received the aggregate amount of ₱7.5 bn as proceeds from the offer and sale of the Series "B" bonds and ₱2.5 bn for the Series "C" bonds. AboitizPower has been paying interest to its bond holders since January 2019 for the Series "B" and Series "C" bonds.

*Use of Proceeds*

As of September 30, 2019, the proceeds of the Series "B" and Series "C" bonds were fully utilized for the following projects:

| Name of Project | Projected Usage (Per Prospectus) | Actual Usage |
|---|---|---|
| Refinancing of the Medium-Term Loan ofTherma Power, Inc. | ₱8,700,000 | ₱8,700,000 |
| Bond issuance costs | 118,868 | 121,924 |
| General corporate purposes | 1,381,132 | 1,378,076 |
| **TOTAL** | **₱10,200,000** | **₱10,200,000** |

*Note: Amounts are in thousands*

**Series "D" 7.5 Billion Fixed-Rate Retail Bonds issued in October 2019**

Series "D" bonds, with an aggregate amount of ₱7.5 bn and an oversubscription of ₱5 bn, were issued on October 14, 2019. The Series "D" bonds have an interest rate of 5.2757% per annum, and will mature in 2026. Interest is payable quarterly in arrears on January 14, April 14, July 14, and October 14 of each year, or the subsequent banking day without adjustment if such interest payment day is not a banking day.

AboitizPower appointed BDO Capital and First Metro Investment Corporation as Joint Issue Managers, Joint Bookrunners and Joint Lead Underwriters, and BDO Unibank-Trust and Investments Group as Trustee, and PDTC asthe Registry and Paying Agent of the transaction. The Series "D" bonds received the highest possible rating of PRS "Aaa" from Philratings and is listed with PDEx.

The Company received the aggregate amount of ₱7.25 bn as proceeds from the offer and sale of the Series "D" bonds. AboitizPower has been paying interest to its bond holders since January 2020 for the Series "D" bonds.

*Use of Proceeds*

As of December 31, 2019, the proceeds of the Series "D" bonds were fully utilized for the following projects:

| Name of Project | Projected Usage (Per Prospectus) | Actual Usage |
|---|---|---|
| Repayment of short-term loan | ₱7,161,972 | ₱7,250,000 |
| Bonds issuance cost | 88,028 | - |
| **TOTAL** | **₱7,250,000** | **₱7,250,000** |

*Note: Amounts are in thousands.*

**Series "E" and "F" Six Billion Retail Bonds issued in July 2020**

Series "E" and Series "F" bonds, with an aggregate amount of ₱6 bn and an oversubscription option of ₱3.55 bn, were issued on July 6, 2020. The Series "E" bonds have an interest rate of 3.125% per annum, and will mature in 2022, while the Series "F" bonds have an interest rate of 3.935% per annum, and will mature in 2025. Interest is payable quarterly in arrears on January 6, April 6, July 6, and October 6 of each year, or the subsequent banking day without adjustment if such interest payment date is not a banking day.

AboitizPower appointed BDO Capital, China Bank Capital Corporation (China Bank Capital), and FMIC as the Joint Issue Managers and Joint Lead Underwriters, BDO Unibank, Inc.-Trust & Investments Group as Trustee, and PDTC as the Registry and Paying Agent for the transaction. The Series "E" and Series "F" bonds have been rated PRS "Aaa"with a stable outlook from PhilRatings on April 8, 2020, and are listed with PDEx.

AboitizPower received the aggregate amount of ₱9,550,000,000.00 bn as proceeds from the offer and sale of theSeries "E" and Series "F" bonds. AboitizPower has been paying interest to its bond holders since October 2020 for the Series "E" and Series "F" bonds.

*Use of Proceeds*

As of December 31, 2020, the proceeds of the Series "E" and Series "F" bonds were utilized for the following projects:

| Name of Project | Projected Usage (Per Prospectus) | Actual Usage |
|---|---|---|
| Reimburse Previous Equity Contributions toGNPD through AA Thermal and TPI | ₱6,736,749 | ₱6,736,749 |
| Fund Succeeding Equity Infusions in AAThermal and TPI | ₱2,082,873 | ₱783,753 |
| General corporate purposes | 614,889 | ₱102,127 |
| Bond issuance costs | 115,489 | ₱113,547 |
| **TOTAL** | **₱9,550,000** | **₱7,736,176** |

*Note: Amounts are in thousands.*

| | Per Final Prospectus (in Pesos) | Actual Usage (in Pesos) |
|---|---|---|
| Gross Proceeds | ₱9,550,000 | ₱9,550,000 |
| Net Proceeds | ₱9,434,511 | ₱9,436,453 |

*Note: Amounts are in thousands.*

Balance of the proceeds as of December 31, 2020: ₱1,813,824,000.00

**(c) Shelf Registration of Thirty Billion Fixed-Rate Bonds issued in 2021**

On December 18, 2020, AboitizPower filed a Registration Statement with the SEC for the registration of its proposed fixed rate retail bonds in the aggregate principal amount of ₱30 bn, to be registered under the shelf registration program of the SEC (the “2021 Bonds”).

**First Tranche Four Billion Fixed Rate Bonds issued in March 2021**

The first tranche of the 2021 Bonds, with a base issue size of up to ₱4 bn and an oversubscription of up to ₱4 bn (the “First Tranche Bonds”) was issued on March 16, 2021. The First Tranche Bonds have an interest rate of 3.8224% per annum, and will mature in 2026. Interest is payable in arrears on March 16, June 16, September 16, and December 16 of each year, or the subsequent banking day without adjustment if such interest payment dateis not a banking day.

AboitizPower appointed BDO Capital, BPI Capital, China Bank Capital, and FMIC as Joint Lead Underwriters. BDO Unibank, Inc. – Trust and Investments Group is appointed as Trustee. The First Tranche Bonds received the creditrating of “PRS Aaa” with Stable Outlook. AboitizPower listed the First Tranche Bonds with PDEX on March 15, 2021.

AboitizPower received the aggregate amount of ₱8 bn as proceeds from the offer and sale of the First Tranche Bonds. The Company expects to issue subsequent tranches of the Bonds under this shelf registration program, asthe need arises and as market conditions permit.

## Item 2. Properties

The Company’s head office is located at 32nd Street, Bonifacio Global City, Taguig City, Metro Manila, Philippines. The office space occupied by the Company is leased from a third party. As a holding company, the Company does not utilize a significant amount of office space.

As of March 23, 2021, there are no definite plans of acquiring properties in the next twelve months. Nonetheless, the Company plans to continually participate in future projects that become available to it and will disclose the same in accordance with the applicable disclosure rules under the SRC.

On a consolidated basis, AboitizPower’s Property, Plant and Equipment were valued at around ₱203.45 bn as of end- 2020, as compared to ₱209.52 bn as of end-2019. The breakdown of the Company’s Property, Plant and Equipment as of December 31, 2020 and December 31, 2019 is as follows:

| Property, Plant and Equipment as of December 31 | 2020 | 2019 |
|---|---|---|
| Land | ₱ 1,751,190 | ₱ 1,785,250 |
| Buildings, Warehouses and Improvements | 38,731,336 | 37,218,328 |
| Powerplant, Equipment, and Streamfield Assets | 138,325,267 | 141,948,261 |
| Transmission, Distribution and Substation Equipment | 23,002,108 | 21,295,812 |
| Transportation Equipment | 5,311,547 | 1,626,721 |
| Office Furniture, Fixtures and Equipment | 1,345,146 | 1,174,643 |
| Leasehold Improvements | 2,950,245 | 2,793,542 |
| Electrical Equipment | 8,176,921 | 7,788,861 |
| Meter and Laboratory Equipment | 2,383,018 | 2,265,372 |
| Tools and Others | 4,687,252 | 1,228,993 |
| Construction in Progress | 5,464,652 | 6,311,485 |
| Right-of-use Assets | 38,012,187 | 37,864,618 |
| Less: Accumulated Depreciation and Amortization | 63,441,503 | 50,645,980 |
| Less: Accumulated Impairment | 3,248,123 | 3,134,440 |
| **TOTAL** | **₱203,451,243** | **₱209,521,466** |

*Note: Values for the above table are in thousand Philippine Pesos.*

Locations of Principal Properties and Equipment of the Company's Subsidiaries are as follows:

| Subsidiary | Description | Location/Address | Condition |
|---|---|---|---|
| APRI | Geothermal power plants | Tiwi, Albay, Caluan, Laguna; and Sto. Tomas, Batangas | In use for operations, used to secure long-term debt |
| Aseagas | Raw land and improvements | Lian, Batangas | Ceased operations |
| Hedcor | Hydropower plants | Kivas, Banengneng, Benguet; Beckel, La Trinidad, Benguet, Bineng, La Trinidad, Benguet; Sal-angan, Ampucao, Itogon, Benguet; and Bakun, Benguet | In use for operations |
| Hedcor Sibulan | Hydropower plant | Santa Cruz, Sibulan, Davao del Sur | In use for operations |
| Hedcor Tudaya | Hydropower plant | Santa Cruz, Sibulan, Davao del Sur | In use for operations |
| Hedcor Sabangan | Hydropower plant | Namatec, Sabangan, Mountain Province | In use for operations |
| CPPC | Bunker-C thermal power plant | Cebu City, Cebu | In use for operations |
| EAUC | Bunker-C thermal power plant | Lapu-Lapu City, Cebu | In use for operations |
| TMI | Barge-mounted diesel power plants | Nasipit, Agusan del Norte and Barangay San Roque, Maco, Compostela Valley | In use for operations |
| TMO | Barge-mounted diesel power plants | Navotas Fishport, Manila | In use for operations |
| TSI | Coal-fired thermal power plants | Davao City and Davao del Sur | In use for operations, used to secure long-term debt |
| TPVI | Buildings/plants, equipment, and machinery | Naga City, Cebu | In use for operations |
| TVI | Coal-fired thermal power plants | Bato, Toledo, Cebu | In use for operations, used to secure long-term debt |
| GMEC | Coal-fired thermal power plants | Mariveles, Bataan | In use for operations, used to secure long-term debt |
| Cotabato Light | Industrial land, buildings/ plants, equipment, and machinery | Sinsuat Avenue, Cotabato City | In use for operations |
| Davao Light | Industrial land, buildings/ plants, equipment, and machinery | P. Reyes Street, Davao City and Bajada, Davao City | In use for operations |
| Visayan Electric | Industrial land, buildings/ plants, equipment, and machinery | Jakosalem Street, Cebu City and J. Panis Street, Cebu City | In use for operations |
| Lima Enerzone | Industrial land, buildings/plants, equipment, and machinery | Lipa City and Malvar, Batangas | In use for operations |
| Balamban Enerzone | Industrial land, buildings/plants, equipment, andmachinery | Balamban, Cebu | In use for operations |

## Item 3. Legal Proceedings

### Material Pending Legal Proceedings

AboitizPower and its Subsidiaries are involved in various legal proceedings in the ordinary conduct of their businesses. The Company believes that none of these legal proceedings will have a material effect on the Company's financial position and results of operations.

Visayan Electric, for example, received several assessments of real property taxes on its electric posts, transformers, wires, machineries, air-conditioning units, and water pumps. Visayan Electric consistently maintains that the electric posts, transformers, wires, machineries, air-conditioning units, water pumps and their appurtenances are not considered realproperties under the Civil Code of the Philippines, and therefore are not lawful objects of real property tax. Further, Section 270 of the Local Government Code of 1991 (LGC) provides that the collection of real property tax is mandatorywithin five years from the date they become due, and that failure to collect the real property tax within the said periodwill bar collection thereof.

Visayan Electric has availed of Cebu City's tax amnesty ordinance in settlement of its real property tax assessment caseamounting to ₱183mn covering the period from 1989 to 2019 pending before the Cebu City Assessor's Office. Visayan Electric was issued a tax certificate on January 5, 2021, clearing the company of any and all real property tax liabilities for all its electric poles and their attachments located in Cebu City.

The other material pending legal proceedings involving the Company and its Subsidiaries are as follows:

**Luzon Hydro Corporation vs. The Provincial Government of Benguet, represented by Governor Melchor D. Diclas; Orlando T. Oidi, in his official capacity as the Provincial Assessor of Benguet Province; Imelda I. Macanes, in her official capacity as the Provincial Treasurer of Benguet Province; Bado K. Pasule, in his official capacity as the Municipal Assessor Of Bakun, Benguet; and Merlita Tolito, in her official capacity as the OIC-Municipal Treasurer Of Bakun, Benguet**
**Civil Case No. 20I-CV-3558**

In view of the finality of the SC's Decision in the case entitled: *"National Power Corporation vs. Luzon Hydro Corporation (LHC), Banggay T. Alwis, Municipal Assessor, Manuel C. Bagayao, Municipal Treasurer of Bakun, Benguet, Erlinda Estepa,Provincial Assessor and Mauricio B. Ambanloc, Provincial Treasurer of the Province of Benguet"* docketed as GR No. 244450and GR No. 244659, the Municipal Treasurer of Bakun issued real property tax Bills for the period covering 2002 to 2019amounting to ₱284,448,073.24 on January 16, 2020.

On February 3, 2020, LHC wrote to the Provincial Governor requesting for the amendment of the real property tax Bills to align with the MOA dated December 20, 2012 by and between LHC and the Province of Benguet. In thesame letter, LHC also cited Executive Order (EO) No. 88, Series of 2019, which reduced the liability for real property tax of IPPs such as LHC with BOT Agreements with Government Owned and Controlled Corporations to an amount equivalent to the tax due if computed at 15% assessment level and condoned all interest and penalties for all years up to 2018.

On September 14, 2020, LHC filed a Petition with the Regional Trial Court ("RTC") of La Trinidad, Benguet, praying for the issuance of a writ of mandamus to compel the Province of Benguet to comply with the provisions of the EO and recompute the real property tax liabilities of LHC. The Province of Benguet filed its Comment with Motion to Dismiss, which was denied by the RTC. The RTC also directed the parties to immediately manifest their conformity to the statement of undisputed facts, admitted documentary exhibits, and the statement of legal issues. LHC filed its Comment on January 21, 2021 while the Province filed its Compliance with Manifestation on February 5, 2021.

On March 23, 2021, a hearing was held through videoconference to discuss the factual issues raised by the Province. The judge advised that an Amended Order will be issued containing the summary of admitted facts, list of admitted facts, list of admitted documents and statement of legal issues based on the respective Comments or Manifestations filed by the parties.

**Luzon Hydro Corporation vs. Cristina G. Monderin, in her official capacity as the Municipal Treasurer of Alilem, IlocosSur, et al.**
**Civil Case Nos. 01810-T and 01814-T**

With the finality of the SC's determination in the case: *"Luzon Hydro Corporation and the National Power Corporation vs. The Local Board of Assessment Appeals of the Province of Ilocos Sur, Fatima Tenorio, in her official capacity as the Provincial Assessor of the Province of Ilocos Sur, Antonio A. Gundran, in his capacity as the*

*Provincial Treasurer of the Province ofIlocos Sur"* docketed as GR Nos. 223403 and 223460-61 that it is liable to pay real property tax, LHC wrote to Gov. Singson on December 18, 2018 signifying its willingness to settle the outstanding RPT obligation, but at the reduced amount pursuant to the EOs. There was no response until August 13, 2019, when LHC received a Notice of Tax Delinquency from the Municipality with respect to four properties, computed based on an 80% assessment level. LHC received a second Tax Delinquency Notice on September 18, 2019 for seven other properties. The second tax delinquency notice covered the lodging house, admin buildings, warehouses, tunnel steel lining and industrial switchyard. Thereafter, the Municipality of Alilem issued warrants of levy for the properties covered by the notices, and scheduled them for auction sale.

LHC filed two separate "Petitions for Prohibition and *Mandamus* with prayer for Temporary Restraining Order ("TRO") and Preliminary Injunction" to cover the two notices of auction sale, challenging the correctness of the amount assessed as real property tax and to prevent the auction sale of the assets. The actions also sought the enforcement of the EOs directing the reduction of real property tax on property, machinery and equipment actually and directly used by IPPs under BOT contracts (however denominated), and condoning related real property tax interest and penalties.

The RTC of Tagudin, Ilocos Sur acting on both Petitions, issued two TROs enjoining the Municipality of Alilem from selling at public auction LHC's real properties for a period of 20 days, which has since expired. LHC, on its part, filed its Position Paper on December 12, 2019 and Supplemental Position Paper December 19, 2019, in compliance with the aforesaid court orders. The case is now submitted for decision.

On April 17, 2020, LHC filed a Manifestation to inform the RTC of Tagudin, Ilocos Sur about the parties' renewed attemptto forge a settlement. LHC and the Province of Ilocos Sur entered into a Compromise Agreement on July 22, 2020 andsubsequently filed a Joint Motion to Render Judgment Based on Compromise. The RTC of Tagudin, Ilocos Sur approved the CA and promulgated the Judgment Based on Compromise Agreement on July 27, 2020 and on September 11, 2020 issued an Order noting LHC's full compliance with its obligations under the Compromise Agreement and directed the release to LHC of the TRO bond previously posted.

**G.R. No. 210245 entitled "*Bayan Muna Representative Neri Javier Colmenares, et al. vs. Energy Regulatory Commission, et al*.", Supreme Court; December 19, 2013**

**G.R. No. 210255 entitled "*National Association of Electricity Consumers for Reforms, et al. vs. Manila Electric Company, et al*.", Supreme Court; December 20, 2013**

**G.R. No. 210502 entitled "*Manila Electric Company, et al. v Philippine Electricity Market Corporation, et al.", Supreme Court;* January 8, 2014**

On December 19, 2013, Bayan Muna representatives filed a Petition for *Certiorari* against ERC and Meralco with the SC, questioning the alleged substantial increase in Meralco's power rates for the billing period of November 2013. These cases raised, among others, the: (i) legality of Sections 6, 29 and 45 of the EPIRA, (ii) failure of ERC to protect consumers from high prices of electricity, and (iii) alleged market collusion by the generation companies. These cases were consolidated by the SC, which issued a TRO preventing Meralco from collecting the increase in power rates for the billing period of November 2013. The TRO was subsequently extended by the SC for another 60 days, or until April 22, 2014. On April 22,2014, the SC extended the TRO indefinitely.

Meralco filed a counter-petition impleading all generation companies supplying power to the WESM to prevent the generation companies from collecting payments on power purchased by Meralco from the WESM during the contestedbilling period. The SC ordered other power industry participants (DOE, ERC, PEMC, PSALM, and the generation companies) to respond to Meralco's counter-petition.

The SC set the consolidated cases for oral arguments on January 21, 2014, February 4 and 11, 2014. After oral arguments, all parties were ordered to file their comments and/or memoranda. Meralco has been prevented from collecting the differential increase of the price hike. Because of Meralco's counter-petition against the generation companies, PEMCwithheld settlement of the power purchases during the covered period.

On February 7, 2019, petitioners in G.R. No. 210245 filed their Motion for Directions, Status Updates and ImmediateResolution. As of March 23, 2021, these cases before the SC are still pending resolution and the SC has not lifted the TRO.

**SC GR No. 224341 entitled "*Philippine Electricity Market Corporation vs. Therma Mobile, Inc.*", Supreme Court [CA G.R. SP No. 140177 entitled "*PEMC v. Therma Mobile Inc.*", Court of Appeals, Manila SP Proc. No. 12790 entitled "*Therma Mobile Inc. vs. PEMC*", Regional Trial Court Branch 157-Pasig City PEMC ECO-2014-0009 entitled "Therma Mobile, Inc. (*TMO Power Plants Units 1-4*) Possible Non-Compliance with Must-Offer-Rule, Investigation Summary Report, dated August 4, 2014"]**

The Enforcement and Compliance Office of the Philippines Electricity Market Corporation (PEMC-ECO) conducted an investigation on TMO for possible non-compliance with the Must-Offer-Rule for the period October 26, 2013 to December 25, 2013. PEMC-ECO concluded that TMO was non-compliant with the Must-Offer-Rule for 3,578 intervals and recommended a penalty of ₱234.9 mn.

TMO filed its letter request for reconsideration on September 5, 2014, contending that it did not violate the Must-Offer Rule because its maximum available capacity was limited to 100 MW due to: (a) the thermal limitations of the old TMO 115-kV transmission line, and (b) the technical and mechanical constraints of the old generating units and the component engines of the TMO power plants which were under various stages of rehabilitation after having been non-operational for five years. Although TMO's rated capacity is 234 MW (net), it could only safely and reliably deliver 100 MW during the November and December 2013 supply period because of limitations of its engines and the 115-kV transmission line. This temporary limitation of TMO's plant was confirmed during a dependable capacity testing conducted on November 21, 2013.

In its letter dated January 30, 2015, the PEMC Board of Directors denied TMO's request for reconsideration and confirmed its earlier findings. On February 13, 2015, TMO filed a Notice of Dispute with PEMC to refer the matter to dispute resolution under the WESM Rules, WESM Dispute Resolution Market Manual and the ERC-PEMC Protocol.

On February 16, 2015, TMO filed a petition for TRO before the Pasig City RTC. In its Order dated February 24, 2015, the RTC granted TMO a 20-day temporary order of protection and directed PEMC to: (i) refrain from demanding or collecting the amount of ₱234.9 mn as financial penalty; (ii) refrain from charging interest on the financial penalty and having the same accrue; and (iii) refrain from transmitting PEMC-ECO's investigation report to the ERC. TMO posted a bond in the amount of ₱234.9 mn to answer for any damage that PEMC may suffer as a result of the Order. On April 1, 2015, the RTC rendered a Decision in favor of TMO. PEMC appealed the RTC decision before the Court of Appeals (CA) and sought to reverse and set aside the decision of the RTC.

On December 14, 2015, the CA rendered a Decision denying PEMC's Petition for Review and affirming the April 1, 2015 Decision of RTC in favor of TMO. On June 6, 2016, PEMC filed a Petition for Review on Certiorari with the SC to assail the December 14, 2015 CA Decision. TMO filed its Comment to PEMC's Petition for Review and PEMC filed a Reply. In its March 29, 2017 Resolution, the SC noted TMO's Comment and PEMC's Reply.

As of March 23, 2021, PEMC's Petition is still pending before the SC.

**SC G.R. Nos. 244449 and 244455-56 entitled "*Energy Regulatory Commission vs. Therma Mobile, Inc., Manila Electric Company and AP Renewables, Inc.*", Supreme Court;**

**CA G.R. SP. No. 152588 entitled "*Therma Mobile, Inc. vs. Energy Regulatory Commission, Atty. Alfredo P. Vergara, Jr. and Engr. Nelson D. Canlas, in their capacity as Investigating Officers (IOs) of the Investigatory Unit constituted by the Honorable Commission pursuant to its Office Order No. 38, Series of 2013 dated December 26, 2013, as amended by Office Order No. 82, Series of 2017*", Court of Appeals, Manila;**

**ERC Case No. 2015-025 MC entitled "*Atty. Isabelo Joseph P. Tomas II, in his capacity as the Investigating Officer of the Investigatory Unit constituted by the Honorable Commission pursuant to its Office Order No. 38, Series of 2013 dated December 26, 2013 vs Meralco and Therma Mobile, Inc. [For Violation of Section 45 of RA 9136, otherwise known as EPIRA, Rule 11, Section 1 of IRR of the EPIRA (Commission of an Anti-Competitive Behavior, particularly Economic Withholding)]*", ERC Pasig City, June 4, 2015;**

**ERC Case No. 2015-027 MC entitled "*Atty. Isabelo Joseph P. Tomas II, in his capacity as the Investigating Officer of the Investigatory Unit constituted by the Honorable Commission pursuant to its Office Order No.***

***38, Series of 2013 dated December 26, 2013 vs Therma Mobile, Inc. [For Violation of Section 45 of RA 9136, otherwise known as EPIRA, Rule 11, Section 1 and 8(e) of IRR of the EPIRA (Commission of an Anti-Competitive Behavior, particularly Physical Withholding)]*", ERC, Pasig City, June 4, 2015;**

Pursuant to the allegations in the Bayan Muna SC case, the Investigation Unit of ERC ("ERC-IU") conducted investigations on the alleged anti-competitive behavior and market abuse committed by some participants of the WESM, including TMO.

On January 24, 2014, ERC issued a Subpoena Ad Testificandum and Duces Tecum directing TMO's representative to give clarification on matters pertaining to offers per trading interval involving the November to December 2013 supply months and provisions on the PSA between Meralco and TMO. The representative was likewise directed to bring relevant documents.

On January 29, 2014, TMO filed its Compliance and Submission to the Subpoena Duces Tecum. Further, on March 11, 2014, TMO filed its Memorandum, arguing that it did not commit any act constituting anti-competitive behavior and/ or misuse of market power. TMO then requested ERC-IU to terminate and close the investigation.

On May 20, 2015, ERC-IU issued its report and found that in bidding the way they did for the November and December 2013 supply months, TMO and Meralco allegedly committed Economic Withholding, and TMO committed Physical Withholding, and thus recommended the filing of cases for Anti-Competitive Behavior against TMO and Meralco.

On June 23, 2015, ERC ordered Meralco and TMO to file their respective Answers to the Complaint. On August 24, 2015,TMO filed its Answers praying for the dismissal of the Complaints.

In its Manifestation dated October 7, 2016, ERC-IU manifested the resignation of Atty. Isabelo Tomas as Investigating Officer (IO) and the appointment of Director Alfredo Vergara, Jr. and Engr. Nelson Canlas as new IOs. In a separate pleading, the new IOs filed their Reply to various motions filed by TMO.

On July 27, 2016, Meralco filed in ERC Case No. 2015-025MC an Urgent Motion to Dismiss with Motion to Suspend Proceedings on the ground that ERC has no jurisdiction over anti-competitive behavior cases, and that jurisdiction is with PCC. On July 28, 2016, TMO filed in the same case a Manifestation and Motion adopting Meralco's Urgent Motionto Dismiss. On August 1, 2016, TMO also filed its Manifestation and Motion, which sought the dismissal of ERC Case No.2015-027MC for lack of jurisdiction.

In an Order dated February 2, 2017, ERC denied Meralco's and TMO's motions to dismiss for lack of jurisdiction. TMO filed its Motion for Reconsideration, which the ERC subsequently denied in its Order dated June 20, 2017. On September 18, 2017, TMO filed a Petition for Certiorari with the CA, praying that the CA: (i) issue a TRO commanding the ERC to desist from conducting further proceedings in ERC Case No. 2015-025MC and ERC Case No. 2015-027MC; (ii) after proceedings, issue a Writ of Preliminary Injunction; and (iii) annul and set aside the February 2, 2017 and June 20,2017 ERC Orders.

In a Resolution dated October 2, 2017, the CA directed the respondents to file their comment on TMO's Petition for Certiorari and denied TMO's prayer for a TRO. TMO filed a Motion for Partial Reconsideration of the CA's October 2, 2017 Resolution, which the CA denied. Thereafter, the CA issued its Notice of Judgment and Decision dated May 23, 2018, which denied TMO's Petition. On June 20, 2018, TMO filed its Motion for Reconsideration of CA's Decision dated May 23, 2018. In a Resolution dated January 28, 2019, the CA denied the motions for reconsideration filed by TMO, Meralco and APRI and the motion for partial reconsideration filed by the ERC.

Subsequently, ERC filed a Petition dated February 21, 2019 with the SC via Rule 45 of the Rules of Court. In the Petition, ERC challenged the CA Decision and Resolution insofar as the CA ruled that the PCA repealed the parts of the EPIRA thatgranted jurisdiction to ERC over anti-competition matters in the energy sector, and that PCC has original and exclusive jurisdiction over anti-competition matters, including those affecting the energy sector after the effectivity of the PCA.

In a Resolution dated July 30, 2019, the SC directed the respondents to file their Comments on ERC's Petition. On

November 25, 2019, TMO filed its Manifestation with the SC. As of March 23, 2021, ERC's Petition is still pending with the SC.

Meanwhile, on March 22, 2021, ERC issued Orders setting ERC Case No. 2015-025 MC and ERC Case No. 2015-027 for virtual hearings on March 26, 2021.

**SC G.R. Nos. 244449 and 244455-56 entitled "*Energy Regulatory Commission vs. Therma Mobile, Inc., Manila Electric Company and AP Renewables, Inc.*", Supreme Court;**

**CA G.R. SP. No. 152613 entitled, "*AP Renewables, Inc. vs. Energy Regulatory Commission and Directors Alfredo P. Vergara, Jr. and Engr. Nelson Canlas, in their capacity as the Investigating Officers of the Investigatory Unit of the Energy Regulations Commission*", Court of Appeals, Manila**

**ERC Case No. 2015-038 MC entitled "*Energy Regulatory Commission vs. AP Renewables, Inc. ([Violation of Section 45 of EPIRA, Rule 11, Sec. 1 and 8 (E) of the Implementing Rules and Regulations (Commission of an Anti-Competitive Behavior, particularly, Physical Withholding)]*", ERC, Pasig City, June 9, 2015**

ERC-IU conducted investigations on the alleged anti-competitive behavior and market abuse committed by some participants of the WESM, including APRI. On May 20, 2015, ERC-IU released its report holding that APRI's non-compliance with the Must-Offer Rule for four intervals is tantamount to Physical Withholding which, it alleged, is a form of anti- competitive behavior.

On June 9, 2015, complainant Atty. Isabelo Joseph Tomas III, Investigating Officer of the IU, filed the complaint for Anti- Competitive Behavior against APRI. On June 23, 2015, ERC issued an Order directing APRI to file its answer within 15 days from notice.

On July 1, 2015, APRI received the summons and complaint. Subsequently, on July 7, 2015, APRI filed a Motion praying that: (a) the Complainant serve upon APRI the complete copy of the complaint and its annexes; (b) the Complainant clarify and put on record the answer to the following issues: (i) which of Makban Plants' generating units is the subject of the complaint; and (ii) the dates and times of the four intervals mentioned in the complaint during which APRI allegedly offered "less than its total registered capacity." Meanwhile, on July 29, 2015, APRI filed its Answer *ad cautelam*.

In its Manifestation dated October 7, 2016, ERC-IU manifested the resignation of Atty. Isabelo Tomas as IO and the appointment of new IOs. The new IOs filed their Reply to various motions filed by APRI.

Subsequently, APRI filed a Motion to Dismiss dated July 29, 2016, arguing that jurisdiction over the case is vested in the PCC. APRI also filed its Ad Cautelam Pre-Trial Brief and Judicial Affidavits. ERC denied APRI's Motion to Dismiss, and APRI's subsequent Motion for Reconsideration.

On September 19, 2017, APRI filed a Petition for Certiorari (with application for TRO and Writ of Preliminary Injunction) with the CA (CA G.R. SP. No. 152613), praying for the CA to: (i) issue a TRO commanding ERC to desist from conducting further proceedings in ERC Case. No. 2015-038MC; (ii) after proceedings, issue a Writ of Preliminary Injunction; and (iii) annul and set aside the February 2, 2017 and June 20, 2017 ERC Orders, and dismiss the complaint and ERC proceedings with prejudice.

On November 6, 2017, the IOs filed a Motion for Consolidation seeking to consolidate CA G.R. SP. No. 152613 with TMO's Petition in CA GR. No. 152588. Therafter, the CA issued its Notice of Judgment and Decision dated May 23, 2018, which denied APRI's Petition. On June 18, 2018, APRI filed its Motion for Reconsideration of the CA's Decision dated May 23, 2018.

In a Resolution dated January 28, 2019, the CA denied the motions for reconsideration filed by APRI, Meralco, and TMO and the motion for partial reconsideration filed by ERC.

Subsequently, ERC filed a Petition dated February 21, 2019 with the SC via Rule 45 of the Rules of Court. In the Petition, ERC challenged the CA Decision and Resolution insofar as the CA ruled that the PCA repealed the parts of the EPIRA that granted to ERC jurisdiction over anti-competition matters in the energy sector, and that the PCC has original and exclusive jurisdiction over anti-competition matters including those affecting the energy sector after the effectivity of the PCA.

In a Resolution dated July 30, 2019, the SC directed the respondents to file their Comments on ERC's Petition. On November 4, 2019, APRI filed its Comment with the SC. As of March 23, 2021, ERC's Petition is still pending with the SC.

Meanwhile, on March 22, 2021, the ERC issued an Order setting ERC Case No. 2015-038 MC for hearing on March 26, 2021.

**Consolidated Regulated Price Case (ERC vs. Various Generation Companies and PEMC) G.R. Nos. 246621-30, and G.R. Nos. 247352-61, Petitions for Review on *Certiorari*, Supreme Court;**

**[Consolidated Regulated Price Case against the Energy Regulatory Commission, Petition for Review on *Certiorari*, Court of Appeals, Manila;**

**ERC Case No. 2014-021 MC entitled "*In the Matter of the Prices in the WESM for the Supply Months of November and December 2013 and the Exercise by the Commission of its Regulatory Powers to Intervene and Direct the Imposition of Regulated Prices therein without Prejudice to the On-going Investigation on the Allegation of Anti- Competitive Behavior and Possible Abuse of Market Power Committed by Some WESM Participants*", March 28, 2014]**

ERC conducted an investigation on the alleged collusion by the generation companies to raise the WESM prices. Subsequently, ERC issued an Order in ERC Case No. 2014-021 MC dated March 3, 2014 (the "ERC Order"), declaring as void the Luzon WESM prices during the November and December 2013 supply months. ERC also declared the imposition of regulated prices for such billing periods and directed PEMC to calculate the regulated prices and implement the same in the revised November and December 2013 WESM bills of the concerned distribution utilities in Luzon, except for Meralco whose November 2013 WESM bill was maintained in compliance with the TRO issued by the SC.

Pursuant to the ERC Order, on March 18, 2014, PEMC issued adjusted billing statements for all generators trading in the WESM, including Cebu-based EAUC and CPPC, recalculating the WESM prices.

The Company's Affiliates and Subsidiaries, APRI, TLI, TMO, AESI, AdventEnergy, SN Aboitiz Power-Magat, SN Aboitiz Power- Benguet, CPPC, and EAUC filed their respective Motions for Reconsideration, questioning the validity of the ERC Order on the ground of lack of due process, among others.

ERC, in its Order dated October 15, 2014, denied said Motions for Reconsideration. SN Aboitiz Power-Benguet, SN Aboitiz Power-Magat, APRI, TLI, and TMO filed their Petitions for Review (the "Petitions") before the CA on November 19, 24, December 1, and 4, 2014, respectively. The CA ordered the consolidation of the Petitions on October 9, 2015.

On November 7, 2017, the CA granted the Petitions. ERC's March 3, 2014 Order, among other orders, were declared null and void, and the Luzon WESM market prices in November and December 2013 were declared valid and therefore reinstated.

Thereafter, ERC and Meralco filed their respective motions for reconsideration. Several entities also filed motions to intervene in the case. APRI, TLI, and TMO filed their oppositions to the motions for reconsideration and motions to intervene. The CA denied the motions to intervene filed by several entities, which thereafter filed their motions for reconsideration. In an Omnibus Resolution dated March 29, 2019, the CA denied the motions for reconsideration by ERC and Meralco, as well as the motions for reconsideration filed by several entities that wanted to intervene in the case.

In June 2019, ERC, Meralco, and several entities filed their Petitions for Review on Certiorari with the SC, asking the latter to reverse and set aside the CA Decision dated November 7, 2017 and the CA Omnibus Resolution dated March 29, 2019. They also prayed that the SC reinstate the ERC Orders.

In September to October 2019, the SC issued Resolutions denying the Petitions for Review on Certiorari filed by several entities, including Calco Industries Inc., Paperland, Alyansa ng mga Grupong Haligi at Teknolohiya

Para sa Mamamayan (AGHAM), Ateneo de Manila University, Citizenwatch, Riverbanks Dev't. Corp., Steel Angles Shapes & Sections Manufacturers, for failure to show any reversible error on the part of the CA in promulgating the Decision dated November 7, 2017 and Omnibus Resolution dated March 29, 2019.

In a Resolution dated September 11, 2019, the SC required respondents to file their Comments to ERC's Petition for Review on Certiorari. On January 28, 2020, TMO and TLI filed their Consolidated Comment (to the Petition for Review on Certiorari dated June 13, 2019); whereas APRI filed its Comment (on the Petition for Review on Certiorari dated June 13, 2019) on February 11, 2020.

In a Resolution dated February 10, 2020, the SC required respondents to file their Comments on Meralco's Petition for Review on Certiorari dated June 13, 2019. On July 9, 2020, APRI filed its Comment, and TLI and TMO filed their Consolidated Comment to Meralco's Petition for Review on Certiorari.

Subsequently, the SC issued a Resolution dated March 11, 2020 requiring the respondents to comment on San Beda University's Motion for Leave to Intervene and to Admit Petition-In-Intervention. On October 2, 2020, APRI filed its Opposition to San Beda University's Motion; while TLI and TMO filed their Opposition on October 21, 2020.

In a Resolution dated November 4, 2020, the SC resolved to consolidate and transfer the case with G.R. Nos. 247352-61 to the case with G.R. Nos. 246621-30.

As of March 23, 2021, ERC's and Meralco's petitions are pending resolution by the SC.

**ERC Case No. 2013-077 MC entitled "*In Re: Petition for Dispute Resolution: Manila Electric Company (Meralco) vs. South Premier Power Corporation (SPPC), Masinloc Power Partners Company, Ltd. (MPPCL), AP Renewables, Inc. (APRI), Therma Luzon, Inc. (TLI), San Miguel Energy Corporation (SMEC) and SEM-Calaca Power Corporation (SCPC)*", August 29, 2013**

On August 29, 2013, Meralco filed a petition before ERC against TLI and APRI, among other Successor Generating Companies (SGCs), docketed as ERC Case No. 2013-077 MC, where Meralco prayed that it be refunded by the respondent- SGCs of the transmission line losses. The petition arose from a claim of refund on account of the alleged over-recoveries of transmission line losses.

The petition was filed by Meralco pursuant to ERC Order dated March 4, 2013 and July 1, 2013 in ERC Case No. 2008- 083 MC where the SGCs were not parties to.

On September 20, 2013, APRI and TLI, together with the other SGCs, filed a Joint Motion to Dismiss arguing that Meralco's petition should be dismissed for failure to state a cause of action and ERC's lack of jurisdiction over the subject matter of the case. The motion argued that: (i) Meralco cannot base its cause of action against the SGCs on a decision issued by ERC in another case where none of the SGCs were made parties to the case; and (ii) Meralco's claim is in a nature of a claim for sum of money which is properly within the jurisdiction of regular courts. The Joint Motion to Dismiss has since then been submitted for resolution with ERC.

As of March 23, 2021, ERC has yet to render its decision on the Joint Motion to Dismiss.

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

There were no matters submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report.

## PART II - OPERATIONAL AND FINANCIAL INFORMATION

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

#### (1) Market Information

AboitizPower's common shares are traded on the PSE.

The high and low stock prices of AboitizPower's common shares for each quarter of the past two years were as follows:

| | 2020 | | 2019 | | 2018 | |
|---|---|---|---|---|---|---|
| | High | Low | High | Low | High | Low |
| First Quarter | ₱35.00 | ₱23.45 | ₱39.20 | ₱33.70 | ₱41.80 | ₱37.50 |
| Second Quarter | ₱30.00 | ₱25.50 | ₱38.00 | ₱34.15 | ₱39.70 | ₱34.25 |
| Third Quarter | ₱28.25 | ₱24.30 | ₱40.35 | ₱34.10 | ₱38.20 | ₱33.45 |
| Fourth Quarter | ₱28.55 | ₱25.60 | ₱40.40 | ₱33.00 | ₱35.50 | ₱31.20 |

The closing price of AboitizPower common shares as of March 23, 2021 is ₱23.95 per share.

#### (2) Holders

As of March 23, 2021, AboitizPower has 593 stockholders of record, including PCD Nominee Corporation (Filipino) and PCD Nominee Corporation (Foreign). Common shares outstanding as of same date were 7,358,604,307 shares.

The top 20 stockholders of AboitizPower as of March 23, 2021 are as follows:

| Name | Number of Shares | Percentage |
|---|---|---|
| 1) Aboitiz Equity Ventures Inc. | 5,657,530,774 | 76.88% |
| 2) PCD Nominee Corporation Filipino | 1,089,011,738 | 14.80% |
| 3) PCD Nominee Corporation Foreign | 327,228,430 | 4.45% |
| 4) Bauhinia Management Inc. | 18,109,100 | 0.25% |
| 5) Portola Investors Inc. | 13,634,856 | 0.19% |
| 6) Hawk View Capital Inc. | 13,633,657 | 0.19% |
| 7) San Fernando Electric Light and Power Co. Inc. | 7,931,034 | 0.11% |
| 8) Parraz Development Corporation | 7,827,522 | 0.11% |
| 9) Dominus Capital Inc. | 7,241,050 | 0.10% |
| 10) FMK Capital Partners Inc. | 6,538,000 | 0.09% |
| 11) Sabin M. Aboitiz | 5,667,406 | 0.08% |
| 12) Iker M. Aboitiz | 5,465,100 | 0.07% |
| 13) Aboitiz & Company, Inc. | 5,360,000 | 0.07% |
| 14) Daniele Management & Development | 5,234,949 | 0.07% |
| 15) Danel C. Aboitiz | 4,528,696 | 0.06% |
| 16) Arrayanes Corporation | 4,146,243 | 0.06% |
| 17) Ramon Aboitiz Foundation, Inc. | 3,900,000 | 0.05% |
| 18) La Filipina Uy Gongco Corporation | 3,800,000 | 0.05% |
| 19) Tris Management Corporation | 3,130,359 | 0.04% |
| 20) Tinkerbell Management Corporation | 3,042,454 | 0.04% |
| **SUBTOTAL** | **7,192,961,368** | **97.75%** |
| **Other Stockholders** | **165,642,939** | **2.25%** |
| **TOTAL SHARES** | **7,358,604,307** | **100.00%** |
| **NET ISSUED AND OUTSTANDING SHARES** | **7,358,604,307** | **100.00%** |

**(3) Dividends**

Since 2013, the Company's dividend policy has been to declare an annual cash dividend payment ratio of 50% of its consolidated net income from the previous fiscal year based on the audited financial statements of the Company, in all cases subject to the approval of the Company's Board of Directors. The policy changed the previous cash dividend payment ratio of 33% of previous year's net profits.

The cash dividends declared by AboitizPower to common stockholders from 2019 to the first quarter of 2021 are shown in the table below:

| Year | Cash Dividend Per Share | Total Declared | Declaration Date | Record Date | Payment Date |
|---|---|---|---|---|---|
| 2021 (regular) | ₱0.85 | ₱6.25 bn | 3/5/2021 | 3/19/2021 | 3/31/2021 |
| 2020 (regular) | ₱1.18 | ₱8.68 bn | 3/6/2020 | 3/20/2020 | 4/3/2020 |
| 2019 (regular) | ₱1.47 | ₱10.82 bn | 3/7/2019 | 3/21/2019 | 4/5/2019 |

There are no restrictions that limit the payment of dividends on common shares to stockholders of record as of March 23, 2020.

**(4) Recent Sales of Unregistered or Exempt Securities including Recent Issuance of Securities Constituting an Exempt Transaction**

AboitizPower does not have any recent sales of unregistered or exempt securities including recent issuances of securities constituting an exempt transaction.

**Item 6. Management's Discussion and Analysis or Plan of Action**

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

The following is a discussion and analysis of the Company's consolidated financial condition and results of operations and certain trends, risks, and uncertainties that may affect its business. The critical accounting policies section discloses certain accounting policies and management judgments that are material to the Company's results of operations and financial condition for the periods presented in this report. The discussion and analysis of the Company's results of operations is presented in three comparative sections: the year ended December 31, 2020 compared with the year ended December 31, 2019, the year ended December 31, 2019 compared with the year ended December 31, 2018, the year ended December 31, 2018 compared with the year ended December 31, 2017.

Prospective investors should read this discussion and analysis of the Company's consolidated financial condition and results of operations in conjunction with the consolidated financial statements and the notes thereto set forth elsewhere in this report.

**Top Five Key Performance Indicators**

Management uses the following indicators to evaluate the performance of the Company and its Subsidiaries (the Company and its Subsidiaries are hereinafter collectively referred to as the "Group"):

1. **Share in Net Earnings of Associates and Joint Ventures.** This represents the Group's share in the undistributed earnings or losses of its investees for each reporting period subsequent to the acquisition of said investment, net of goodwill impairment cost, if any. It also indicates the profitability of the investment and investees' contribution to the Group's net income.

   Goodwill is the difference between the purchase price of an investment and the investor's share in the value of the net identifiable assets of the investee at the date of acquisition.

   Manner of Computation:
   Investee's Net Income (Loss) x Investor's % ownership - Goodwill Impairment Cost

2. **Earnings before Interest, Taxes, Depreciation, and Amortization (EBITDA).** The Company computes EBITDA as earnings before extraordinary items, net finance expense, income tax provision, depreciation, and amortization. It provides management and investors with a tool for determining the ability of the Group to generate cash from operations to cover financial charges and income taxes. It is also a measure to evaluate the Group's ability to service its debts.

3. **Cash Flow Generated.** Using the Consolidated Statement of Cash Flows, management determines the sources and usage of funds for the period and analyzes how the Group manages its profit and uses its internal and external sources of capital. This aids management in identifying the impact on cash flow when the Group's activities are in a state of growth or decline, and in evaluating management's efforts to control the impact.

4. **Current Ratio.** Current Ratio is a measurement of liquidity, calculated by dividing total current assets by total current liabilities. It is an indicator of the Group's short-term debt-paying ability. The higher the ratio, the more liquid the Group**.**

5. **Debt–to–Equity Ratio.** Debt-to-Equity Ratio indicates how leveraged the Group is. It compares assets provided by creditors to assets provided by shareholders. It is determined by dividing total liabilities by stockholders' equity.

**Year Ended December 31, 2020 versus Year Ended December 31, 2019**

The table below shows the comparative figures of the key performance indicators for 2020 and 2019:

| Key Performance Indicators | 2020 (INTERIM) | 2019 |
|---|---|---|
| *Amounts in thousands of ₱s, except for financial ratios* | | |
| **SHARE IN NET EARNINGS OF ASSOCIATES AND JOINT VENTURES** | 2,675,136 | 3,813,962 |
| **EBITDA** | 44,687,315 | 45,005,022 |
| **CASH FLOW GENERATED:** | | |
| Net cash flows from operating activities | 31,781,669 | 39,356,962 |
| Net cash flows used in investing activities | (4,526,973) | (34,060,585) |
| Net cash flows used in financing activities | (25,914,010) | (14,376,055) |
| **Net (Decrease)/Increase in Cash & Cash Equivalents** | 1,340,686 | (9,079,677) |
| Cash & Cash Equivalents, Beginning | 37,433,929 | 46,343,041 |
| Cash & Cash Equivalents, End | 38,699,545 | 37,433,929 |
| **CURRENT RATIO** | 1.38 | 1.50 |
| **DEBT-TO-EQUITY RATIO** | 1.96 | 2.07 |

- Share in net earnings in associates and joint ventures for the year 2020 decreased by 30% compared to 2019. The decrease was mainly due to lower income contributions from SN Aboitiz Power-Magat resulting from a reduction in volume sold caused by reduced water levels and GNPD net losses due to foreign-currency denominated loan revaluations.

- EBITDA for the year of 2020 decreased by 1% YoY. This was due to lower demand resulting from the imposition of COVID-19 related quarantine measures. EBITDA was also affected by plant outages offset by lower purchased power cost during the year, as well as new capacities.

- For the year ended 2020, cash and cash equivalents increased by ₱1.27 bn. This was mainly due to Company's retail bond issuance in July 2020 which was partly offset by principal payments made on existing loans.

- Current Ratio as of December 31, 2020 was at 1.38x as compared to 1.50x as of December 31, 2019. The decline was primarily due to maturing bonds of the Company that were reclassified from noncurrent to current during 2020.

- Debt-to-Equity Ratio as of December 31, 2020 was at 1.96x, lower than the 2.07x recorded at the end of 2019.

**Results of Operations**

AboitizPower's net income for 2020 was ₱12.58 bn, 27% lower than the ₱17.32 bn reported in 2019. This translated to earnings per share of ₱1.71 for 2020. The Company recognized non-recurring net gains of ₱45 mn during 2020, compared to non-recurring net gains of ₱702 mn during 2019, due to net foreign exchange gains on the revaluation of dollar denominated liabilities. Without these one-off gains, the Company's core net income for 2020 was ₱12.53 bn, 25% lower than the ₱16.62 bn recorded in 2019. This was primarily due to additional tax expenses following the expiration of the income tax holiday (ITH) incentives of TSI and GMEC. The Company also de-recognized deferred tax assets on Net Operating Loss Carry Over (NOLCO) from 2018 and 2019. There were also additional interest expenses from the Company's bonds and loans that were availed of during late 2019 and the second half of 2020.

*Power Generation and Retail Electricity Supply (RES)*

AboitizPower's generation and retail supply business recorded EBITDA of ₱37.70 bn in 2020, 4% higher than the ₱36.20 bn recorded in 2019. The variance was primarily due to better availability of the Group's coal facilities and the recognition of BI claims, which offset the lower demand caused by the COVID-related community quarantines and lower water inflows to the Group's hydro facilities.

Capacity sold during 2020 increased by 7% to 3,417 MW from 3,184 MW in 2019. This resulted from increased contracting levels driven by the new capacity of TVI and additional portfolio contracts. The increase in contracting levels, however, was offset by the lower demand brought about by the pandemic and lower water inflows to the Group's hydro facilities. This resulted in a YoY reduction in energy sold, which declined by 1% to 22,754 GWh for 2020 from 22,942 GWh during 2019.

*Power Distribution*

For 2020, AboitizPower's distribution business recorded EBITDA of ₱7.2 bn, 12% lower than the ₱8.2 bn recorded during 2019. Energy sales decreased by 8% to 5,368 GWh in 2020 from 5,851 GWh in 2019. This was due to lower consumption resulting from the enforcement of COVID-related community quarantines.

**Material Changes in Line Items of Registrant's Statements of Income and Comprehensive Income**

**Consolidated Statements of Income**

Net income attributable to equity holders of the Parent Company decreased by ₱4.75 bn, or 27%, YoY. The various movements in line items are shown below to account for the decrease:

| | |
|---|---|
| Net Income Attributable to Equity Holders of the Parent (January - December 2019) | **₱17,322,677** |
| | |
| Decrease in operating revenues | (15,258,508) |
| Increase in operating expenses | 13,282,521 |
| Increase in interest income | (638,627) |
| Increase in interest expense | (205,882) |
| Decrease in share in net earnings of associates and joint ventures | (1,138,826) |
| Decrease in other income - net | 1,445,176 |
| Higher provision for taxes | (2,846,414) |
| Decrease in income attributable to non-controlling interests | 615,559 |
| Total | (4,745,001) |
| Consolidated Net Income Attributable to Equity Holders of the Parent for 2018 | **₱12,577,676** |

***Operating Revenues***
*(12% decrease from ₱125.64 bn to ₱110.38 bn)*

The decrease in operating revenues during 2020 was primarily due to lower demand brought about by the COVID-19 pandemic and resulting community quarantines, lower spot prices and indices, lower contract rates, and lower water inflow.

These were offset by new capacities which went online in 2020.

***Operating Expenses***
*(14% decrease from ₱96.78 bn to ₱83.50 bn)*

The decrease in operating expenses was mainly due to the lower cost of purchased power and of generated power brought about by COVID-19.

***Interest Income***
*(49% decrease from ₱1.29 bn to ₱653.00 mn)*

*The* decrease in interest income during 2020 compared to 2019 was primarily due to lower interest rates on placements.

***Interest Expense and other financing costs***
*(1% increase from ₱14.05 bn to ₱14.25 bn)*

Interest expense increased during 2020 compared to 2019 was due to the interest and financing costs on AboitizPower's ₱7.25 bn and ₱9.55 bn retail bonds issued in October 2019 and July 2020, respectively.

***Share in Net Earnings of Associates and Joint Ventures***
*(30% decrease from ₱3.81 bn to ₱2.68 bn)*

Share in net earnings in associates and joint ventures for 2020 decreased by 30% compared to 2019. The decrease was mainly due to lower income contributions from SN Aboitiz Power-Magat, as reduced water levels during 2020 caused a reduction in volume sold, and to a higher share of GNPD's net losses resulting from foreign-currency denominated loan revaluations.

***Other Income (Expenses) – net***
*(41% increase from ₱3.48 bn to ₱4.93 bn other income)*

The increase in other income during 2020 compared to 2019 was mainly due to business interruption insurance claims of TSI due to plant outages.

***Provision for Taxes***
*(89% increase from ₱3.22 bn to ₱6.06 bn)*

The increase in provision for taxes during 2020 was due to the additional taxes resulting from the expiration of the ITH incentives of TSI and GMEC and the derecognition of deferred tax assets on NOLCO from 2018 and 2019.

**Changes in Registrant's Resources, Liabilities and Shareholders' Equity**

***Assets***

Total assets (as of December 31, 2020 compared to December 31, 2019) decreased by ₱12.54 bn, or 3%. The major movements of the accounts leading to the decrease were as follows:

a) Cash and cash equivalents increased by ₱1.27 bn, or 3% (from ₱37.43 bn to ₱38.70 bn). This was primarily due to the availment of the last tranche of retail bond drawn in July 2020.

b) Inventories decreased by ₱324.00 mn, or 5% (from ₱6.63 bn to ₱6.31 bn). This was mainly driven by a decrease in coal inventory during 2020.

c) Other current assets decreased by ₱604.00 mn, or 5% (from ₱11.08 bn to ₱10.48 bn). This was mainly driven by the reclassification during 2020 of a portion of TVI's Advances to NGCP to Other noncurrent assets.

d) Investments and advances increased by ₱950.00 mn, or 2% (from ₱60.88 bn to ₱61.83 bn). This was mainly driven by the new capital contributions to GNPD during 2020.

e) Property, plant and equipment decreased by ₱6.07 bn, or 3% (from ₱209.52 bn to ₱203.45 bn). This was primarily due to the depreciation of existing assets.

f) Intangible assets decreased by ₱2.43 bn, or 5% (from ₱46.71 bn to ₱44.28 bn). This was primarily due to the amortization of existing assets.

g) Net pension assets decreased by ₱18.00 mn, or 26% (from ₱68.00 mn to ₱50.00 mn). This was mainly due the accrual of retirement costs.

h) Deferred income tax assets decreased by ₱1.25 bn, or 45% (from ₱2.79 bn to ₱1.54 bn). This was mainly due to the reduction of the deferred tax benefits recognized by TLI on its net operating loss.

i) Other noncurrent assets decreased by ₱4.25 bn, or 31% (from ₱13.52 bn to ₱9.27 bn). This was mainly due to the decrease in Input VAT, regular reduction in PSALM deferred adjustment, and the reclassification of TVI's restricted cash to Cash and cash equivalents.

***Liabilities***

Compared to December 31, 2019, total liabilities as of December 31, 2020 decreased by ₱13.49 bn, or 5%. The major movements of accounts leading to the decrease were as follows:

a) Short-term loans increased by ₱1.41 bn, or 14% (from ₱10.34 bn to ₱11.74 bn). This was mainly due to new loans availed of by the Group during 2020 for working capital purposes.

b) Trade and other payables decreased by ₱4.00 bn, or 18% (from ₱22.38 bn to ₱18.37 bn). This was primarily due to the reduction of trade payables.

c) Income tax payable increased by ₱213.00 mn, or 42% (from ₱510.00 mn to ₱723.00 mn). This was mainly due to the expiration of the ITH incentives of TSI and GMEC.

d) Decommissioning liability increased by ₱1.44 bn, or 40% (from ₱3.57 bn to ₱5.01 bn). This was mainly due to the recognition of additional decommissioning provisions on power plant assets of APRI and GMEC.

e) Long-term debt (current and non-current portions) decreased by ₱650.00 mn (from ₱177.97 bn to ₱177.32 bn). This was mainly due to principal payments made on existing loans and the revaluation of dollar denominated loans, which were partly offset by the Parent's retail bond issuance during 2020.

f) Lease liabilities (current and noncurrent portions) decreased by ₱5.53 bn (from ₱44.79 bn to ₱39.26 bn), as TLI made timely payments during 2020 of its obligations to PSALM.

g) Long-term obligation on power distribution system (current and noncurrent portions) decreased by ₱16.00 mn, or 8% (from ₱199.00 mn to ₱183.00 mn), as payments were made in 2020.

h) Net derivative liabilities decreased by ₱597 mn (from ₱2.39 bn to ₱1.79 bn) during 2020 due to hedging gains.

i) Deferred income tax liabilities decreased by ₱103 mn, or 12% (from ₱848.00 mn to ₱745.00 mn), mainly due to the amortization of Franchise Assets and increase in the Allowances for Impairment and Probable Losses.

j) Net pension liabilities decreased by ₱132 mn, or 31% (from ₱426.00 mn to ₱294.00 mn), mainly due to the contributions to the retirement fund during 2020 which were higher than the effect of retirement costs and net actuarial losses.

k) Other noncurrent liabilities decreased by ₱5.71 bn, or 84% (from ₱6.81 bn to ₱1.10 bn), mainly due to the regular payments of the PSALM deferred adjustments and the settlement of TVI's Other noncurrent liabilities.

***Equity***

Equity attributable to equity shareholders of the Parent Company increased by 1% (from ₱125.54 bn as of December 31, 2019 to ₱127.16 bn as of December 31, 2020) after the declaration of dividends in March 2020, net of comprehensive income recognized during the year of 2020. Cumulative translation adjustments decreased by ₱1.45 bn, due to the downward net adjustment in the fair value of the Group's foreign currency forward and commodity swap contracts designated as cash flow hedges, as well as the net assets translation effect of GMEC and LHC during 2020.

**Material Changes in Liquidity and Cash Reserves of Registrant**

As of December 31, 2020, the Group's cash and cash equivalents increased by 3% to ₱38.70 bn, from ₱37.43 bn as of December 31, 2019.

The reduction in power demand brought about by COVID-19 related community quarantines contributed to lower cash generated from operations during 2020 by ₱7.58 bn, which was a 19% decrease compared to 2019.

Net cash flows used in investing activities decreased to ₱4.53 bn in 2020, from ₱34.06 bn i2019, which was mainly due to the ₱24.95 bn AA Thermal acquisition taken up during 2019.

The net cash flows used in financing activities as of December 31, 2020 increased by ₱11.54 bn compared to 2019, primarily due to payments by the Group of principal amortizations on various loans.

**Financial Ratios**

As of December 31, 2020, current assets increased by 1% and current liabilities increased by 9% compared to the end of 2019. The current ratio as of December 31, 2020 was at 1.38x compared to 1.50x as of December 31, 2019.

Consolidated debt to equity ratio as of December 31, 2020 was at 1.96x, higher than the 2.07x recorded at the end of 2019. This was due to a 5% decrease in total liabilities during 2020, coupled with a 1% increase in equity during the same period.

**Outlook for the Upcoming Year/ Known Trends, Events, and Uncertainties which may have Material Impact on the Registrant**

AboitizPower remains focused on addressing the needs of its markets, namely: (1) providing reliable supply, at a (2) reasonable cost, and with (3) minimal impact on the environment and communities. The Company believes that there is no single technology that completely addresses the country's energy requirements; and that to address the deficiency, a mix of power generation technologies is necessary. Thus, AboitizPower continues to pursue both renewable projects and thermal technologies where and when it makes sense.

Despite increased competition in the power generation market, the Company believes that it has built the foundation to sustain its long term growth, as seen in its pipeline of new power generation projects (see Part I Item 1.(a)(i) on Principal Products and Services - Generation of Electricity on page 48 of the Company's 2020 Definitive Information Statement).

As of the end of 2020, AboitizPower owns 4,429 MW of net attributable capacity, of which 3,494 MW is currently operating. The Company's plan is to double its net attributable capacity by the end of the decade, with a target of more than 9,000 MW by 2030. This is expected to come from a portfolio of renewables and selective baseload builds, with the optionality for either coal or gas facilities.

The Company aims to maximize opportunities from the implementation of the Renewable Portfolio Standards ("RPS") by the DOE starting in 2021. In line with DOE's aspirational goal of a 35% share in renewable energyutilization by 2030, RPS is a market-based policy that mandates power distribution utilities, electric cooperatives, and retail electricity suppliers to source an agreed portion of their energy supplies from renewable energy facilities. The Company will continue to pursue international opportunities, with a continued focus on renewable energy projects in wind, hydro, and solar in high-growth geographic markets with acceptable regulatory environments. With all of these combined, the Company aims for its portfolio ratio to be close to a 50:50 renewable energy and thermal capacity mix by the end of the current decade.

AboitizPower fully supports the DOEs' coal moratorium efforts to make the Philippine energy system more flexible, resilient, and sustainable. The Company has been a pioneer of renewable energy in the country and currently has the highest megawatts in renewable installed capacity based on market control. Its diversification into thermal technologies was primarily driven by the country's need for a reliable, accessible, and affordable power supply.

AboitizPower believes that it is well-positioned to take advantage of opportunities arising from developments in the power industry. The Company expects its financial condition to give it the agility to create or acquire additional generating capacity over the next few years.

AboitizPower, together with its partners, has alloted ₱23 bn for capital expenditures in 2021, about 70% of which is for expansions and upgrades. These include the remaining investment for the GNPower Dinginin construction, as well as for the Company's battery energy storage system projects.

Despite the challenges posed by the global pandemic and the currently challenging business situation, the Company continues to operate with its business continuity plans in force, in accordance with the protocols and guidelines of the government's community quarantine. The Company will continue to provide the country with the much-needed power supply for hospitals, government institutions, and critical businesses, while ensuring the safety of its teams, partners, and communities.

Other known trends, events, uncertainties which may have a material impact on AboitizPower have been discussed extensively in sections of the Company's Information Statement (e.g. for an extensive discussion on regulatory issues, see Effects of Existing or Probable Government Regulations on the Business on page 80 of the Company's 2020 Definitive Information Statement.

**Year Ended December 31, 2019 versus Year Ended December 31, 2018**

The table below shows the comparative figures of the top five key performance indicators for 2019 and 2018.

| Key Performance Indicators | 2019 | 2018 |
|---|---|---|
| *Amounts in thousands of ₱s, except for financial ratios* | | |
| **SHARE IN NET EARNINGS OF ASSOCIATES AND JOINT VENTURES** | 3,813,962 | 4,356,825 |
| **EBITDA** | 45,005,022 | 51,490,894 |
| **CASH FLOW GENERATED:** | | |
| Net cash flows from operating activities | 39,356,962 | 37,287,900 |
| Net cash flows used in investing activities | (34,060,584) | (7,243,119) |
| Net cash flows used in financing activities | (14,376,055) | (19,155,753) |
| **Net (Decrease)/Increase in Cash & Cash Equivalents** | (9,079,677) | 10,889,028 |
| Cash & Cash Equivalents, Beginning | 46,343,041 | 35,699,631 |
| Cash & Cash Equivalents, End | 37,433,929 | 46,343,041 |
| **CURRENT RATIO** | 1.50 | 1.89 |
| **DEBT-TO-EQUITY RATIO** | 2.07 | 1.85 |

Share in net earnings in associates and joint ventures declined by 12% in 2019 compared to 2018 due to lower income contributions from SN Aboitiz Power-Magat, Inc. (SN Aboitiz Power-Magat) and GNPower Dinginin Ltd. Co. (GNPD). The lower share in net earnings of GNPD was mainly due to a foreign exchange (forex) gain recorded in 2018 as against a forex loss reported in 2019. SN Aboitiz Power-Magat's lower income contribution was primarily driven by a reduction in volume sold due to reduced water levels in 2019.

Consolidated EBITDA decreased by 13% in 2019, mainly due to an increase in cost of purchased power, lower spot market revenues, and lower plant availability across the Power Generation Group.

During 2019, cash and cash equivalents decreased by ₱8.91 bn, due to cash flows used for the acquisition of AA Thermal, Inc. (AA Thermal) and investment in GNPD for the ongoing construction of its 1x668 MW supercritical coal-fired power plant in Bataan.

Current ratio at the end of 2019 was at 1.50x, down from previous year's 1.89x. This is due to the reduction in cash and cash equivalents and the increase in currently maturing debt.

Debt-to-equity ratio as of December 31, 2019 was at 2.07, higher than the 1.85 recorded at the end of 2018 due to the availment of new debts during 2019.

**Results of Operations**

Net income for 2019 decreased 20% Year-on-Year (YoY), from ₱21.71 bn in 2018 to ₱17.32 bn in 2019, which translated to earnings per share of 2.35. In 2019, there was higher cost of purchased power, lower spot market revenues, and lower plant availability of the Power Generation Group. The Company also recognized non-recurring gains of ₱702 mn, mainly due to net foreign exchange gains from the revaluation of dollar-denominated debts and derivatives**,** Aseagas, Inc.'s VAT recoveries, and gain on land appraisal. Without these one-off gains, the Company's core net income for 2019 was ₱16.62 bn, 30% lower than the ₱23.8 bn recorded during 2018.

***Power Generation and Retail Electricity Supply (RES)***

The Power Generation Group and RES' income contribution for 2019 was ₱15.28 bn, down 23% YoY. The decline was largely driven by the higher volume and cost of purchased power, lower spot market revenues, and lower plant availability. Spot market prices were high in the first half of 2019. During this period, the Group purchased replacement power due to outages, and contracted ahead in preparation for Therma Visayas, Inc.'s (TVI) incoming capacity. Plant availability was also lower versus the same period last year due to outages from the Group's local facilities.
As of year-end 2019, AboitizPower's net sellable capacity stood at 3,455 MW.

***Power Distribution***

The power distribution group's earnings contribution increased slightly by 1% YoY, from ₱4.05 bn in 2018 to ₱4.10 bn in 2019.

**Material Changes in Line Items of Registrant's Statements of Income and Comprehensive Income**

**Consolidated Statements of Income**

Consolidated net income attributable to equity holders of the parent decreased by 20% from ₱21.71 bn in 2018 to ₱17.32 bn in 2019. The various movements in line items are shown below to account for the increase:

| | |
|---|---|
| Consolidated Net Income Attributable to Equity Holders of the Parent for 2018 | **₱21,707,603** |
| Decrease in operating revenues | (5,936,927) |
| Increase in operating expenses | (1,703,881) |
| Increase in interest income | 411,618 |
| Increase in interest expense | (1,965,488) |

| | |
|---|---|
| Decrease in share in net earnings of associates and joint ventures | (542,863) |
| Decrease in other income - net | 4,775,698 |
| Higher provision for taxes | (289,875) |
| Decrease in income attributable to non-controlling interests | 866,792 |
| Total | 4,384,926 |
| Consolidated Net Income Attributable to Equity Holders of the Parent for 2019 | **₱17,322,677** |

***Operating Revenues***
*(5% decrease from ₱131.57 bn to ₱125.64 bn)*

The 5% decrease in operating revenues was driven by: (i) lower plant availability, (ii) expiration of contracts with customers of Therma Marine, Inc. (TMI) and Thermal Mobile, Inc. (TMO), and (iii) lower average selling price on the Power Generation Group and RES power supply contracts. This was partly offset by higher electricity sales from the Company's Distribution Utilities.

The lower plant availability due to outages resulted to a reduction in the volume (capacity and energy) sold to customers. Likewise, this limited the Group's capacity available to sell to the spot market.

***Operating Expenses***
*(2% increase from ₱96.78 bn to ₱97.36 bn)*

Operating expenses increased by 2% during 2019, driven by the increase in depreciation and amortization cost (14%) due to the start of operations of TVI and the full year of operations for both Hedcor Bukidnon, Inc. (Hedcor Bukidnon) and Pagbilao Energy Corporation (PEC). The cost or purchased power and operations and maintenance expenses also increased during the year.

***Interest Income***
*(47% increase from ₱ 880 mn to ₱ 1,292 mn)*

The increase in interest income during 2019 was primarily due to the Company's higher cash investments and higher interest income from Therma South, Inc. (TSI), TVI, Hedcor Bukidnon and AP Renewables, Inc. (APRI).

***Interest Expense and Other Financing Costs***
*(16% increase from ₱12.08 bn to ₱14.05 bn)*

Interest expense increased in 2019 due to the full-year impact of the ₱10.20 bn in retail bonds issued by the Company in October 2018 and the interest on the Company's ₱7.25 bn retail bonds issued in October 2019. The proceeds from the bonds were used to pay for short-term borrowings and general corporate purpose.

***Share in Net Earnings of Associates and Joint Ventures***
*(12% decrease from ₱4.36 bn to ₱3.81 bn)*

Share in net earnings of associates and joint ventures declined by 12% in 2019, mainly due to lower income contributions from SN Aboitiz Power-Magat and GNPD. SN Aboitiz Power-Magat's lower income contribution was primarily driven by a reduction in volume sold due to reduced water levels in 2019. The lower share in net earnings of GNPD was mainly due to a forex gain recorded in 2018 as against a forex loss reported in 2019.

***Other Income (Expenses) – net***
*(Increase from ₱1.29 bn other expense to ₱3.48 bn other income)*

The change from an expense position in 2018 to an income position in 2019 was mainly due to lower net forex losses YoY. This movement was due to favorable movements of the Philippine Peso against U.S. Dollar in 2019 versus 2018.

***Provision for Taxes***
*(10% increase from ₱2.93 bn to ₱3.2 bn)*

The increase was due to lower net deferred tax benefit arising from deferred taxes on unrealized forex gain.

***Net Income Attributable to Non-controlling Interests***
*(23% decrease from ₱3.73 bn to ₱ 2.86 bn)*

The decrease was due to a decline in the operating results of GMCP combined with a reduction in the Company's non-controlling ownership in GMCP after the acquisition of non-controlling interests in May 2019.

**Changes in Registrant's Resources, Liabilities and Shareholders' Equity**

***Assets***

Total assets (as of December 31, 2019 compared to December 31, 2018) increased by ₱20.81 bn, or 5% YoY. The major movements of the accounts leading to the increase were as follows:

a) Cash and cash equivalents decreased by 19% during 2019. This was due to cash flows used for: (i) acquisition of AA Thermal, (ii) investment in GNPD for its on-going power plant construction, (iii) funding of the Group's capital expenditures, and (iv) debt service. The decrease in cash and cash equivalents was partially offset by operating cash flows and proceeds from the Company's retail bonds issuance in 2019.

b) Property held for sale of ₱676 mn as of December 31, 2018 pertains to transmission assets was sold to NGCP in February 2019.

c) Other current assets were lower by 16% (from ₱13.21 bn in 2018 to ₱11.04 bn in 2019) mainly driven by the decrease of TSI's restricted cash. The maintenance of a cash reserve forms part of TSI's compliance with the covenants on its project debt.

d) Investments and advances increased by ₱26.54 mainly as a result of capital infusions for the AA Thermal acquisition and GNPD plant construction.

e) Property, plant and equipment (PPE) slightly increased by 1% (from ₱207.11 bn in 2018 to ₱209 bn in 2019) mainly due to the recognition of right-of-use assets on the Group's leases resulting from the adoption of Philippine Financial Reporting Standards (PFRS) 16, *Leases*.

f) Derivatives assets were down by ₱211 mn in 2019, primarily due to fair value changes on GMCP's interest rate swaps.

g) Financial assets at fair value through profit or loss went down to ₱4 mn in 2019 from ₱101 mn. This was mainly due to the sale of Parent' Company's financial assets at Fair Value through Profit and Loss (FVPL).

h) Deferred income tax assets increased by 25% (from ₱2.23 bn in 2018 to ₱2.80 bn in 2019), driven by deferred tax benefits recognized by TMO on its net operating loss and Therma Luzon, Inc. (TLI) on its unrealized forex loss.

i) Other noncurrent assets increased by ₱2.86 bn or 27% YoY. The increase was due to restricted cash of a Subsidiary that arose from its receipt of proceeds from a damage claim against its contractors, which claim is currently under dispute. This was partly offset by decrease in input VAT and reversal of prepaid rent against lease liabilities upon adoption of PFRS 6, *Leases*.

***Liabilities***

Consolidated liabilities increased by 9% YoY, from ₱253.09 bn as of end-2018 to ₱276.83 bn as of end-2019. The major movements of the accounts leading to the increase were as follows:

a) Derivatives liabilities (current and non-current portions) increased by ₱2.31 bn in 2019, due to fair value changes on the Group's foreign currency forward contracts and commodity swap contracts.

b) Income tax payable increased by 15% YoY (from ₱439 mn in 2018 to ₱506 mn in 2019), mainly due to expiration of the income tax holidays enjoyed by certain Subsidiaries and a corresponding higher current income tax provision.

c) Long-term debt (current and non-current portions) increased by 13% YoY (from ₱158.06 bn in 2018 to ₱177.97 bn in 2019), primarily due to the ₱7.25 bn bonds issuance in October 2019.

d) Lease liabilities (current and noncurrent portions) decreased by ₱2.10 bn, since TLI made timely payments on its obligation with PSALM.

e) Long-term obligation on power distribution system (PDS) decreased by 8% as regular annual payments were made.

f) Customers' deposits increased by ₱513 mn or 9% primarily, driven by growth in customer base of the Distribution Utilities.

g) Other noncurrent liabilities went up from ₱3.18 bn in 2018 to ₱6.81 bn in 2019, mainly due to receipt of proceeds from a damage claim against contractors, which claim is now under dispute.

***Equity***

Equity attributable to equity shareholders of the Parent Company decreased by 2% YoY (from ₱127.71 bn at year-end 2018 to ₱125.54 bn at year-end 2019), after the declaration of dividends in 2019, net of comprehensive income recognized.

a) Cumulative translation adjustments decreased by ₱1.52 bn due to downward effect of changes in the fair value of foreign currency forward and commodity swap contracts designed as cash flow hedges; and translation effect of GMCP and Luzon Hydro Corporation (LHC) for the current period.

b) Share in cumulative translation adjustments of associates and join ventures decreased by ₱475 mn, mainly due to translation effect of GNPD.

c) Acquisition of non-controlling interests for the period pertains to the difference between the purchase price and fair value of net assets acquired in the acquisition of additional partnership interest in GMCP.

**Material Changes in Liquidity and Cash Reserves of Registrant**

Cash generated from operations of ₱39.36 bn continued to provide a source of liquidity during 2019, growing by ₱2.07 bn as compared to 2018.

Net cash flows used in investing activities increased to ₱34 bn in 2019 from ₱7 bn in 2018, mainly due to funding for the AA Thermal acquisition.

Despite the cash used to fund acquisition of additional partnership interest in GMCP, the net cash outflows from financing activities amounting to ₱14.38 in 2019 is still lower than 2018. This is due to higher debt availed in 2019.

As of December 31, 2019, the Group's cash and cash equivalents decreased to ₱37.43 bn, compared to ₱46.34 bn as of year-end 2018.

**Financial Ratios**

Current assets decreased by 13% while current liabilities increased by 10%. The current ratio at year-end 2019 was at 1.50x, versus 1.89x at year-end 2018.

Consolidated debt to equity ratio at year-end of 2019 was at 2.07 versus 1.85 as of year-end 2018, as the Company's liabilities have been higher during the year.

**Year Ended December 31, 2018 versus Year Ended December 31, 2017**

The table below shows the comparative figures of the top five key performance indicators for 2018 and 2017.

| Key Performance Indicators | 2018 | 2017 |
|---|---|---|
| *Amounts in thousands of ₱s, except for financial ratios* | | |
| **SHARE IN NET EARNINGS OF ASSOCIATES AND JOINT VENTURES** | 4,356,825 | 4,697,864 |
| **EBITDA** | 51,490,894 | 47,650,408 |
| **CASH FLOW GENERATED:** | | |
| Net cash flows from operating activities | 37,287,900 | 30,235,931 |
| Net cash flows used in investing activities | (7,243,119) | (9,452,925) |
| Net cash flows used in financing activities | (19,155,753) | (32,122,699) |
| **Net (Decrease)/Increase in Cash & Cash Equivalents** | 10,889,028 | (11,339,693) |
| Cash & Cash Equivalents, Beginning | 35,699,631 | 47,094,741 |
| Cash & Cash Equivalents, End | 46,343,041 | 35,699,631 |
| **CURRENT RATIO** | 1.89 | 1.38 |
| **DEBT-TO-EQUITY RATIO** | 1.85 | 1.92 |

Share in net earnings in associates and joint ventures declined by 7% in 2018 compared to 2017 due to decreases in contributions from WMPC, SPPC, RP Energy, SFELAPCO, and large hydropower plants, SN AboitizPower-Magat and SN AboitizPower-Benguet. Lower income contributions attributable to large hydropower plants were due to a lower hydrology in 2018 compared to the higher than usual hydrology levels during 2017.

Consolidated EBITDA increased by 8% in 2018, primarily due to the fresh contributions from PEC and Hedcor Bukidnon, which commenced commercial operations in March 2018 and July 2018, respectively, and further augmented by higher contributions from GMCP due to higher availability factor in 2018 as compared to the previous year. These were largely offset by lower contributions arising from: (i) TSI due to higher operating costs; and (ii) TMO due to expiration of power supply contracts in 2018.

During 2018, cash and cash equivalents increased by ₱10.64 bn, due to higher operating cash flows, proceeds from debt-raising activities at parent, and proceeds of the long-term debts of GMCP and TVI. In 2018, the Company also managed to return the same levels of cash dividends to its shareholders, and deploy financial resources to continue the construction of various Greenfield projects.

Current ratio at the end of 2018 was at 1.89x from the previous year's 1.38x, due to the 31% increase in current assets and 5% decrease in current liabilities.

Debt-to-equity ratio as of December 31, 2018 was at 1.85, lower than the 1.92 recorded at the end of 2017.

**Results of Operations**

Net income for 2018 increased 6% Year-on-Year (YOY), from ₱20.42 bn in 2017 to ₱21.71 bn in 2018. This translated to earnings per share of ₱2.95. During 2018, the Company recognized non-recurring losses of ₱2.08 bn (versus 2017's loss of ₱2.93 bn) mainly resulting from: (i) foreign exchange (forex) losses from revaluation of dollar-denominated liabilities; and (ii) asset impairment. Adjusting for these one-off losses, the Company's core net income for 2018 amounted to ₱23.78 bn, up by 2% YoY.

***Power Generation and Retail Electricity Supply (RES)***

The power generation group and RES' income contribution for 2018 was ₱19.96 bn, up 12% YoY. The growth was largely driven by fresh income contributions from PEC and Hedcor Bukidnon. Netting out forex losses and impairment costs recognized in 2018, the generation group and RES' core net income contribution remained flat at ₱20.95 bn. Capacity sold during 2018 was flat YoY, from 3,167 MW in 2017 to 3,152 MW in 2018.

As of year-end 2018, AboitizPower's net sellable capacity stood at 3,111 MW.

***Power Distribution***

The power distribution group's earnings contribution decreased by 5% YoY, from ₱4.27 bn in 2017 to ₱4.05 bn in 2018. Stripping out the impairment loss in 2018, its recurring earnings contribution grew 6% YoY from ₱4.11 bn in 2017 to ₱4.37 bn in 2018. This increase was mainly attributable to electricity sales which increased by 5% YoY, from 5,288 GWh in 2017 to 5,540 GWh in 2018 as energy sales grew across all customer segments.

**Material Changes in Line Items of Registrant's Statements of Income and Comprehensive Income Consolidated Statements of Income**

Consolidated net income attributable to equity holders of the parent increased by 6% from ₱20.42 bn in 2017 to ₱21.71 bn in 2018. The various movements in line items are shown below to account for the increase:

| | |
|---|---|
| Consolidated Net Income Attributable to Equity Holders of the Parent for 2017 | **₱20,416,442** |
| Increase in operating revenues | 12,180,781 |
| Increase in operating expenses | (9,857,828) |
| Decrease in interest income | (46,927) |
| Increase in interest expense | (834,378) |
| Decrease in share in net earnings of associates and joint ventures | (341,039) |
| Decrease in other expenses | 411,689 |
| Lower provision for taxes | 932,775 |
| Increase in income attributable to non-controlling interests | (1,153,912) |
| Total | 1,291,161 |
| Consolidated Net Income Attributable to Equity Holders of the Parent for 2018 | **₱21,707,603** |

***Operating Revenues***

(10% increase from ₱119.39 bn to ₱131.57 bn)
The 10% increase in operating revenues was mainly attributable to the higher revenues recorded by the power generation and RES groups, which combined accounted for ₱10.59 bn of the ₱12.18 bn increase. The higher revenues were driven by: (i) fresh contributions from PEC and Hedcor Bukidnon; and (ii) higher sales at TLI. These were offset by lower revenues at some of the oil-fired power generation companies (Oil Group).

The increase in operating revenues was also attributable to higher electricity sales during 2018 by the Company's two largest distribution utilities. This segment of the Company's business experienced a ₱1.35 bn increase in operating revenues.

***Operating Expenses***
(*12% increase from ₱85.22 bn to ₱95.08 bn*)

Operating expenses increased by 12% during 2018, driven by the 25% increase in cost of generated power as fuel costs rose during the year. Depreciation and amortization, general and administrative expenses also went up as power plants entered commercial operations during the year.

***Interest Income***
(*5% decrease from ₱ 927 mn to ₱ 880 mn*)

The decrease in interest income during 2018 was mainly due to lower average cash and cash equivalent balances carried at the Company and at two of its intermediate holding companies, ARI and TPI, for most of the year.

***Interest Expense and Other Financing Costs***
(*7% increase from ₱11.25 bn to ₱12.08 bn*)

Interest expense increased in 2018 as the Company issued a total of ₱10.20 bn in retail bonds in October 2018. PEC also started to recognize interest on its project loans during 2018. These new interest charges were offset by the lower interest expense taken up at TPI as it fully paid its dollar-denominated loan in 2018.

***Share in Net Earnings of Associates and Joint Ventures***
(*7% decrease from ₱4.70 bn to ₱4.36 bn*)

Share in net earnings of associates and joint ventures declined by 7% in 2018, as lower contracted capacities at two associate oil companies operating in Mindanao, WMPC and SPPC, led to lower contributions. SFELAPCO also saw a decline in net profits during the year. Lastly, the effects of the El Niño in 2018 led to lower water levels, which adversely affected income contributions from SN AboitizPower-Magat and SN AboitizPower-Benguet.

***Other Income (Expenses) – net***
(*Decrease from ₱1.70 bn other expense to ₱1.29 bn other expense*)

This account stayed in an expense position at year-end 2018 due to net unrealized forex loss in 2018, primarily due to the restatement of TLI's dollar-denominated debt on its monthly obligations to the PSALM. The decrease in this expense line item was from other income recognized on supplier settlements recognized at PEC.

***Provision for Taxes***
(*24% decrease from ₱3.86 bn to ₱2.93 bn*)

The decrease was due to deferred tax benefits recognized in 2018 at Davao Light for the impairment of assets, and at TLI on unrealized forex losses.

***Net Income Attributable to Non-controlling Interests***
(*45% increase from ₱2.57 bn to ₱ 3.73 bn*)

The increase in the contributions from GMCP during 2018 also led to the higher take-up of attributed income for GMCP minority shareholders.

**Consolidated Statements of Comprehensive Income**

The movements in cumulative translation adjustments led to the increase in total net other comprehensive income for 2018 at ₱1.06 bn (versus ₱378 mn in 2017). Total consolidated comprehensive income was ₱26.49 bn for the year.

**Changes in Registrant's Resources, Liabilities and Shareholders' Equity**

***Assets***

Total assets (as of December 31, 2018 compared to December 31, 2017) increased by ₱28.19 bn, or 8% YOY. The major movements of the accounts leading to the increase were as follows:

a) Cash and cash equivalents increased by 30% during 2018. Cash generated from operations increased supplemented by the lower cash used in financing activities due to loan proceeds. The consolidated cash position of the Company increased by ₱10.64 bn.

b) Trade and other receivables increased by 25% (from ₱17.36 bn in 2017 to ₱21.72 bn in 2018) mainly due to advances to partners in GMCP and the take-up of the PSALM deferred adjustments at Davao Light and VECO. PSALM deferred adjustment pertains to Generation Rate Adjustment Mechanism and Incremental Currency Exchange Rate Adjustment to be recovered from customers or to be collected from PSALM.

c) Net derivative assets went down by ₱161 mn during 2018 mainly due to mark-to-market losses on the Group's swap and forward contracts.

d) Inventories increased by 19% (from ₱5.64 bn in 2017 to ₱6.69 bn in 2018) as the Group recognized inventories held at TPVI, which took over the Naga Power Plant Complex in 2018, and due to higher inventory balances at GMCP, TSI and TVI. This was offset by lower inventory balances at the Oil Group.

e) Property held for sale of ₱676 mn as of December 31, 2018 pertains to transmission assets that will be transferred and sold to the NGCP. This account was nil in 2017.

f) Other current assets were higher by 46% (from ₱9.03 bn in 2017 to ₱13.21 bn in 2018) mainly driven by the increase of restricted cash at TSI. The maintenance of a cash reserve forms part of TSI's compliance with the covenants on its project debt. TVI's recognition of a receivable from NGCP on the construction of transmission line also contributed to the increase in this account.

g) Investments and advances increased mainly as a result of capital infusions into GNPD as it continues the construction of a 1x668 MW supercritical coal-fired power plant in Bataan. The account increased from ₱31.25 bn at the end of 2017 to ₱34.33 bn at the end of 2018.

h) Property, plant and equipment (PPE) slightly increased by 2% (from ₱204.03 bn in 2017 to ₱207.11 bn in 2018) mainly due to new additions during 2018 for the on-going construction of hydropower facilities under Hedcor and Hedcor Bukidnon, and TVI's coal plant.

i) Available-for-sale investments went from ₱103 mn in 2017 to nil at the end of 2018 as these were reclassified to Financial Assets at fair value through profit or loss.

j) Financial assets at fair value through profit or loss went up to ₱101 mn in 2018 from nil as these were reclassified from Available-for-Sale investments.

k) Net pension assets increased by ₱71 mn in 2018 due to the increase in the fair value of plan assets for contributions made during 2018.

l) Deferred income tax assets increased by 59% (from ₱1.41 bn in 2017 to ₱2.23 bn in 2018). The increase was driven by the deferred tax benefits recognized by Davao Light in 2018 on the impairment of its assets and at TLI for unrealized forex losses.

***Liabilities***

Consolidated liabilities increased by 7% YOY, from ₱237.50 bn at the end of 2017 to ₱253.09 bn at the end of 2018. The major movements of the accounts leading to the increase were as follows:

a) Short term loans were up 145%, or ₱6.83 bn, mainly due to new loans of the Company for working capital purposes.

b) Trade and other payables increased by 10% (from ₱19.85 bn in 2017 to ₱21.80 bn in 2018), primarily due to the take-up of the PSALM deferred adjustment at Davao Light and VECO. PSALM deferred adjustment refers to the amounts to be remitted to PSALM or refunded to customers.

c) Income tax payable decreased by 32% (from ₱646 mn in 2017 to ₱439 mn in 2018) primarily due to lower corporate taxes payable at the end of 2018.

d) Long-term debt (current and non-current portions) increased by 4% (from ₱152.05 bn in 2017 to ₱158.06 bn in 2018). The increase was mainly attributable to the net effect of the following:

i. The Company's ₱10.20 bn new bonds issued in October 2018;

ii. Net increase during 2018 of GMCP's project debt by ₱10.67 bn, which was a combination of new drawdowns and forex adjustment; and

iii. TPI's loan payment of ₱15.15 bn.

e) Finance lease obligation (current and noncurrent portions) decreased by 5% from a total of ₱49.23 bn in 2017 to ₱46.89 bn at the end of 2018, as TLI made timely payments on its obligation to PSALM during 2018.

f) Long term obligation on power distribution system (PDS) decreased by 7% as regular annual payments were made.

g) Asset retirement obligation increased by 24% (₱2.96 bn in 2017 to ₱3.68 bn in 2018) due to an increase in the estimated future decommissioning costs on the Group's steam field assets.

h) Deferred income tax liabilities (DTL) decreased by 6% ₱913 mn in 2017 to ₱858 mn in 2018), mainly due to unrealized gain on forward contract in 2017 that was reversed in 2018.

i) Net pension liabilities decreased by 32% (₱361 mn in 2017 to ₱245 mn in 2018) on account of benefits paid to retired employees during the year.

j) Other noncurrent liabilities went from ₱403 mn in 2017 to ₱3.18 bn at the end of 2018 due to the recognition of the PSALM deferred adjustment.

***Equity***

Equity attributable to equity shareholders of the parent company increased by 11% YOY (from ₱115.40 bn at the end of 2017 to ₱127.71 bn at the end of 2018), driven mainly by the recognition of income during 2018 of ₱21.71 bn, net of dividends declared and paid to the Company's shareholders.

**Material Changes in Liquidity and Cash Reserves of Registrant**

Cash generated from operations of ₱37.29 bn continued to provide a source of liquidity during 2018, growing by ₱7.05 bn as compared to 2017. Cash from the operations of fully-commissioned PEC augmented the cash streams from operations.

During 2018, the Group utilized ₱7.24 bn cash for investing activities. This was ₱2.21 bn more than during 2017, the largest portion of which was used to construct a coal plant in the Visayas for TVI. Meanwhile, the Company continued to deploy financial resources in the construction of other Greenfield projects. Funds were also invested to infuse more capital to GNPD. The outflows were supported by dividends received during 2018.

In 2018, the Company availed of long-term debt through a bond issuance, fresh loans availed of by certain subsidiaries, and draw down on project finance facilities. In the first half of 2018, the Company declared ₱10.23 bn in dividends to its shareholders. These activities led to cash flow used in financing activities of ₱19.16 bn during 2018.

As of December 31, 2018, the Group's cash and cash equivalents increased to ₱46.34 bn, compared to ₱35.70 bn as of the end of 2017.

**Financial Ratios**

Current assets increased by 31% while current liabilities decrease by 5%, the current ratio at the end of 2018 was at 1.89x, versus 1.38x at the end of 2017.

Consolidated debt to equity ratio at the end of 2018 was at 1.85 versus 1.92 as of end 2017, as the Company's increase in equity surpassed the increase in liabilities.

**Item 7. Financial Statements**

The consolidated financial statements of AboitizPower are incorporated herein by reference. The schedules listed in the accompanying Index to Supplementary schedules are filed as part of this SEC Form 17-A.

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

The Company has engaged the services of SyCip Gorres Velayo & Co. (SGV) during the two most recent fiscal years. There were no disagreements with SGV on accounting and financial disclosure.

**Information on Independent Public Accountant**

As a matter of policy, the Board Audit Committee (the "Audit Committee") selects, monitors, and reviews the independence, performance and effectiveness, scope of work, fees, and remuneration of external auditors, in consultation with the Chief Executive Officer, the Chief Financial Officer, and the Group Internal Audit Head. Where appropriate, the Committee may recommend to the Board of Directors the reappointment or replacement of the current external auditor.

During the March 5, 2021 Board Meeting, the Chairman of the Audit Committee, Mr. Carlos C. Ejercito, reported to the Board that the Audit Committee evaluated and assessed the previous year's performance of the Company's external auditor, SyCip Gorres Velayo & Co. (SGV). Based on the results of its evaluation, the Audit Committee advised the Board of Directors that it is satisfied with SGV's performance for the previous year and recommended SGV's re-appointment as the Company's external auditor for 2021.

The Board of Directors discussed the Audit Committee's recommendation, and after discussion, approved the re-appointment of SGV. The Board of Directors will endorse to the shareholders the re-appointment of SGV as the Company's external auditor for 2021.

The accounting firm of SGV has been AboitizPower's Independent Public Accountant for the last 22 years. Ms. Maria Veronica Andresa R. Pore has been AboitizPower's audit partner since audit year 2017. AboitizPower complies with the requirements of Section 3(b)(ix) of SRC Rule 68 on the rotation of external auditors or signing partners and the two-year cooling-off period. There was no event in the past 22 years wherein AboitizPower and SGV (or its handling partner) had any disagreement with regard to any matter relating to accounting principles or practices, financial statement disclosure or auditing scope or procedure.

Representatives of SGV will be present during the 2021 ASM and will be given the opportunity to make a statement if they so desire. They are also expected to respond to appropriate questions, if needed.

The Chairman of the Audit Committee is Mr. Carlos C. Ejercito, an Independent Director. The members are Messrs. Romeo L. Bernardo and Eric Ramon O. Recto, both Independent Directors, and Messrs. Danel C. Aboitiz and Erramon I. Aboitiz, both directors of AboitizPower.

**External Audit Fees and Services**

The following table sets out the aggregate fees billed to the Company for each of the last two years for professional services rendered by SGV.

| Fee Type | Year ended December 31, 2020 | Year ended December 31, 2019 |
|---|---|---|
| **Audit Fees** | | |
| Audit Fees | ₱502,000.00 | ₱460,000.00 |
| Audit Related Fees – Bond | 8,200,000.00 | 6,600,000.00 |
| **Total** | **8,702,000.00** | **7,100,000.00** |
| **Non-Audit Fees** | | |
| Financial and Tax Due Diligence | - | 4,000,000.00 |

| | | |
|---|---|---|
| **Total** | - | **4,000,000.00** |
| **Total Audit and Non-Audit Fees** | **₱8,702,000.00** | **₱11,100,000.00** |

AboitizPower engaged SGV to audit its 2020 and 2019 annual financial statements. SGV was also engaged to conduct post reviews and other procedures for the purpose of issuing a comfort letter in connection with the issuance of the ₱9.6 bn bonds in 2020 and ₱7.3 bn bonds in 2019. In 2019, the Company also engaged SGV to provide financial and tax due diligence in relation to the Company's participation in biddings, acquisitions, and other projects.

As a policy, the Board Audit Committee makes recommendations to the Board of Directors concerning the choice of external auditor and pre-approves audit plans, scope, and frequency before the audit is conducted. Audit services of SGV for 2020 and 2019 were pre-approved by the Board Audit Committee. The Board Audit Committee also reviewed the extent and nature of these services to ensure that the independence of the external auditors was preserved. SGV does not have any direct or indirect interest in the Company.

**Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

The Company has engaged the services of SGV during the two most recent fiscal years. There are no disagreements with SGV on accounting and financial disclosure.

## PART III – CONTROL AND COMPENSATION INFORMATION

### Item 9. Directors and Executive Officers

#### (a) Directors and Officers for 2020-2021

##### (1) Directors for 2020-2021

The Company's Board is composed of nine directors, three of whom are Independent, three are Non-Executive, and three are Executive. Below are the profiles of each director for 2020-2021 with their corresponding positions, offices, and business experience held for the past five years. The directors were elected during AboitizPower's ASM to serve for a term of one year.

**ERRAMON I. ABOITIZ**
Chairman of the Board of Directors
Age: 64
Citizenship: Filipino
Committee Memberships:
Member – Board Executive Committee (Chairman of the Committee since May 21, 2018 and Member since January 1, 2020)
– Board Audit Committee (since January 1, 2020)
– Board Environmental, Social and Corporate Governance Committee (since May 17, 2010)
Date of First Appointment: February 13, 1998
Tenure: 23 years

***Mr. Erramon I. Aboitiz*** was appointed as Chairman of the Board of AboitizPower effective January 1, 2020. He previously served as Chief Executive Officer from 1998 to May 2018. He was Chairman of the Board from May 2018 to September 2018, and served as President and Chief Executive Officer until December 2019.

Mr. Aboitiz is currently a Director of AEV, a publicly-listed company, a position he has held since 1994. He was AEV's Executive Vice President and Chief Operating Officer from 1994 to 2009, and President and Chief Executive Officer from 2009 to 2019. Mr. Aboitiz is also Chairman of the Board of Directors of MORE, and Vice Chairman of Union Bank of the Philippines (UnionBank), a publicly-listed company. He is Director of ACO and the Philippine Disaster Recovery Foundation.

Mr. Aboitiz was awarded the Management Association of the Philippines Management Man of the Year and Ernst & Young's Entrepreneur of the Year both in 2011.

Mr. Aboitiz earned a Bachelor of Science degree in Business Administration, Major in Accounting and Finance from Gonzaga University in Spokane, Washington, U.S.A. He was also conferred an Honorary Doctorate Degree in Management by the Asian Institute of Management. He is not connected with any government agency or instrumentality.

**MIKEL A. ABOITIZ**
Vice Chairman of the Board of Directors
Age: 66
Citizenship: Filipino
Committee Memberships:
Member – Board Environmental, Social and Corporate Governance Committee (since December 11, 2019)
– Board Executive Committee (since May 21, 2018)
Date of First Appointment: February 13, 1998
Tenure: 23 years

***Mr. Mikel A. Aboitiz*** was appointed Vice Chairman of AboitizPower effective January 1, 2020. He has been a Director since February 13, 1998, and was the Company's Chairman of the Board from September 2018 to December 2019.

Mr. Aboitiz was formerly Vice Chairman of City Savings Bank, Inc. from 2015 to 2016, and its President and Chief Executive Officer from 2001 to 2014. He is currently Chairman of the Board of ACO; Vice Chairman of AEV, a publicly-listed company, since December 2018; and Chairman of the Board of Trustees of Ramon Aboitiz Foundation, Inc.

Mr. Aboitiz holds a degree in Bachelor of Science in Business Administration from Gonzaga University, Spokane, Washington, U.S.A. He is not connected with any government agency or instrumentality.

**ENRIQUE M. ABOITIZ**
Director
Age: 67
Citizenship: Filipino
Committee Memberships:
Chairman – Board Risk and Reputation Management Committee (since May 16, 2011)
Member – Board Executive Committee (since December 11, 2018)
Date of First Appointment: May 18, 2009
Tenure: 11 years

***Mr. Enrique M. Aboitiz*** has served as Director of the Company since May 18, 2009. He was Chairman of the Board of Directors from 2009 to May 2018, and Vice Chairman from December 2018 to December 2019. On December 11, 2018, Mr. Aboitiz was appointed the Chairman of the Board of AEV, a publicly-listed company. He is also the Vice Chairman of ACO.

Mr. Aboitiz graduated with a degree in Bachelor of Science in Business Administration, Major in Economics from Gonzaga University, Spokane, Washington, U.S.A. Mr. Aboitiz is not connected with any government agency or instrumentality.

**EMMANUEL V. RUBIO**
Director/President and Chief Executive Officer
Age: 56
Citizenship: Filipino
Committee Memberships:
Chairman – Board Executive Committee (since January 1, 2020)
Member – Board Risk and Reputation Management Committee (since January 1, 2020)
Date of First Appointment: January 1, 2020
Tenure: 1 year

***Mr. Emmanuel V. Rubio*** was appointed as President and Chief Executive Officer and Director of AboitizPower effective January 1, 2020. He previously served as the Company's Executive Vice President and Chief Operating Officer – Power Generation Group from 2014 to July 2018, and as Executive Vice President – Chief Operating Officer from June 2018 to December 2019.

Mr. Rubio is currently Chairman of AA Thermal, the SN Aboitiz Power GroupTSI, and TVI; Alternate Director of AboitizPower International; and Director of APX1, APX2, Abovant, the Hedcor Group, Cotabato Light, Davao Light, CPPC, and various companies under the Coal Business Units, including Cebu Energy, STEAG Power, and RP Energy. He holds directorship and management positions in GMEC and GNPD and their holding companies. He is also a member of the Board of Trustees and President of Philippine Electricity Market Corporation (PEMC) and Trustee of Aboitiz Foundation, Inc. (Aboitiz Foundation).

Mr. Rubio is a graduate of Bachelor of Science in Industrial Management Engineering with a minor in Mechanical Engineering from De La Salle University, where he also completed his postgraduate studies. He is also a certificate course graduate of the University of Michigan Executive Education Program, the LEAD program of Columbia University, and the Strategic Management Course of the Nanyang Technological University in Singapore. He recently completed the Advanced Management Program of Columbia University. Mr. Rubio is a holder of the Executive Certificate in Directorship from the Singapore Management University-Singapore Institute of Directors (SMU-SID). He is not connected with any government agency or instrumentality. He is not a Director of any other publicly-listed company.

**JAIME JOSE Y. ABOITIZ**
Director/Executive Vice President – Chief Operating Officer
Age: 59
Citizenship: Filipino
Committee Memberships:
Member – Board Risk and Reputation Management Committee (September 1, 2018)
– Board Executive Committee (May 21, 2018)
Date of First Appointment: May 18, 2009
Tenure: 11 years

***Mr. Jaime Jose Y. Aboitiz*** was Director of AboitizPower from 2004 to April 2007, and was re-elected on May 18, 2009. He was appointed as the Company's Executive Vice President – Chief Operating Officer effective January 1, 2020. He was previously the Company's Executive Vice President and Chief Operating Officer-Power Distribution Group, a position which he held from August 2008 to December 2019.

Mr. Aboitiz is a member of the Board of Advisers of ACO; Chairman of the Board of APX1, APX2, Abovant, LHC, the Hedcor Group, in Oil Business Units such as EAUC, TMI, TMO, TPVI, SPPC, and WMPC; and Coal Business Units such as AA Thermal, and PEC. He is Director of Aboitiz Construction Inc. (ACI), Aboitiz Construction International, Inc. (ACII), Cotabato Light, Davao Light, Cebu Energy, the Enerzone Group, SFELAPCO, Aboitiz Land, Inc. (AboitizLand), Tsuneishi Heavy Industries (Cebu), Inc. (THICI), Visayan Electric, and Apo Agua Infrastructura, Inc. (Apo Agua). He holds directorship and management positions in GMEC and its holding company.

Mr. Aboitiz holds a degree in Mechanical Engineering from Loyola Marymount University in California, U.S.A., and a Master's Degree in Management from the Asian Institute of Management. He is not connected with any government agency or instrumentality. He is not a Director of any other publicly-listed company.

**DANEL C. ABOITIZ**
Director/Chief Commercial and Stakeholder Engagement Officer
Age: 39
Citizenship: Filipino
Committee Memberships:
Member – Board Audit Committee (since January 28, 2020)
Date of First Appointment: December 11, 2018
Tenure: 2 years

***Mr. Danel C. Aboitiz*** was appointed as Director of AboitizPower on December 11, 2018, and as Chief Commercial and Stakeholder Engagement Officer of AboitizPower effective December 1, 2020.

Mr. Aboitiz is also Director of PEC, STEAG Power, and RP Energy. He holds directorship and management positions in GMEC and GNPD and their holding companies.

Mr. Aboitiz is also Director of various companies under AboitizPower's Oil Business Units, such as TMO, TPVI, EAUC, and TMI, and Coal Business Units, such as AA Thermal, TLI, TSI, and TVI. He also serves as a Member of the Board of Advisers of ACO and as Director of Republic Cement & Building Materials, Inc. (RCBM), AEV CRH Holdings, Inc. (AEV CRH) and CRH Aboitiz Holdings, Inc. (CRH Aboitiz). He serves as Vice Chairman and member of the Board of Trustees of the Philippine Independent Power Producers Association (PIPPA).

Mr. Aboitiz obtained his Master of Arts (MA) in Philosophy and Politics degree from the University of Edinburgh, where he graduated with honors. He also studied the Chinese language at the Beijing Language and Culture University.

He is not connected with any government agency or instrumentality. He is not a Director of any other publicly-listed company.

**ROMEO L. BERNARDO**
Lead Independent Director
Age: 66
Citizenship: Filipino
Committee Memberships:
Chairman – Board Environmental, Social and Corporate Governance Committee (December 11, 2018)
Member – Board Audit Committee (since May 19, 2008)
– Board Risk and Reputation Management Committee (since May 18, 2015)
– Board Related Party Transactions Committee (since May 15, 2017)
Date of First Appointment: May 19, 2008
Tenure: 12 years

***Mr. Romeo L. Bernardo*** was elected Lead Independent Director of AboitizPower on May 15, 2017. He has been an Independent Director of the Company since May 19, 2008. He has not been nominated as an Independent Director of AboitizPower for the 2021-2022 term.

He is the Managing Director of Lazaro Bernardo Tiu and Associates, a boutique financial advisory firm based in Manila. He is also an economist of GlobalSource in the Philippines. He is Chairman of ALFM Family of Funds and Philippine Stock Index Fund. He is a Director of Globe Telecom, Inc. (Globe Telecom) and Bank of the Philippine Islands (BPI), both publicly-listed companies. He is also currently affiliated in various capacities with the Foundation for Economic Freedom, Management Association of the Philippines, FINEX Foundation, and World Bank Philippine Advisory Group.

Mr. Bernardo previously served as Undersecretary for International Finance of the Department of Finance, and as Alternate Executive Director of the Asian Development Bank. He has held various positions in government, including the National Power Corporation (NPC) and Philippine National Bank. He was a member of the Board of Trustees of the Philippine Institute for Development Studies from October 2005 until March 2016. He was an Advisor of the World Bank and the International Monetary Fund, and served as Deputy Chief of the Philippine Delegation to the General Agreement on Tariffs and Trade (World Trade Organization) in 1979. In the same year, he was Finance Attaché of the Philippine Mission to the United Nations in Geneva, Switzerland. He was formerly President of the Philippine Economics Society, Chairman of the Federation of ASEAN Economic Societies, and a faculty of the College of Business Administration of the University of the Philippines.

Mr. Bernardo holds a Bachelor of Science degree in Business Economics from the University of the Philippines (magna cum laude) and a Master's degree in Development Economics from Williams College in Williamstown, Massachusetts, USA. where he graduated top of the class. He is not connected with any government agency or instrumentality.

**CARLOS C. EJERCITO**
Independent Director
Age: 75
Citizenship: Filipino
Committee Memberships:
Chairman – Board Audit Committee (since May 19, 2014)
Member – Board Risk and Reputation Management Committee (since May 19, 2014)
– Board Environmental, Social and Corporate Governance Committee (since May 19, 2014)
– Board Related Party Transactions Committee (since May 15, 2017)
Date of First Appointment: May 19, 2014
Tenure: 6 years

***Mr. Carlos C. Ejercito*** has been an Independent Director of AboitizPower since May 19, 2014.

He is Independent Director and Chairman of the Board Audit Committee of Bloomberry Resorts Corporation and an Independent Director and member of the Audit Committee of Century Properties Group, Inc., both publicly-listed companies.

Mr. Ejercito is President and Chief Executive Officer of Mount Grace Hospitals, Inc., and Chairman of Northern Access Mining, Inc. He is a Board Member of 18 hospitals, including Medical Center Manila, VR Potenciano Medical Center, Tagaytay Medical Center, Pinehurst Medical Services Inc., Grace General Hospital, Healthserv Medical Center, Lorma Medical Center, Mary Mediatrix Medical Center, Silvermed Corporation, Capitol Medical Center, Divine Grace Medical Center, and Good Samaritan Medical Center.

He was formerly Chairman of the Board of United Coconut Planters Bank, and a former Director of National Grid Corporation of the Philippines (NGCP). He was also the President and Chief Executive Officer of Greenfield Development Corporation, and Vice President and Senior Country Operations Officer of Citibank, NA. Prior to Citibank, Mr. Ejercito was a Systems Engineer in IBM Philippines, and Accounting Unit Head in Procter & Gamble Philippines, Inc. He was a member of the Board of Governors of Management Association of the Philippines.

Mr. Ejercito graduated cum laude from the University of the East with a degree in Bachelor of Science in Business Administration. He also completed the Management Development Program of Harvard Business School in Massachusetts, USA in 1983, and has completed the coursework for Masters in Business Administration at Ateneo Graduate School of Business.

Mr. Ejercito is a certified public accountant. He is not connected with any government agency or instrumentality.

**ERIC RAMON O. RECTO**
Independent Director
Age: 57
Citizenship: Filipino
Committee Memberships:
Chairman – Board Related Party Transaction Committee (since May 21, 2018)
Member – Board Audit Committee since May 21, 2018)
– Board Environmental, Social and Corporate Governance Committee (since May 21, 2018)
– Board Risk and Reputation Management Committee (since May 21, 2018)
Date of First Appointment: May 21, 2018
Tenure: 2 years

Mr. Eric Ramon O. Recto was elected as Independent Director of AboitizPower on May 21, 2018.

He currently holds positions in the following publicly-listed companies: Chairman of the Philippine Bank of Communications; President and Chief Executive Officer of Atok-Big Wedge Co., Inc.; Director of DITO CME Holdings Corp. (formerly: ISM Communications Corporation); and Independent Director in PH Resorts Group Holdings, Inc. He is also the Chairman of the Board and President of Bedfordbury Development Corporation; Vice Chairman of Alphaland Corporation; President/Director of Q-Tech Alliance Holdings, Inc.; and Supervisory Board Member of Acentic Gmbh and Ltd.

Mr. Recto held various positions in Philweb Corporation from 2005 to 2015. He was also the Vice Chairman of Alphaland Corporation from 2007 to 2014; Director of San Miguel Corporation from 2010 to 2014, and of Manila Electric Company (Meralco) from 2010 to 2013; and President of Top Frontier Investment Holdings, Inc. from 2010 to 2013. Mr. Recto was formerly the Undersecretary of the Philippine Department of Finance from 2002 to 2005.

Mr. Recto earned his Bachelor of Science degree in Industrial Engineering from the University of the Philippines-Diliman. He completed his Masters in Business Administration, with concentration in Finance and Operation Management, from the Johnson Graduate School of Management at the Cornell University in Ithaca, New York, U.S.A. He is not connected with any government agency or instrumentality.

**Performance Assessment and Attendance Reports of the Board**

In accordance with AboitizPower's Revised Manual on Corporate Governance dated July 29, 2020 (the "Revised Manual"), the members of the Board and Board Committees conduct an annual self assessment of their collective and individual performance. In addition, the directors assess the performance of the Company's corporate officers such as the Chairman of the Board, the Chief Executive Officer, the Chief Risk Officer, and Compliance Officer, and the Group Internal Audit Head.

The assessment forms are prepared and regularly reviewed by the Compliance Officers to elicit relevant and valuable insights on the following assessment critieria: (1) compliance with best governance practices and principles; participation and contribution to the Board and committee meetings; and (3) performance of their duties and responsibilities as provided in the Company's Revised Manuals, Charters, Amended Articles of Incorporation, and Amended By-Laws.

In addition, AboitizPower directors are evaluated by its key officers based on the following criteria: (1) business acumen, (2) independent judgement, (3) familiarity with the business, (4) active participation and effective challenge, professional expertise and network, (6) value contribution, (7) embodiment of Aboitiz core values, and (8) reputation. Assessment results are presented to the Board ESGC Committee as part of the nomination and selection process of incumbent Board members.

The Corporate Governance Code and the Revised Manual requires that at least once in every three years, the conduct of the Board performance assessment must be supported by an independent thirdparty facilitator. In 2020, AboitizPower engaged Good Governance Advocates and Practitioners of the Philippines (GGAPP), an independent association of corporate governance practitioners, to support the Board performance assessment exercise. The results of the assessment, as well as the recommendations from GGAPP, were presented and discussed at the Board Environment, Social, and Corporate Governance (ESCG) Committee meeting on February 16, 2021.

For more discussion on the Board's (i) performance assessment, and (ii) attendance record at Board, Board Committee, and stockholders' meetings for the year 2020, please refer to the Board Matters portion of Part III – Corporate Governance on page 132 of the Company's Definitive Information Statement.

**Nominations for Independent Directors and Procedure for Nomination**

The procedure for the nomination and election of the Independent Directors is in accordance with Rule 38 of the Securities Regulation Code ("SRC Rule 38"), AboitizPower's Amended By-Laws, and AboitizPower's Amended Guidelines for the Nomination and Election of Independent Directors approved by the Board of Directors on March 23, 2017 (the "Amended Guidelines").

Nominations for Independent Directors were opened beginning January 1, 2021 and the table for nominations was closed on February 15, 2021, in accordance with Section C(1) of the Guidelines. The period may be extended by unanimous vote of the Board ESCG Committee for meritorious reasons.

SRC Rule 38 further requires the Board ESCG Committee (in its capacity as the Board Nominations and Compensation Committee) to meet and pre-screen all nominees and submit a Final List of Nominees to the Corporate Secretary, so that such list will be included in the Company's Preliminary and Definitive Information Statements. Only nominees whose names appear on the Final List shall be eligible for election as Independent Directors. No other nominations shall be entertained after the Final List of nominees has been prepared. The name of the person or group of persons who nominates an Independent Director shall be identified in such report including any relationship with the nominee.

On February 16, 2021, the Chairman of the Board ESCG Committee submitted the Final List of Nominees to the Corporate Secretary. In approving the nominations for Independent Directors, the Board ESCG Committee considered the guidelines on the nominations of Independent Directors prescribed in SRC Rule 38, the Amended Guidelines, and AboitizPower's Revised Manual. The Board ESCG Committee performs the functions of the Board Nomination and Compensation Committee. In 2020, Mr. Romeo L. Bernardo, Lead Independent Director, was the Chairman of the Board ESCG Committee. The other voting members are Messrs. Erramon I. Aboitiz, Mikel A. Aboitiz, Carlos C. Ejercito, and Eric Ramon O. Recto, while the ex-officio non-voting members are Ms. Ma. Consolacion C. Mercado, Ms. Susan V. Valdez, and Mr. David Jude L. Sta. Ana.

No nominations for Independent Director shall be accepted at the floor during the ASM at which such nominee is to be elected. Independent Directors shall be elected in the ASM during which other members of the Board are to be elected.

Messrs. Raphael P. M. Lotilla, Carlos C. Ejercito, and Eric Ramon O. Recto are the nominees for Independent Directors of AboitizPower for the 2021 ASM. They are neither officers nor employees of AboitizPower or any of its Affiliates, and do not have any relationship with AboitizPower which would interfere with the exercise of independent judgment in carrying out the responsibilities of an Independent Director. Attached to the 2020 Definitive Information Statement as Annexes "B-1", "B-2", and "B-3" are the Certifications of Qualification as Independent Director of Messrs. Lotilla, Ejercito, and Recto, respectively.

AboitizPower stockholders, Mesdames Katrina Aliman, Josephine Pabriga, and Esmeralda Daño, have respectively nominated Messrs. Lotilla, Ejercito, and Recto as AboitizPower's Independent Directors. None of the nominating stockholders have any relation to the respective independent director they are nominating.

**Other Nominees for Election as Members of the Board of Directors**

As the Board ESCG Committee conveyed to the Corporate Secretary on February 16, 2021, the following were also nominated and qualified as candidates to the AboitizPower Board of Directors for the ensuing year 2021-2022:

**Sabin M. Aboitiz**
**Luis Miguel O. Aboitiz**
**Mikel A. Aboitiz**
**Emmanuel V. Rubio**
**Edwin R. Bautista**
**Danel C. Aboitiz**

Pursuant to Section 7, Article I of the Amended By-Laws of AboitizPower, nominations for members of the Board, other than Independent Directors, for the ensuing year must be submitted in writing to the Corporate Secretary at least 15 working days prior to the ASM on April 26, 2021 or not later than March 31, 2021.

All other information regarding the positions and offices held by nominees, Messrs. Mikel A. Aboitiz, Emmanuel V. Rubio, Danel C. Aboitiz, Carlos C. Ejercito, and Eric Ramon O. Recto are integrated in Item 5(a)(1) above. Messrs. Sabin M. Aboitiz, Edwin R. Bautista, and Raphael P. M. Lotilla are being nominated to the AboitizPower Board for the first time. Mr. Luis Miguel O. Aboitiz is a former director who is being nominated again to the Board.

All other information regarding the positions and offices held by nominees, Messrs. Mikel A. Aboitiz, Emmanuel V. Rubio, Danel C. Aboitiz, Carlos C. Ejercito, and Eric Ramon O. Recto are integrated in Item 5(a)(1) above. Messrs. Sabin M. Aboitiz, Edwin R. Bautista, and Raphael P. M. Lotilla are being nominated to the AboitizPower Board for the first time. Mr. Luis Miguel O. Aboitiz is a former director who is being nominated again to the Board.

Below are the profiles of Messrs. Sabin M. Aboitiz, Luis Miguel O. Aboitiz, Edwin R. Bautista, and Raphael P. M. Lotilla, including the positions and offices they have held for the past five years:

**SABIN M. ABOITIZ**
Nomination: Non-Executive Director
Age: 56 years old
Citizenship: Filipino
Date of First Appointment: N/A
Tenure: 0 years

***Mr. Sabin M. Aboitiz*** is currently a Director of AEV, a publicly-listed company, since May 12, 2018, and its President and Chief Executive Officer since January 1, 2020.

He was previously appointed as AEV's First Vice President from May 2014 to May 2015, Senior Vice President from May to December 2015, and Executive Vice President and Chief Operating Officer from December 2015 to December 2019.

Mr. Aboitiz is currently the Chairman of Aboitiz Foundation, Aboitiz InfraCapital, Inc, AboitizLand, Pilmico Foods Corporation, Pilmico Animal Nutrition Corporation, Gold Coin Management Holdings, Ltd., CRH Aboitiz, SN Aboitiz Power-Benguet, Inc., Republic Cement Services, Inc. Filagri Holdings, Inc.; Director and President of ACO, AEV CRH, and AEV Aviation, Inc.; and Director of UnionBank, a publicly-listed company, ACO Capital Ltd., RCBM, Apo Agua, ACI, ACII, Aboitiz Impact Ventures, Inc., Aboitiz Airports Advisory Services Corporation, AboitizPower International, Archipelago Insurance Pte. Ltd. (Archipelago), and AEV International Pte. Ltd.

Mr. Aboitiz is also a member of the Business Advisory Council of the Asia-Pacific Economic Cooperation.

He holds a degree in Business Administration, Major in Finance from Gonzaga University, Spokane, U.S.A. He is not connected with any government agency or instrumentality.

**LUIS MIGUEL O. ABOITIZ**
Nomination: Non-Executive Director
Age: 56 years old
Citizenship: Filipino
Date of First Appointment: 2018
Tenure: 1 year

***Mr. Luis Miguel O. Aboitiz*** previously served as Director of AboitizPower from September 2018 to December 2019, and as Executive Vice President – Chief Strategy Officer from May 2018 until retirement on April 30, 2020. He was also Executive Vice President and Chief Operating Officer – Corporate Business Group of AboitizPower from 2016 to 2018, and Senior Vice President-Power Marketing and Trading from 2009 to 2015.

Mr. Aboitiz is currently a Director of ACO, and a member of its Board Strategy and Board Succession and Compensation Committees. He is a Director of UnionBank, a publicly-listed company, and serves as Chairman of its Technology Steering Committee and member of the Audit and Operations Risk Management Committees. Mr. Aboitiz also serves as a Director of DDLS Aboitiz Inc. and Trustee of Philippine Business for Social Progress.

Mr. Aboitiz graduated from Santa Clara University, California, U.S.A. with a degree of Bachelor of Science in Computer Science and Engineering, and earned his Master's degree in Business Administration from the University of California in Berkeley, U.S.A. He is not connected with any government agency or instrumentality.

**EDWIN R. BAUTISTA**
Nomination: Non-Executive Director
Age: 60 years old
Citizenship: Filipino
Date of First Appointment: N/A
Tenure: 0 years

***Mr. Edwin R. Bautista*** is currently a Director of AEV, a publicly-listed company, since September 1, 2018.

He is also currently a Director and the President and Chief Executive Officer of UnionBank, a publicly-listed company; Chairman of the Board of Directors of CitySavings; and a Director of Union Properties, Inc. (now known as UBP Investments Corporation), First Union Plans, Inc., and First Union Direct Corp. Mr. Bautista has previously served UnionBank in various capacities: as Chief Operating Officer from January 2016 to December 2017, Senior Executive Vice President from 2011 to 2015, Executive Vice President from 2001 to 2011, and Senior Vice President from 1997 to 2001.

Mr. Bautista earned his Bachelor of Science in Mechanical Engineering degree from the De La Salle University. He also completed the Advance Management Program from Harvard Business School in Massachusetts, U.S.A. He is not connected with any government agency or instrumentality.

**RAPHAEL P.M. LOTILLA**
Nomination: Non-Executive Director
Age: 60 years old
Citizenship: Filipino
Date of First Appointment: N/A
Tenure: 0 years

***Mr. Raphael P.M. Lotilla*** was elected as Independent Director of AEV, a publicly-listed company, since May 21, 2012. He has not been nominated as an Independent Director of AEV for the 2021-2022 term.

Mr. Lotilla is also an Independent Director of Petron Foundation, Inc., and two publicly-listed companies, ACE Enexor, Inc. and First Metro Investment Corporation. He is currently the Chairman of the Board of Trustees of The Asia-Pacific Pathways to Progress Foundation, Inc. Mr. Lotilla previously served the Philippine government in various capacities:(i) Secretary of Energy; (ii) President and Chief Executive Officer of Power Sector Assets and Liabilities Management (PSALM) Corporation; (iii) Deputy Director-General of the National Economic and Development Authority; (iv) Coordinator of the Philippine Council for Sustainable Development; (v) Chairman of the Philippine National Oil Company; and(vi) Vice-Chairman of the National Power Corporation and the National Transmission Corporation, among others. He also served as Regional Programme Director of a Global Environment Facility regional project implemented by the UN Development Programme and concurrently Executive Director of Partnerships in Environmental Management for the Seas of East Asia.

Mr. Lotilla obtained his Bachelor of Laws degree from the University of the Philippines where he later on became a Professor of Law. He also holds a Master of Laws degree from the University of Michigan Law School, USA. He currently serves as a member of the Board of Trustees of the Philippine Institute for Development Studies (PIDS) and the Advisory Committee for the Ateneo University Professional Schools.

**(2) Officers for 2020-2021**

Below is the list of AboitizPower's officers for 2019-2020 with their corresponding positions and offices held for the past five years. Unless otherwise indicated, the officers assumed their positions during AboitizPower's organizational meeting in 2019 for a term of one year

**ERRAMON I. ABOITIZ**
Chairman – Board of Directors

Refer to Item 9 (a)(1) for the profile of ***Mr. Erramon I. Aboitiz.***

**MIKEL A. ABOITIZ**
Vice Chairman – Board of Directors

Refer to Item 9 (a)(1) for the profile of ***Mr. Mikel A. Aboitiz***.

**EMMANUEL V. RUBIO**
Director/ President and Chief Executive Officer

Refer to Item 9 (a)(1) for the profile of ***Mr. Emmanuel V. Rubio***.

**JAIME JOSE Y. ABOITIZ**
Director/ Executive Vice President – Chief Operating Officer

Refer to Item 9 (a)(1) for the profile of ***Mr. Jaime Jose Y. Aboitiz.***

**LIZA LUV T. MONTELIBANO**
Senior Vice President/Chief Financial Officer/Corporate Information Officer
Age: 45
Citizenship: Filipino
*Ex-Officio Member* – Board Risk and Reputation Management Committee
*Ex-Officio Member* – Board Executive Committee

***Ms. Liza Luv T. Montelibano*** was appointed as Senior Vice President/Chief Financial Officer/Corporate Information Officer on May 16, 2016.

She joined the Company as Chief Financial Officer-Power Generation Group on January 2, 2014 until she was promoted to First Vice President – Chief Financial Officer/Corporate Information Officer on May 18, 2015.

Ms. Montelibano is Director and Senior Vice President-Finance of ARI, Director and Treasurer/Chief Financial Officer of AA Thermal, and Director of Cotabato Light, Davao Light, MORE, TPI, TSI, Visayan Electric, the Hedcor Group, LHC, Subic Enerzone, AboitizPower International, and Archipelago. She holds a management position in GMEC and its holding company.

Prior to joining AboitizPower, Ms. Montelibano was the Country Controller of NXP Semiconductors. Her background is in finance, risk assessment, and internal audit, arising from her previous experience with various multinational companies. She also served as Chief Financial Officer of SteelAsia Manufacturing Corporation from September 2012 to March 2013, and as General Manager for Finance and Administration at L'Oreal Philippines, Inc. from March 2006 to August 2012.

Ms. Montelibano graduated cum laude from Ateneo de Manila University with a degree in Bachelor of Science in Management, Minor in Finance. She is also a Certified Internal Auditor under the Institute of Internal Auditors. She is not connected with any government agency or instrumentality. She is not a director of a publicly-listed company.

**MA. CONSOLACION C. MERCADO**
Compliance Officer
Age: 42
Citizenship: Filipino
*Ex-Officio Member* – Board Environmental, Social, and Corporate Governance Committee

***Ms. Ma. Consolacion C. Mercado*** was appointed Compliance Officer on January 1, 2021. She is concurrently Vice President for Legal – Energy Affairs of AboitizPower since September 2019. She previously served as the Company's Vice President for Regulatory Affairs, Distribution Utility Group from July 2018 to August 2019 and Assistant Vice-President for Legal – Energy Affairs from July 2015 to June 2018.

Ms. Mercado first joined the Aboitiz Group in 2009 as a Regulatory Lawyer. In her current role under the Energy Affairs and Compliance Team, Ms. Mercado is responsible for developing and cascading governance and legal policies to the Company and its various subsidiaries. She also ensures that the legal and compliance issues and risks of the power generation, power distribution, and supplier businesses across the group are managed and addressed.

Ms. Mercado earned her Bachelor of Science in Business Administration and Accountancy and Bachelor of Laws degrees from the University of the Philippines-Diliman. She is a Certified Public Accountant and a member in good standing with the Integrated Bar of the Philippines. She is not connected with any government agency or instrumentality. She is not a director of any publicly-listed company

**MARIA VERONICA C. SO**
Group Treasurer
Age: 49
Citizenship: Filipino

***Ms. Maria Veronica C. So*** was appointed as AboitizPower's Group Treasurer effective January 1, 2020. She is also First Vice President – Group Treasurer of AEV, a publicly listed company.

She joined the Aboitiz Group as AEV's Vice President – Treasury Services in 2017 and was promoted to First Vice President - Deputy Group Treasurer under AEV's Treasury Services Group on April 1, 2019.

Prior to joining the Aboitiz Group, Ms. So held various treasury and finance positions at Globe Telecom from 2001 to 2017.

Ms. So holds a Bachelor of Science degree in Business Management from Ateneo de Manila University and a Masters degree in Business Management from the Asian Institute of Management. She is not connected with any government agency or instrumentality. She is not a director of any publicly-listed company.

**MANUEL ALBERTO R. COLAYCO**
Corporate Secretary
Age: 51
Citizenship: Filipino

***Mr. Manuel Alberto R. Colayco*** has been Corporate Secretary of AboitizPower since March 1, 2018. He is concurrently Senior Vice President - Chief Legal and Compliance Officer/Corporate Secretary of AEV, a publicly listed company. He first joined the Aboitiz Group as AEV's First Vice President and Chief Legal Officer on July 11, 2016 and was appointed as AEV's Corporate Secretary and Compliance Officer on March 1, 2018.

Mr. Colayco has practiced in various areas of corporate law, including mergers and acquisitions, joint ventures, securities regulation, corporate and financial restructuring, and litigation. Prior to joining the Aboitiz Group, Mr. Colayco acted as independent legal consultant providing professional advice, representation, and transactional assistance to private companies and individuals. His previous work experience includes: General Counsel for AGP International Holdings Ltd. and Atlantic, Gulf & Pacific Company of Manila, Inc. from August 2013 to December 2014; Executive Director and Assistant General Counsel of J.P. Morgan Chase Bank N.A. from July 2010 to August 2013; and Vice President and Legal Counsel of DKR Oasis (Hong Kong) LLC, a private investment management firm, from August 2007 until March 2010. He was an Associate at Skadden, Arps, Slate, Meagher & Flom, LLP from 2000 to 2007, and at Romulo Mabanta Buenaventura Sayoc & de los Angeles from 1996 to 2000.

Mr. Colayco earned his undergraduate and Juris Doctor degrees from Ateneo de Manila University, and a Master of Laws degree from New York University School of Law in New York, U.S.A. He is a member in good standing of the Integrated Bar of the Philippines and the New York State Bar. He is not connected with any government agency or instrumentality. He is not a director of any publicly-listed company

**MAILENE M. DE LA TORRE**
Assistant Corporate Secretary
Age: 39
Citizenship: Filipino

***Ms. Mailene M. de la Torre*** was appointed Assistant Corporate Secretary of AboitizPower on November 24, 2016. She is concurrently Assistant Vice President - Governance and Compliance and Assistant Corporate Secretary of AEV, a publicly-listed company. She was previously Senior Associate General Counsel for Governance and Compliance of AEV until November 2016, and was Associate General Counsel for Legal and Corporate Services from May 2010 to October 2014.

Ms. de la Torre is also the Corporate Secretary and Assistant Corporate Secretary of various Subsidiaries of the Aboitiz Group.

Ms. de la Torre has practice in the areas of corporate structuring, acquisitions, joint ventures, compliance and corporate governance, corporate law, securities law, and litigation. Prior to joining the Aboitiz Group, she was an Associate at Esguerra & Blanco Law Office from 2007 to 2010. She graduated cum laude with a Bachelor of Arts Degree in Political Science from the University of the Philippines Diliman and earned her Bachelor of Laws degree from the same university. She is a graduate member of the Institute of Corporate Directors, after completing the Professional Director's Program. She is a member in good standing of the Integrated Bar of the Philippines. She is not connected with any government agency or instrumentality. She is not a director of a publicly-listed company.

**SAMMY DAVE A. SANTOS**
Assistant Corporate Secretary
Age: 536
Citizenship: Filipino

***Mr. Sammy Dave A. Santos*** was appointed Assistant Corporate Secretary of AboitizPower on November 5, 2019. He is currently an Associate General Counsel for Governance and Compliance of AEV since July 2017.

Mr. Santos currently serves as Corporate Secretary of various Subsidiaries of the Aboitiz Group, and Assistant Corporate Secretary of the Good Governance Advocates and Practitioners of the Philippines (GGAPP).

Mr. Santos has experience in practice areas of corporate law, corporate structuring, special projects, corporate housekeeping, corporate governance, and compliance for non-listed and publicly- listed companies. Prior to joining the Aboitiz Group, he was Legal Counsel for Alliance Select Foods International, Inc. from 2016 to 2017. He was also Counsel for the Privatization Group and Office of Special Concerns of the Department of Finance in 2016. He was a Junior Associate at the Law Firm of Quiason Makalinta Barot Torres Ibarra Sison & Damaso from 2014 to 2016.

Mr. Santos earned his Juris Doctor degree from the Ateneo Law School in 2013 and was admitted to the Philippine Roll of Attorneys in 2014. He also holds a degree of Master of Science in Industrial Economics from the University of Asia and the Pacific. He is a member in good standing of the Integrated Bar of the Philippines. He is not connected with any government agency or instrumentality. He is not a director of a publicly-listed company.

**ARAZELI L. MALAPAD**
Data Privacy Officer and Vice President for Risk and Organizational Performance Management
Age: 52
Citizenship: Filipino
*Ex-Officio Member* – Board Risk and Reputation Management Committee

***Ms. Arazeli L. Malapad*** was appointed as Data Privacy Officer and Vice President for Risk and Organizational Performance Management of AboitizPower effective March 5, 2021, following the resignation of Ms. Marnie F. Mañalac.

She has extensive experience in the fields of audit, management reporting, financial planning and budgeting, treasury cash management, general accounting, and tax compliance. She previously served as the Company's Assistant Vice President – Divisional Operating Profit from 2016 to 2018.

Ms. Malapad has previously held various positions in the Aboitiz Group, including Vice President – Controller of Pilmico and its subsidiaries from 2018 to 2020, Assistant Vice President – Controller of Hedcor from 2010 to 2016, Assistant Vice President – Controller of LHC from 2009 to 2010, and Finance and Accounting Manager of LHC from 2005 to 2009.

Ms. Malapad obtained her Bachelor of Science in Commerce, Major in Accounting Bachelor from the Immaculate Conception College. She completed the Leadership Management and Development Program from the Ateneo de Manila University Graduate School of Business, where she was accorded the Director's Award for Academic Excellence. She is a Certified Public Accountant, Certified Internal Auditor, Certified Management Accountant, and holds a Lean Six Sigma Green Belt certification. She is not connected with any government agency or instrumentality. She is not a director of any publicly-listed company.

**SATURNINO E. NICANOR, JR.**
Group Internal Audit Head
Age: 58
Citizenship: Filipino

***Mr. Saturnino E. Nicanor, Jr.*** was appointed as Group Internal Audit Head of AboitizPower on July 26, 2018. He is concurrently the Company's Assistant Vice President for Internal Audit, a position which he has held since July 2017. Mr. Nicanor has extensive experience in internal audit and controllership in various industries. He also served as Internal Audit Head for the Company's Generation Group from August 2012 to July 2018, and held various audit-related positions in the Aboitiz Group from 1983 to 2005

Mr. Nicanor earned his Bachelor of Science in Commerce, Major in Accounting (magna cum laude) degree from the University of San Jose Recoletos, Cebu City. He is an Accredited Training Facilitator of the Institute of Internal Auditors Philippines. He is not connected with any government agency or instrumentality. He is not a director of any publicly-listed company.

**Period in which the Directors and Executive Officers Should Serve**

The directors shall serve for a period of one year.

**Term of Office of a Director**

Pursuant to the Company's Amended By-Laws, the directors are elected at each ASM by stockholders entitled to vote. Each director holds office until the next annual election, or for a term of one year and until his successor is duly elected, unless he resigns, dies, or is removed prior to such election.

Any vacancy in the Board, other than by removal or expiration of term, may be filled by a majority vote of the remaining members thereof at a meeting called for that purpose, if they still constitute a quorum. The director sochosen shall serve for the unexpired term of his/her predecessor in office.

**(3) Significant Employees**

AboitizPower considers the contribution of every employee important to the fulfillment of its goals.

**(4) Family Relationships**

Messrs. Erramon and Enrique Aboitiz are brothers. Mr. Danel Aboitiz is the son of Mr. Enrique M. Aboitiz, and the nephew of Mr. Erramon I. Aboitiz.

Nominee director, Mr. Sabin M. Aboitiz, is a brother of Messrs. Erramon and Enrique Aboitiz. He is an uncle of Mr. Danel C. Aboitiz. Nominee director, Mr. Luis Miguel O. Aboitiz, is a first cousin of Mr. Jaime Jose Y. Aboitiz.

Other than these, no other officers or directors are related within the fourth degree of consanguinity.

**(5) Involvement in Certain Legal Proceedings as of March 23, 2021**

To the knowledge and/or information of AboitizPower, none of its nominees for election as directors, its present members of the Board, or its executive officers, is presently involved in any legal proceeding or bankruptcy petition, or has been convicted by final judgment, or being subject to any order, judgment or decree, or has violated the securities or commodities law in any court or government agency in the Philippines or elsewhere, for the past five years until March 23, 2021, which would put to question his/her ability and integrity to serve AboitizPower and its stockholders.

## (6) Parent Company

AboitizPower's parent company is AEV. As of March 23, 2021, AEV owns 77.00% of the voting shares of AboitizPower. In turn, ACO owns, as of March 23, 2021, 48.59% of the voting shares of AEV.

### (b) Resignation or Refusal to Stand for Re-election by Members of the Board of Directors

No director has resigned or declined to stand for re-election to the Board since the date of AboitizPower's last Annual Stockholders' Meeting because of a disagreement with AboitizPower on matters relating to its operations, policies and practices.

## Item 10. Compensation of Directors and Executive Officers

### (a) Summary of Compensation of Executive Officers

Information as to the aggregate compensation paid or accrued to AboitizPower's Chief Executive Officer and four most highly compensated executive officers, as well as other directors and officers during the last two completed fiscal years and the ensuing fiscal year, are as follows:

| Name of Officer and Principal Position* | Year | Salary | Bonus | Other Compensation |
|---|---|---|---|---|
| **Chief Executive Officer and the Four Most Highly Compensated Officers:**<br><br>1. **EMMANUEL V. RUBIO**<br>- President and Chief Executive Officer<br>2. **ERRAMON I. ABOITIZ**<br>- Chairman of the Board<br>3. **LIZA LUV T. MONTELIBANO**<br>- Senior Vice President - Chief Financial Officer/Corporate Information Officer<br>4. **LUIS MIGUEL O. ABOITIZ***<br>- Executive Vice President & Chief Strategy Officer<br>5. **JOSEPH TRILLANA T. GONZALES***<br>- First Vice President - General Counsel and Compliance Officer | | | | |
| **All above named officers as a group** | **Actual 2020** | **₱100,840,000.00** | **₱4,960,000.00** | **₱43,340,000.00** |
| | Actual 2019 | ₱98,270,000.00 | ₱14,110,000.00 | ₱8,180,000.00 |
| | Projected 2021 | ₱106,900,000.00 | ₱5,300,000.00 | ₱45,900,000.00 |
| **All other officers and directors as a group** | **Actual 2020** | **₱25,010,000.00** | **₱1,660,000.00** | **₱43,650,000.00** |
| | Actual 2019 | ₱17,200,000.00 | ₱1,130,000.00 | ₱26,270,000.00 |
| | Projected 2021 | ₱26,500,000.00 | ₱1,800,000.00 | ₱46,300,000.00 |

** Mr. Luis Miguel O. Aboitiz retired on April 30, 2020. Mr. Joseph Trillana T. Gonzales was separated on December 31, 2020.*

The 2020 Amended By-Laws of the Company, as approved by the SEC on October 1, 2020, defined corporate officers as follows: the Chairman of the Board; the Vice Chairman; the Chief Executive Officer; the Chief Operating Officer; the Treasurer; the Corporate Secretary; the Assistant Corporate Secretary; and such other officers as may be appointed by the Board of Directors. For the year 2020, the Company's Summary of Compensation of Executive Officers covers the compensation of officers as reported under Item 5 (a)(1) of the Information Statement.

Except for the regular company retirement plan, which by its very nature will be received by the officers concerned only upon retirement from the Company, the above-mentioned officers do not receive any other compensation in the form of warrants, options, and/or profit-sharing.

There is no compensatory plan or arrangement between the Company and any executive in case of resignation or any other termination of employment or from a change-in-control of the Company.

### (b) Compensation of Directors

#### (1) Standard Arrangements

Following the April 22, 2019 ASM, the directors receive a monthly allowance of ₱150,000.00, while the Chairman of the Board receives a monthly allowance of ₱200,000.00. In addition, each director/member and the Chairmen of the Board and the Board Committees receive a per diem for every Board or Board Committee meeting attended as follows:

| Type of Meeting | Directors | Chairman of the Board |
|---|---|---|
| Board Meeting | ₱150,000.00 | ₱200,000.00 |

| Type of Meeting | Members | Chairman of the Committee |
|---|---|---|
| Board Committee Meeting | ₱100,000.00 | ₱130,000.00 |

During its February 16, 2021 meeting, the Board ESCG Committee, which performs the function of the Nomination and Compensation Committee, upon the recommendation of the Company's management proposed an increase the per diem of the Board and Board Committee Chairmen for every meeting as follows:

| Type of Meeting | Chairman of the Board | |
|---|---|---|
| | From | To |
| Board Meeting | ₱200,000.00 | **₱225,000.00** |

| Type of Meeting | Chairman of the Committee | |
|---|---|---|
| | From | To |
| Committee Meeting *(except Audit Committee)* | ₱130,000.00 | **₱150,000.00** |
| Audit Committee | ₱130,000.00 | **₱200,000.00** |

The per diems for the Board and Committee chairpersons were last increased in 2019. Since then, the Company's businesses have expanded in scope and became more complicated in nature, particularly taking into account the challenges caused by the COVID-19 pandemic. As a matter of effective corporate governance, these challenges have led to an increase in the responsibilities of the Board and Committee chairpersons. The proposal by management to increase the per diems of the Board and Board Committee Chairmen was made after a review of the Board compensation structures of comparable companies with the same Board size, revenue, assets, and market capitalization.

During its Board Meeting last March 5, 2021, the Board of Directors reviewed the proposed increases in the per diems for the Board and Committee chairpersons, and, having considered the rationale provided for the proposed increases and greater responsibilities of the chairpersons, endorsed the same for stockholders' approval.

There are no proposed changes to the directors' monthly allowance and the per diem of other members of the Board.

A resolution approving the proposed increase in the per diem of the Board and Board Committee Chairmen will be presented to the stockholders for approval at the 2021 ASM.

In compliance with Section 29 of the Revised Corporation Code, the total compensation of each of the Company's directors as of December 31, 2020 is as follows:

| Name of Director | Total Compensation Received as a Director[11] |
|---|---|
| **ERRAMON I. ABOITIZ**<br>*Chairman – Board of Directors* | ₱6,360,000.00 |
| **MIKEL A. ABOITIZ**<br>*Vice Chairman – Board of Directors* | ₱2,750,000.00 |
| **ENRIQUE M. ABOITIZ**<br>*Director* | ₱3,710,000.00 |
| **EMMANUEL V. RUBIO***<br>*Director/President and Chief Executive Officer* | ₱3,370,000.00 |
| **JAIME JOSE Y. ABOITIZ***<br>*Director/Executive Vice President and Chief Operating Officer* | ₱3,650,000.00 |
| **DANEL C. ABOITIZ***<br>*Director/Chief Commercial and Stakeholder Engagement Officer* | ₱3,200,000.00 |
| **ROMEO L. BERNARDO**<br>*Lead Independent Director* | ₱3,630,000.00 |
| **CARLOS C. EJERCITO**<br>*Independent Director* | ₱4,200,000.00 |
| **ERIC RAMON O. RECTO**<br>*Independent Director* | ₱4,610,000.00 |

** A portion of the director's compensation was paid to their nominating company.*

#### (2) Other Arrangements

Other than payment of the directors' per diem and monthly allowance as stated, there are no standard arrangements pursuant to which directors of the Company are compensated, or are to be compensated, directly or indirectly, for any services provided as a director.

### (c) Employment Contracts and Termination of Employment and Change-in-Control Arrangements

There is no compensatory plan or arrangement between AboitizPower and any executive officer in case of resignation or any other termination of employment or from a change in the management or control of AboitizPower.

### (d) Warrants and Options Outstanding

To date, AboitizPower has not granted any stock option to its directors or officers

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

### (1) Security Ownership of Certain Record and Beneficial Owners (more than 5%) as of March 23, 2021

| Title of Class of Shares | Name and Address of Record Owner, and Relationship with Issuer | Name of Beneficial Owner and Relationship with Record Owner | Citizenship | No. of Shares Held and Nature of Ownership (Record and/or Beneficial) | Percentage of Ownership |
|---|---|---|---|---|---|
| Common | **1. Aboitiz Equity Ventures Inc. (AEV)**[12]<br>32nd Street, Bonifacio Global City, Taguig City<br>(Stockholder) | Aboitiz Equity Ventures Inc.[13] | Filipino | 5,657,530,774<br>(Record and Beneficial) | 76.88% |

[11] Consisting of the monthly allowance and per diem. Per diem is based on the directors' attendance in the Board and Board Committee meetings, and their Committee memberships for the period January 1 to December 31, 2020.
[12] AEV is the parent company of AboitizPower.
[13] Mr. Sabin M. Aboitiz, President and Chief Executive Officer of AEV, will vote the shares of AEV in AboitizPower in accordance with the directive of the AEV Board of Directors.

| Title of Class of Shares | Name and Address of Record Owner, and Relationship with Issuer | Name of Beneficial Owner and Relationship with Record Owner | Citizenship | No. of Shares Held and Nature of Ownership (Record and/or Beneficial) | Percentage of Ownership |
|---|---|---|---|---|---|
| Common | **2. PCD Nominee Corporation**[14] 37th Floor, Tower 1, The Enterprise Center, 6766 Ayala Avenue corner Paseo de Roxas, Makati City, 1226 Metro Manila (Stockholder) | PCD participants acting for themselves or for their customers[15] | Filipino | 1,089,011,738 (Record) | 14.80% |

AEV is the public holding and management company of the Aboitiz Group, one of the largest conglomerates in the Philippines. As of March 23, 2021, the following entities own at least five per centum (5%) or more of AEV:

| Title of Class of Shares | Name and Address of Stockholder and Relationship with Issuer | Name of Beneficial Owner and Relationship with Record Owner | Citizenship | No. of Shares and Nature of Ownership (Record and/ or Beneficial) | Percentage of Ownership |
|---|---|---|---|---|---|
| Common | **1. Aboitiz & Company, Inc.** Aboitiz Corporate Center, Gov. Manuel A. Cuenco Avenue, Kasambagan, Cebu City (Stockholder) | Aboitiz & Company, Inc. | Filipino | 2,735,600,915 (Record and Beneficial) | 48.59% |
| Common | **2. PCD Nominee Corporation (Filipino)** 37th Floor, Tower 1, The Enterprise Center, 6766 Ayala Avenue corner Paseo de Roxas, Makati City, 1226 Metro Manila (Stockholder) | PCD participants acting for themselves or for their customers | Filipino | 970,167,663 (Record) | 17.23% |
| Common | **3. Ramon Aboitiz Foundation, Inc.** 35 Lopez Jaena St., Cebu City (Stockholder) | Ramon Aboitiz Foundation, Inc. | Filipino | 426,804,093 (Record and Beneficial) | 7.58% |
| Common | **4. PCD Nominee Corporation** 37th Floor, Tower 1, The Enterprise Center, 6766 Ayala Avenue corner Paseo de Roxas, Makati City, 1226 Metro Manila (Stockholder) | PCD participants acting for themselves or for their customers | Non-Filipino | 362,946,045 (Record) | 6.45% |

### (2) Security Ownership of Management as of March 23, 2021 (Record and Beneficial)

| Title of Class of Shares | Name of Owner and Position | No. of Shares and Nature of Ownership (Direct and/or Indirect) | | Citizenship | Percentage of Ownership |
|---|---|---|---|---|---|
| Common | **Erramon I. Aboitiz** Chairman of the Board | 1,300,001 | Direct | Filipino | 0.02% |
| | | 85,597,214 | Indirect | | 1.16% |
| Common | **Mikel A. Aboitiz** Vice Chairman of the Board | 1 | Direct | Filipino | 0.00% |
| | | 27,844,759 | Indirect | | 0.38% |

[14] PCD Nominee Corporation is not related to the Company. The beneficial owners of the shares held through a PCD participant are the beneficial owners thereof to the extent of the number of shares registered under the respective accounts with the PCD participant.

[15] Each beneficial owner of shares, through a PCD participant, is the beneficial owner of such number of shares he owns in his account with the PCD participant. AboitizPower has no record relating to the power to decide how the shares held by PCD are to be voted. As advised to the Company, none of the beneficial owners under a PCD participant own more than 5% of the Company's common shares.

| Title of Class of Shares | Name of Owner and Position | No. of Shares and Nature of Ownership (Direct and/or Indirect) | | Citizenship | Percentage of Ownership |
|---|---|---|---|---|---|
| Common | **Enrique M. Aboitiz** Director | 758 | Direct | Filipino | 0.02% |
| | | 1,342,900 | Indirect | | 0.00% |
| Common | **Emmanuel V. Rubio** Director/President and Chief Executive Officer | 89,130 | Direct | Filipino | 0.00% |
| | | 78,000 | Indirect | | 0.00% |
| Common | **Jaime Jose Y. Aboitiz** Director/Executive Vice President – Chief Operating Officer | 5,367,397 | Direct | Filipino | 0.07% |
| | | 4,719,302 | Indirect | | 0.06% |
| Common | **Danel C. Aboitiz** Director/Chief Commercial and Stakeholder Engagement Officer Affairs | 4,081,636 | Direct | Filipino | 0.06% |
| | | 459,160 | Indirect | | 0.01% |
| Common | **Romeo L. Bernardo** Lead Independent Director | 1,000 | Direct | Filipino | 0.00% |
| | | 0 | Indirect | | 0.00% |
| Common | **Carlos C. Ejercito** Independent Director | 1,000 | Direct | Filipino | 0.00% |
| | | 0 | Indirect | | 0.00% |
| Common | **Eric Ramon O. Recto** Independent Director | 1,000 | Direct | Filipino | 0.00% |
| | | 0 | Indirect | | 0.00% |
| Common | **Veronica C. So** Group Treasurer | 0 | Direct | Filipino | 0.00% |
| | | 0 | Indirect | | 0.00% |
| Common | **Liza Luv T. Montelibano** Senior Vice President/Chief Financial Officer/Corporate Information Officer | 0 | Direct | Filipino | 0.00% |
| | | 19,600 | Indirect | | 0.00% |
| Common | **Ma. Consolacion C. Mercado** Compliance Officer | 0 | Direct | Filipino | 0.00% |
| | | 0 | Indirect | | 0.00% |
| Common | **Manuel Alberto R. Colayco** Corporate Secretary | 0 | Direct | Filipino | 0.00% |
| | | 0 | Indirect | | 0.00% |
| Common | **Mailene M. de la Torre** Assistant Corporate Secretary | 0 | Direct | Filipino | 0.00% |
| | | 5,000 | Indirect | | 0.00% |
| Common | **Sammy Dave A. Santos** Assistant Corporate Secretary | 0 | Direct | Filipino | 0.00% |
| | | 0 | Indirect | | 0.00% |
| Common | **Arazeli L. Malapad** Data Privacy Officer and Vice President for Risk and Organizational Performance Management | 7,000 | Direct | Filipino | 0.00% |
| | | 1,000 | Indirect | | 0.00% |
| Common | **Saturnino E. Nicanor, Jr.** Internal Audit Head | 26,896 | Direct | Filipino | 0.00% |
| | | 0 | Indirect | | 0.00% |
| | **TOTAL** | **130,942,756** | | | **1.78%** |

### (3) Voting Trust Holders of Five Per Centum (5%) or More of Common Equity

No person holds under a voting trust or similar agreement more than five per centum (5%) of AboitizPower's common equity.

### (4) Changes in Control

There are no arrangements that may result in a change in control of AboitizPower during the period covered by this report.

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

AboitizPower and its Subsidiaries (the "Group"), in their regular conduct of business, have entered into related party transactions consisting of professional fees, advances, various guarantees, construction contracts, and rental fees. These are made on an arm's length basis as of the time of the transactions.

AboitizPower ("Parent") has provided support services to its Business Units, such as marketing, trading, billing and other technical services, necessary for the effective and efficient management and operations among and between the Subsidiaries and Associates.

The Group has existing Service Level Agreements (SLAs) with its parent company, AEV, for corporate center services such as human resources, internal audit, legal, information technology, treasury and corporate finance, among others. These services are obtained from AEV to enable the Group to realize cost synergies and optimize expertise at the corporate center. AEV maintains a pool of highly qualified professionals with business expertise specific to the businesses of the Group. Transaction costs are always benchmarked on third party rates to ensure competitive pricing and consistency with prevailing industry standards. SLAs are in place to ensure quality of service.

Material and significant related party transactions are reviewed and approved by the Board Related Party Transactions Committee, composed of all independent directors.

No other transactions, without proper disclosure, were undertaken by the Company in which any director or executive officer, any nominee for election as director, any beneficial owner (direct or indirect) or any member of his immediate family was involved or had a direct or indirect material interest. Other than what has been discussed in this Annual Report and the Company's 2020 Annual Financial Statements, there are no other related party transactions entered into by the Company with related parties, including transactions with directors or self-dealings by the Company's directors.

AboitizPower employees are required to promptly disclose any business and family-related transactions with the Company to ensure that potential conflicts of interest are brought to the attention of the management.
In 2020, AboitizPower updated the Related Parties Certification for Directors and Officers in compliance with the Bureau of Internal Revenue (BIR) Regulation No. 19-2020 on the reporting guidelines for the transactions of individuals and juridical entities with related parties. The RPT Committee continued to ensure that related party transactions are taken on an arm's-length basis, within market rates, and with sufficient documentation. Lastly, the RPT Committee ensured that RPTs falling below the SEC-defined materiality threshold are coursed through the appropriate levels of review, reporting, and/or approval process.

For detailed discussion on related party transactions, please refer to the Consolidated Financial Statements.

## PART IV – CORPORATE GOVERNANCE

### Item 13. Corporate Governance

The year 2020 marks a historic milestone for the Aboitiz Group with the $100^{th}$ anniversary of the incorporation of ACO. It is also a testament to the Aboitiz Group's unwavering commitment to the practice of sound corporate governance as it faced the challenges of an unprecedented global pandemic, head-on.

At the helm of corporate governance practices in AboitizPower is the Board, which is committed to providing a strategic roadmap towards long-term growth, competitiveness, and building a sustainable enterprise that will continue for another 100 years. With the greater conviction to their role of providing leadership and stewardship to the Company, the AboitizPower Board continued to discharge its duties and responsibilities. Board and committee activities remained business as usual.

Notable accomplishments of the AboitizPower Board for 2020 are as follows:

- Reviewed and affirmed the appropriateness of the Group's purpose and brand promise in addressing the challenges of a global pandemic.
- Reviewed and aligned the Group's short-term and long-term business strategies in response to the impact of COVID-19.
- Reviewed and ensured the sufficiency of the internal controls system and enterprise risk management framework of AboitizPower.
- Reviewed and approved the key amendments to the Articles of Incorporation and By-Laws of AboitizPower.
- Authorized and held the first Virtual Annual Stockholders' Meeting for AboitizPower.
- Approved amendments to the Revised Manual, Board and Committee Charters, and to the Group-wide Data Privacy Policy.
- Established an integrated governance structure to strengthen, promote, monitor, implement, and communicate the Group's ESCG-related programs and initiatives.
- Conducted regular virtual learning sessions to strengthen the continuous learning program for the Company's directors and officers.
- Conducted the Board Assessment with the assistance of a third-party facilitator.

***Shareholders Rights and Equitable Treatment***

The rights of shareholders are of paramount importance to the Company. The goal is to ensure the protection of shareholder interests and concerns through the free exercise of shareholder rights. Among the rights of these shareholders, regardless of the number of shares they own, are to receive notices of and to attend shareholders' meetings; to participate and vote on the basis of the one-share, one-vote policy; nominate and elect Board members (including via cumulative voting); inspect corporate books and records; vote in person, *in absentia, or* through proxy; receive dividends; and ratify corporate action.

In the conduct of its annual shareholder meetings, all shareholders receive notices not less than 28 days from the date of the meeting, and all agenda items to be discussed and decided upon during the said meeting are set out in the notices and no new agenda items are taken up during the conduct of the meeting. The rationale of agenda items, which are submitted to the shareholders for their approval, are included in the notices to shareholders' meetings.

In addition, AboitizPower ensures timely disclosure to shareholders regarding their respective businesses, and that shareholders receive dividends in accordance with established dividend policies.

Lastly, AboitizPower's Board Secretariat has adopted certified Board protocols and procedures under the ISO 9001:2015 Management Board and System to ensure the effectiveness of Board and shareholders' commitments. This includes coordination with stock transfer agents to ensure appropriate responses to and timely resolution of shareholders' queries and requests.

For a more detailed discussion on the rights of the shareholders of the Company, please refer to the 2020 Consolidated Annual and Sustainability Report and the 2020 Integrated Annual Corporate Governance Report (IACGR), which will be available at www.aboitizpower.com.

## BOARD MATTERS

### *Board of Directors*

The Board leads the Group's corporate governance framework. Independent from management, its members are committed to serve and promote long-term success, and to secure the Group's sustained growth, competitiveness and sustainability. The Directors perform the crucial role of articulating and assessing the Group's purpose, vision and mission, and strategies to carry out its objectives. They ensure that the strategic business direction of the Group's businesses are soundly established and are in line with the overall Group's goals and strategy. In line with best practices, the members of the Board are responsible in establishing and monitoring the Group's commitment to the principles embodied in ESG. In performing these functions, the members of the AboitizPower Board, individually and collectively, are expected to act consistently with the Aboitiz core values.

The AboitizPower Board is composed of nine members, all of whom come from diverse professional backgrounds. They are composed of legal and finance professionals, engineers, former or current Chief Executive Officers/Chief Operating Officers, auditors, and accountants. Many of them have management experience in the private and government sectors, as well as in multilateral agencies. In 2020, the AboitizPower Board had three Independent Directors, three Non-Executive Directors, and three Executive Director. The Chairman of the AboitizPower Board, Mr. Erammon I. Aboitiz, is a highly experienced non-executive director. As a Non-Executive Director, he is not involved in the Company's day-to-day operations, which enables him to focus on ensuring that the AboitizPower Board properly discharges its duties and responsibilities. The AboitizPower Board appointed Mr. Romeo L. Bernardo as Lead Independent Director, a highly qualified professional who is familiar with the operations of AboitizPower and the industries it does business in. Mr. Bernardo is the Chairman of the ESCG Committee (the functions as the Nomination and Selection Committee) to ensure an independent and transparent nomination, selection, election, and performance assessment process of the Board.

### *Board Performance*

The Board conducts an annual performance assessment of its members and key officers. Each Board member conducts (i) a self-assessment of his/her individual performance as a member of the Board and Board Committees, (ii) a collective performance assessment of the AboitizPower Board and Board Committees, and (iii) an assessment on the performance of the Company's Chairman of the Board, Chief Executive Officer, Group Internal Audit Head, Chief Risk Officer, and the Compliance Officer. In turn, select key officers of AboitizPower are anonymously asked to evaluate the performance of each AboitizPower Director.

The Corporate Governance Code requires that at least once in every three years, the conduct of the Board performance assessment must be supported by an independent third party facilitator. In 2020, AboitizPower engaged the Good Governance Advocates and Practitioners of the Philippines ("GGAPP"), an independent association of corporate governance practitioners, to support its Board performance assessment exercise. The results of the assessment, as well as the recommendations from GGAPP were presented and discussed at the ESCG Committee meetings on February 16, 2021.

### *Board's Participation*

The Board's primary objectives are to improve shareholder returns, to develop responsible long-term investments, and to achieve disciplined and sustainable growth. To this end, board attendance and active participation during board and committee meetings are encouraged from the directors. Attendance during board meetings are closely monitored and reported by the Compliance Officer to the SEC and PSE, as well as in the Company's annual reports and IACGR.

In 2020, the Board held nine meetings (Board and Annual Stockholders' Meeting). The Board and Board Committees also met on various occasions in the performance of their mandate as indicated in the Revised Manual and relevant Board Charters. Below is a summary of the attendance of the Directors:

| ABOITIZ POWER CORPORATION | | | | | | | |
|---|---|---|---|---|---|---|---|
| | ASM | BOD/ ORG | Executive Committee | ESCG | Risk & Reputation Management | Audit Committee | RPT Committee |
| **Number of Meetings** | **1** | **8** | **5** | **2** | **2** | **5** | **2** |
| Erramon I. Aboitiz | C 1/1 | C 8/8 | M 5/5 | M 2/2 | - | M 5/5 | - |
| Mikel A. Aboitiz | VC 1/1 | VC 8/8 | M 3/5 | M 2/2 | - | - | - |
| Enrique M. Aboitiz | M 1/1 | M 8/8 | M 5/5 | - | C 2/2 | - | - |
| Emmanuel V. Rubio | M 1/1 | M 8/8 | C 5/5 | - | M 2/2 | - | - |
| Jaime Jose Y. Aboitiz | M 1/1 | M 8/8 | M 5/5 | - | M 2/2 | - | - |
| Danel C. Aboitiz | M 1/1 | M 7/8 | - | - | - | M 5/5 | - |
| Romeo L. Bernardo | M 1/1 | M 8/8 | - | C 1/2 | M 2/2 | M 5/5 | M 1/2 |
| Carlos C. Ejercito | M 1/1 | M 8/8 | - | M 2/2 | M 2/2 | C 5/5 | M 2/2 |
| Eric Ramon O. Recto | M 1/1 | M 8/8 | - | M 2/2 | M 2/2 | M 5/5 | C 2/2 |

*Legend:*
*C- Chairman; VC – Vice Chairman; M – Member*

***Board Committees***

The different Board committees - Audit, Corporate Governance (now Environmental, Social, and Corporate Governance), Risk and Reputation Management, Related Party Transactions, and Executive Committee - report regularly to the Board and are crucial in maintaining Board oversight in key management areas.

The mandate of each Board committee, including key accomplishments in 2020, are described below:

a. The **Board Environmental, Social, and Corporate Governance (ESCG) Committee** represents the Board in discharging its responsibility relating to issues around the Group's governance principles and guidelines, nomination of persons into Board and Group senior leadership roles, and the various compensation matters. Independent Directors, including the Committee Chairman, comprise the majority of the voting members of the ESCG Committee.

   In 2020, the ESCG Committee continued to (1) review and monitor AboitizPower's compliance with new laws and regulations (the Revised Corporation Code, various SEC and BIR issuances, among others); (2) review and update the Revised Manual to align with the best practices in the Integrated Annual Corporate Governance Report and the ASEAN Corporate Governance Scorecard; and (3) ensure that the nomination, selection, election, remuneration, and assessment of the Company's directors and officers are aligned with the Revised Manual. In the same year, the ESCG Committee amended the Manual and Charters to establish a Board oversight and governance framework to promote and integrate the sustainability and corporate governance initiatives of AboitizPower.

b. The **Board Audit Committee** represents the Board in discharging its responsibility related to audit matters for the Group. Independent Directors comprise the majority of the members of the Board Audit Committee, including its Chairman. In 2020, the Audit Committee updated its Charter to improve Company's control performance by having an adequate and effective control system. The Audit Committee also assessed (1) the performance of the Company's external auditor, and (2) the sufficiency of the Company's internal control and compliance systems.

c. The **Board Risk and Reputation Management Committee** represents the Board in discharging its responsibility relating to risk and reputation management related matters for the Group. In 2020, the Board Risk and Reputation Committees updated its charter to continually identify, monitor, and manage the Group's top risks.

d. The **Board Related Party Transaction Committee** represents the Board in discharging its responsibility relating to transactions entered into between or among the Company or any of its subsidiaries, affiliates, directors and officers. In 2020, AboitizPower updated the RPT Certification for Directors and Officers in compliance with BIR Regulation No. 19-2020 on the reporting guidelines for the transactions of individuals and juridical entities with related parties. The RPT Committee continued to ensure that related party transactions are taken on an arm's-length basis and within market rates, with sufficient documentation, and coursed through the appropriate levels of approval. Except for the presence of the AboitizPower Chief Financial Officer as resource person, management is not invited to, and has no participation, in the RPT Committee.

e. The **Executive Committee** assists the Board in overseeing the Company's day-to-day operations of the Company. The Committee ensures agility in the management of the Company and in strategic decision-making, as well as compliance with the Company's governance policies, during the intervening period between Board meetings.

For more details on the AboitizPower Board and Board Committees matters, please refer to the 2020 Consolidated Annual and Sustainability Report and the 2020 Integrated Annual Corporate Governance Report, which will be available at *www.aboitizpower.com*.

**GOVERNANCE PRACTICES**

***Compliance with Governance Policies***

AboitizPower has a Revised Manual and a Code of Ethics and Business Conduct (Code of Ethics) to guide the attainment of its corporate goals and the implementation of its strategies. The Revised Manual is generally aligned to the principles and recommendations laid down by the SEC under the Corporate Governance Code for Publicly-Listed Companies to further strengthen the Company's corporate governance practices. The Board regularly reviews the Revised Manual to ensure that the same remains relevant and responsive to the needs of the organization. Any amendments to the Revised Manual are promptly submitted to the SEC for confirmation and approval.

The Revised Manual is supported by various company policies that are regularly reviewed and issued by the Board including the Code of Ethics. AboitizPower ensures that its Code of Ethics is cascaded to new team members as part of their onboarding processes. Team members are also required to review the Code of Ethics and sign an affirmation that they have read and understood the same. In order to support this annual exercise, an e-learning module on the Group's Code of Ethics was developed and is rolled out every year. As part of the Group's commitments in the Code of Ethics, all team members are expected to act professionally, fairly, and with integrity in all of their business dealings, and to comply with all applicable laws and regulations, including those against bribery and corruption.

The Compliance Officer, together with the Human Resources Department, regularly monitors and evaluates compliance by the Board, management, and employees with the Revised Manual, the Code of Ethics, other company policies, and existing laws and regulations. The Compliance Officer also ensures the implementation of AboitizPower's policy against conflicts of interests and the misuse of confidential and proprietary information throughout the organization.

The Compliance Officer regularly reports the Company's compliance status with existing laws and regulations, as well as the Board's, management's and employees' compliance with internal governance policies to the Board ESCG Committee.

In addition, the Company has a Whistleblowing Policy to support the implementation of the Revised Manual and the Code of Ethics. Through this policy, allegations of violations of the Revised Manual, the Code of Ethics, or of other illegal conduct can be reported through an independent whistleblowing portal. Matters reported through the whistleblowing platform are discussed by the Board Corporate Governance Committee and, if necessary, escalated to the entire Board.

There are no major deviations from the Revised Manual as of the date of this report. There were also no corruption-related incidents reported in 2020.

For a full discussion on the Company's corporate governance initiatives, please refer to the 2020 Consolidated Annual and Sustainability Report and the 2020 IACGR, which will be available at *www.aboitizpower.com*.

***Disclosure and Transparency***

Pursuant to its commitment to transparency and accountability, AboitizPower's website, *www.aboitizpower.com* has its own dedicated corporate governance webpage which serves as a resource center and library for its stakeholders. AboitizPower also annually publishes a consolidated Annual and Sustainability Report and Integrated Annual Corporate Governance Report on its website at *www.aboitizpower.com*.

**SUSTAINABILITY AND ENVIRONMENT, SOCIAL, AND GOVERNANCE PRACTICES**

Sustainable business practices have enabled the Aboitiz Group to operate commercially for 100 years. The key component of AboitizPower's ESG strategy is anchored on its mission to provide reliable and ample power supply when needed, ensure that the supply of electricity is provided at a reasonable and competitive price, and lastly, accomplish the first two duties with the least possible adverse effects on our environment and our host communities. The Company strongly believes that business growth and sustainability can be achieved by balancing the interests of people, planet, and profit, and strengthening its commitment to sustainable ESG practices.

**Indices and Ratings**

AboitizPower continues to be recognized as a constituent company in the FTSE4Good Index Series. The company has sustained its rating in the FTSE4Good Index Series since 2018. The FTSE4Good Index Series, created by global index provider FTSE Russell, measures the performance of companies demonstrating strong ESG practices.

The Company's recent Corporate Sustainability Assessment by the highly regarded S&P Global has also shown marked improvements in its ESG performance. The company's score improved by 74% compared to last year's rating, while percentile ranking in our global peer group improved from 25$^{th}$ to 54$^{th}$ percentile.

AboitizPower also earned a Sustainalytics ESG Risk Rating of 33.9, a 3.5 decrease of risk exposure from last year. Meanwhile, the Company retained its BB rating from the MSCI ESG Rating and D- in CDP Climate Change Report.

**Sustainability Focus**

AboitizPower is driven by its Sustainability Vision which is to contribute to the OneAboitiz Sustainability goals through the 1AP Sustainability Culture. The Company manages its economic, environmental, and social impact through strong governance to deliver value to its stakeholders. AboitizPower will continue to focus on addressing gaps on various issues and areas of ESG, including governance improvements, addressing climate-related risk, and a long-term plan to transition to more renewable energy in its generation portfolio.

AboitizPower's growth strategy for the next ten years is to significantly grow its renewables portfolio, Cleanergy. The Company ensures its balance strategy is well-aligned with the government's efforts to address the energy trilemma of energy security, energy equity, and environmental sustainability. It remains committed to its goal of a more balanced energy mix, or an almost 50:50 Cleanergy and thermal capacities, by 2030.

The Company's focus areas on its ESG reports are team member engagement, talent development, Occupational Health and Safety (OHS), diversity and inclusion, corporate governance, Corporate Social Responsibility (CSR), customer focus, disaster resilience, carbon emissions reduction, resource efficiency, renewable energy, waste management, biodiversity and conservation, financial growth, financial returns, risk management, and ISO certification.

The Company conducts a report in compliance with the sustainability reporting initiatives of its parent company, AEV. Currently, AboitizPower is compliant with AEV's sustainability reporting initiatives. Its report has been prepared following the GRI Standards: Core Option and its key performance indicators are aligned with the United Nations Sustainable Development Goals (SDG).

**United Nations Sustainable Development Goals**

The Aboitiz Group is one of the first Philippine businesses to support the United Nations' 17 SDG and in 2020, became a participant in the United Nations Global Compact. AboitizPower, has, or expects to have, direct, significant, and profitable contributions to UN SDG 7 or Affordable and Clean Energy, through its total net sellable capacity of 1,248 MW as of 2020.

AboitizPower is submitting its Sustainability Report through the consolidated report that its parent company, AEV publishes annually. AEV began publishing its first Sustainability Report in 2009, being one of the few Philippine publicly-listed companies to publish and submit a report on its sustainability impacts and performances to SEC.

**Sustainable Finance**

In February 2016, the Asian Development Bank (ADB) provided credit enhancement to APRI for its Tiwi-MakBan geothermal energy facilities. APRI issued ₱10.7 bn in Climate Bonds and was able to obtain a direct loan from ADB of ₱1.8 bn. APRI's Climate Bonds, which was certified by the Climate Bonds Initiative, was the first issuance of its kind in Asia.

**Corporate Social Responsibility**

AboitizPower and its Business Units contribute to social development programs in education, enterprise development, and environment implemented by the Aboitiz Group through its social development arm, Aboitiz Foundation. These CSR program projects are also aligned with the Aboitiz Group's core competencies and are made scalable nationwide to deliver long-term benefits to targeted communities and beneficiaries. The Aboitiz Group, through Aboitiz Foundation, invested a total of ₱423 mn in CSR projects and initiatives to support its communities in 2020, of which ₱266 mn was committed for its environmental programs, ₱106 mn for education, ₱8 mn for enterprise or livelihood programs, and ₱43 mn for other initiatives. All these are consistent with the Group's commitment to protecting and enriching our planet and uplifting the well-being of its communities. Through responsible operations and the implementation of various sustainability and CSR projects, the Company is constantly advancing business and communities by exploring opportunities to create shared value whenever possible.

Moreover, the Company provides additional funds for the communities through its compliance with the ER 1-94. This program is a policy under the DOE Act of 1992 and the EPIRA, which stipulates that host communities will get a share of ₱0.01/kWh generated by power plants operating in its area. The funds generated can be used by host beneficiaries for the electrification of areas or households that have no access to power, development and livelihood programs, as well as reforestation, watershed management, health, and environmental enhancement initiatives. Due to the COVID-19 pandemic in 2020, the DOE released a new circular which repurposed the ER 1-94 funds for projects that would help alleviate the COVID-19 situation in the host community. The Company has successfully downloaded about ₱153 mn worth of ER 1-94 funds to about 150 host beneficiaries. About ₱504 mn worth of outstanding ER 1-94 funds was also remitted by the DOE to the Company's beneficiaries. The remitted funds were used by the beneficiaries to build isolation facilities and purchase relief goods, medical supplies or equipment, and COVID-19 testing kits. The Company continues to extend assistance to its communities to ensure the full utilization of the available ER 1-94 funds.

**Beyond Compliance**

The Aboitiz Group's brand promise of advancing business and communities extends beyond compliance with government laws and regulations. The Aboitiz Group is committed to stakeholder-focused environmental management projects, such as the A-Park nationwide reforestation program, the Aboitiz Cleanergy Park in

Davao City, the Cleanergy Center in Laguna, and the Energy Education Center (EEC) in TSI.

(a) A-Park Program

The A-Park Program is the Aboitiz Group's partnership with DENR's Expanded National Greening Program. The program targets to plant 9 mn trees by 2020 to promote reforestation and forest protection. In 2020, the Aboitiz Group has already planted about 11 mn seedlings across the country under the said program. AboitizPower supports the A-Park Program through the watershed management and carbon sink programs of its Subsidiaries.

(b) Aboitiz Cleanergy Park

The Aboitiz Cleanergy Park is an eight-hectare ecological preserve located in Sitio Punta Dumalag, Matina Aplaya, Davao City The park showcases a mangrove reforestation site, nursery, botanical garden for the propagation of 29 native tree species and is also home to 100 species of birds. Aside from helping reduce carbon emissions, the park is also actively promoting habitat conservation and biodiversity management in an urban setting. Most importantly, it serves as a sanctuary and safe nesting ground for the hawksbill sea turtles, commonly called *pawikan*. Since 2014, the park has already released more than 4,939 hawksbill hatchlings to the sea, planted 13,992 mangroves, and rescued 16 *pawikans*.

(c) Cleanergy Center and Energy Education Resource Center

The Cleanergy Center, located within the compound of the Tiwi-Makban geothermal power plant, showcases interactive displays and learning materials devoted to sustainable ways of generating and consuming energy. To date, the center has welcomed more than 56,000 visitors, mostly students, government officials, and representatives of foreign institutions.

The Cleanergy Center is the first energy education facility of AboitizPower, which focuses on environmental awareness and renewable energy education through the use of audio-visual presentations, interactive displays, and a tour of a working geothermal power plant. Through AboitizPower, the Aboitiz Group aims to provide energy solutions that leave a lighter impact on the Earth's climate and its limited resources.

The Company also opened the Energy Education Center (EEC) in 2016 located at TSI's Davao baseload power plant. The center features interactive and informative displays on the Philippine energy sector and various power-generating technologies. As of 2020, the center has already accommodated around 3,500 visitors.

## PART V – EXHIBITS AND SCHEDULES

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

**(a) Exhibits.** None

**(b) Reports on SEC Form 17-C**

Reports filed by AboitizPower on SEC Form 17-C from April 2020 to March 2021 are as follows:

| Date Reported | Disclosure Details |
|---|---|
| April 1, 2020 | Termination of AboitizPower International Pte. Ltd. of its planned acquisition of a 100% ownership interest in Mekong Wind Pte. Ltd. from Armstrong Southeast Asian Clean Energy Fund Pte. Ltd. |
| April 3, 2020 | Revised Notice and Agenda of the Annual Stockholders' Meeting on April 27, 2020 |
| April 13, 2020 | Receipt of a credit rating of "Prs Aaa" with Stable Outlook from PhilRatings for the Fourth Tranche of the ₱30 bn Bonds |
| April 24, 2020 | Revised Notice and Rationale of the Annual Stockholders' Meeting on April 27, 2020 |
| April 27, 2020 | Results of the 2020 Annual Stockholders' Meeting |
| April 27, 2020 | Results of the 2020 Organizational Meeting |
| April 28, 2020 | Amendment of Articles of Incorporation |
| April 29, 2020 | First Quarter 2020 Financial and Operating Results |
| June 3, 2020 | TMO's Reserve Shutdown |
| June 5, 2020 | Hedcor's Payment of Fine to the Pollution Adjudication Board |
| June 22, 2020 | Receipt of the Certificate of Permit to Offer Securities for Sale from SEC in relation to the Company's Application for the Issuance of the Fourth Tranche of the ₱30 bn Bonds |
| July 6, 2020 | Listing with the PDEx of the Fourth Tranche of the ₱30 bn Bonds, equivalent to ₱6 bn and an oversubscription option of up to ₱3.55 bn |
| July 17, 2020 | TMO's Withdrawal of its Application for De-registration from the WESM and Disconnection from the Meralco System |
| July 27, 2020 | Second Quarter 2020 Financial and Operating Results |
| June 30, 2020 | Compromise Agreement (CA) by and between LHC and the Provincial Government of Ilocos Sur. |
| September 3, 2020 | Incidents at Hedcor Bukidnon's Manolo Fortich Hydro Power Plant 1 |
| September 18, 2020 | Press Release: AboitizPower wins Stevie Award for COVID-19 response |
| October 5, 2020 | SEC Approval of the Company's Application for Amendment of its Articles of Incorporation |
| October 5, 2020 | SEC Approval of the Company's Application for Amendment of its By-Laws |
| November 3, 2020 | Appointment of Compliance Officer |
| November 3, 2020 | Third Quarter 2020 Financial and Operating Results |
| December 14, 2020 | Board Approval of the Issuance of ₱30bn Bonds under the SEC Shelf Registrationa Program and First Tranche of ₱4 bn with an Oversubscription of ₱4 bn |
| December 18, 2020 | Filing of Preliminary Registration Statement and Issuance of PhilRatings' Credit Rating for the Proposed ₱30 bn Bonds |
| January 8, 2021 | Acquisition byARI of 100% Ownership of La Filipina Electrika, Inc. |
| January 12, 2021 | SN Aboitiz Power-Benguet's Financing of ₱18 bn through the Issuance of Unsecured Notes Facility with Various Banks |
| February 16, 2021 | Nominees to the Board of Directors for 2021-2022 |
| February 24, 2021 | Unscheduled Outage of Unit 1 of GMEC's Plant |
| March 1, 2021 | Receipt of the Order of Registration and Certificate of Permit to Offer Securities for Sale from SEC in relation to the Company's Application for the Issuance of the First Tranche of the ₱30 bn Bonds |
| March 5, 2021 | Resignation of Data Privacy Offier and Appointment of Replacement |

| Date Reported | Disclosure Details |
|---|---|
| March 5, 2021 | Declaration of Regular Cash Dividends |
| March 5, 2021 | Matters Approved by the Board during its January 27, 2021 Board Meeting |
| March 5, 2021 | Fourth Quarter 2020 Financial and Operating Results |
| March 5, 2021 | Notice and Agenda of AboitizPower's Annual Stockholders' Meeting on April 26, 2021 |
| March 15, 2021 | Listing with PDEx of the First Tranche of the ₱30 bn Bonds, equivalent to ₱8 bn including oversubscription |

**(c) Sustainability Report**

The 2020 Aboitiz Group Annual Report and Sustainability Report (the "2020 Consolidated Annual Report") is submitted together with the Company's SEC Form 17-A (2020 Annual Report) and is also available for download at the Company's website at latest Annual Report page in the Investor Relations tab in *https://aboitizpower.com/investor-relations/latest-annual-report/*.

**SIGNATURES**

Pursuant to the requirements of Section 17 of the Code and Section 177 of the Revised Corporation Code, AboitizPower has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Taguig on April 15, 2021.

**By:**

| | |
|---|---|
| **EMMANUEL V. RUBIO**<br>Principal Executive Officer | **LIZA LUV T. MONTELIBANO**<br>Principal Financial Officer |
| **MANUEL ALBERTO R. COLAYCO**<br>Corporate Secretary | **MYLA M. ESPINEDA**<br>Controller/Principal Accounting Officer |

**Before me,** a notary public in and for the city named above, personally appeared:

| NAME | GOVT ISSUED ID | DATE / PLACE OF ISSUE | CTC NO. | DATE / PLACE OF ISSUE |
|---|---|---|---|---|
| **EMMANUEL V. RUBIO** | Passport No. P3162364B | September 13, 2019 DFA Manila | 08514240 | January 15, 2021 Manila |
| **LIZA LUV T. MONTELIBANO** | Passport No. P7070135A | May 7, 2018 DFA Manila | 08514241 | January 11, 2021 Manila |
| **MANUEL ALBERTO R. COLAYCO** | PhilHealth ID No. 01-052187303-0 | - | 22219142 | February 5, 2021 Taguig City |
| **MYLA M. ESPINEDA** | Passport No. P0280869A | September 19, 2016 DFA NCR Northeast | - | - |

who were identified by me through competent evidence of identity to be the same persons who presented the foregoing instrument and signed the instrument in my presence, and who took an oath/affirmation before me as to such instrument.

Witness my hand and seal this April 15, 2021.

Doc. No. 190;
Page No. 39;
Book No. XI;
Series of 2021.

ATTY. STRELLA MARIE G. SACDALAN
ROLL NO. 63289
NOTARY PUBLIC
TAGUIG CITY, PHILS

**Atty. Strella Marie G. Sacdalan**
Notary Public for Taguig City
Notarial Commission No. 99
Until June 30, 2021
NAC Tower, 32nd St. Bonifacio Global City, Taguig City
PTR No. A-5025311, January 6, 2021 Taguig City
IBP OR No. 144348, January 6, 2021
Roll No. 63289
MCLE Compliance No. VI-0011090

## SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 177 of the Revised Corporation Code, AboitizPower has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Cebu on April 15, 2021.

**By:**

**JAIME JOSE Y. ABOITIZ**
Principal Operating Officer

**Before me,** a notary public in and for the city named above, personally appeared:

| NAME | GOVT ISSUED ID | DATE / PLACE OF ISSUE | CTC NO. | DATE / PLACE OF ISSUE |
|---|---|---|---|---|
| JAIME JOSE Y. ABOITIZ | Passport No. P0268230B | January 16, 2019 DFA Manila | 11279584 | January 8, 2021 Cebu City |

who were 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/affirmation before me as to such instrument.

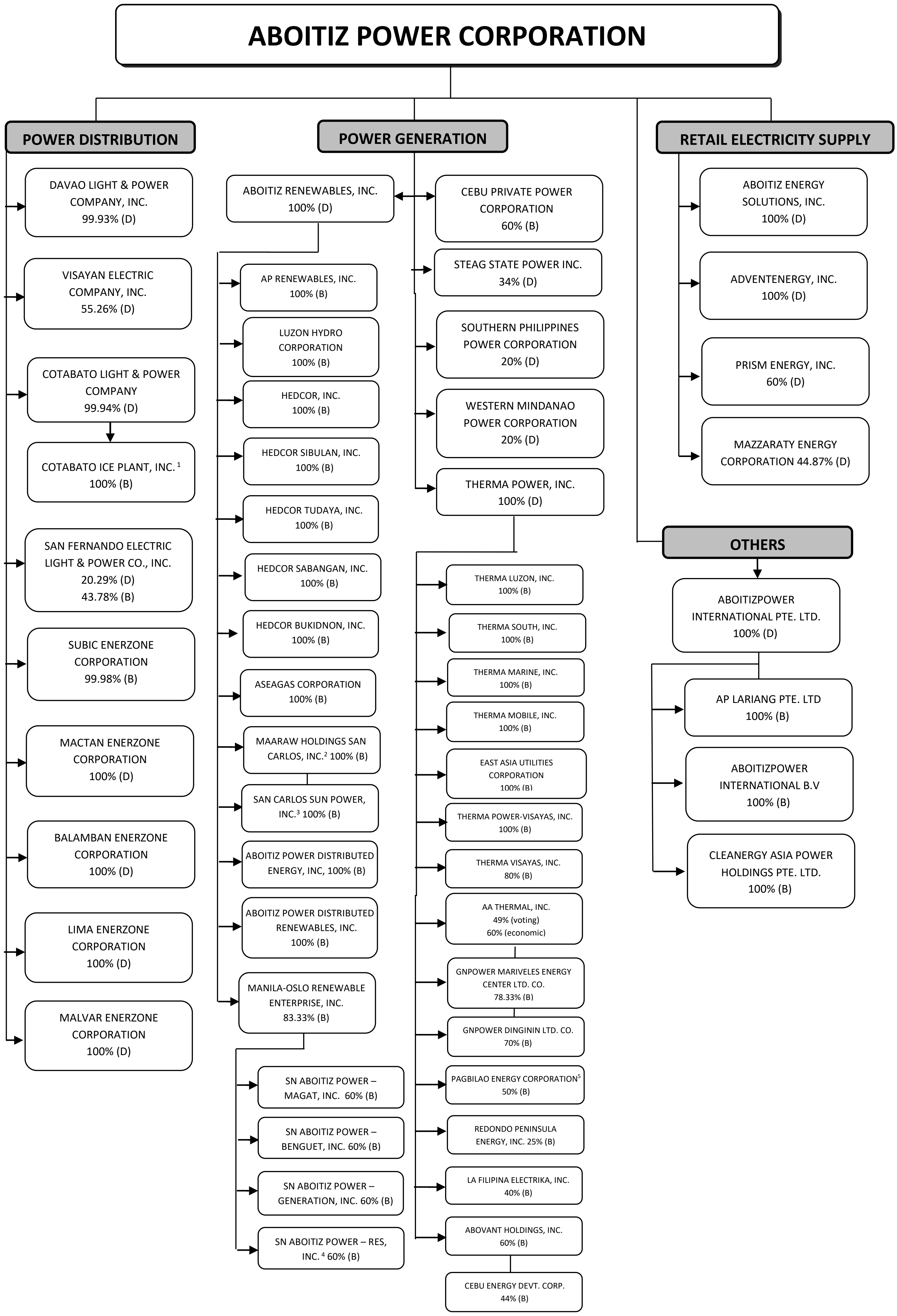
Witness my hand and seal this APR 15 2021.

Doc. No. 267;
Page No. 49;
Book No. V;
Series of 2021.

JUSTINE MAE A. CABATINGAN
Notary Public for Cebu City
Notarial Commission No. 94-16
Until December 31, 2021
Aboitiz Corporate Center
Gov. M. Cuenco Ave., Cebu City
Roll No. 62000
PTR 20160785 01.13.21 Cebu City
IBP Lifetime No. 0013514 01.21.15 Cebu City
MCLE Compliance No. VI-0016200

ATTY. JUSTINE MAE A. CABATINGAN
ROLL NO. 62000
NOTARY PUBLIC
CEBU CITY, PHILIPPINES

ANNEX "A"




**Legend:**
B – Beneficial Ownership
D – Direct Ownership

[1] *Other services*
[2] *ARI has a 60% direct ownership in Maaraw San Carlos; AboitizPower International B.V. has a 40% direct ownership in Maaraw San Carlos*
[3] *ARI has a 75% direct ownership in Sacasun; AboitizPower International has 15% direct ownership in Sacasun*
[4] *Engages in Retail Electricity Supply Business*
[5] *Joint operations*

AS OF MARCH 31, 2021

*Note: On January 8, 2021, ARI acquired 100% ownership of La Filipina Electrika, Inc. from TPI (40%) and LFUGC (60%).*

# COVER SHEET
## for
## AUDITED FINANCIAL STATEMENTS

SEC Registration Number

C 1 9 9 8 0 0 1 3 4

**COMPANY NAME**

ABOITIZ POWER CORPORATION

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

32nd Street, Bonifacio Global City, Taguig City, Metro Manila, Philippines 1634

| Form Type | Department requiring the report | Secondary License Type, If Applicable |
|---|---|---|
| APFS | CRMD | N/A |

**COMPANY INFORMATION**

| Company's Email Address | Company's Telephone Number | Mobile Number |
|---|---|---|
| ap_investor@aboitiz.com | (632) 889-10307 | Not Available |

| No. of Stockholders | Annual Meeting (Month / Day) | Fiscal Year (Month / Day) |
|---|---|---|
| 598 | 4th Monday of April | December 31 |

**CONTACT PERSON INFORMATION**

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

| Name of Contact Person | Email Address | Telephone Number/s | Mobile Number |
|---|---|---|---|
| Liza Luv T. Montelibano | liza.montelibano@aboitiz.com | (02) 8886-2800 | Not Available |

**CONTACT PERSON's ADDRESS**

32nd Street, Bonifacio Global City, Taguig City, Metro Manila, Philippines

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

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

AboitizPower

SECURITIES AND EXCHANGE COMMISSION
SEC Building, EDSA Greenhills
Mandaluyong, Metro Manila

STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS

The management of Aboitiz Power Corporation is responsible for the preparation and fair presentation of the Parent financial statements including the schedules attached therein, for the years ended December 31, 2020, 2019 and 2018, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

**ERRAMON I. ABOITIZ**
Chairman of the Board

**EMMANUEL V. RUBIO**
President & Chief Executive Officer

**LIZA LUV T. MONTELIBANO**
SVP & Chief Financial Officer/Corporate Information Officer

Signed this 5th day of March 2021

Republic of the Philippines)
City of Taguig ) S.S.

Before me, a notary public in and for the city named above, personally appeared:

| Name | Passport/CTC No. | Date/Place Issued |
|---|---|---|
| ERRAMON I. ABOITIZ | P2251997A<br>04602767 | March 11, 2017; DFA Manila<br>February 18, 2021; Cebu City |
| EMMANUEL V. RUBIO | P3162364B<br>08514240 | September 13, 2019; DFA Manila<br>January 15, 2021; Manila |
| LIZA LUV T. MONTELIBANO | P7070135A<br>08514241 | May 7, 2018, DFA Manila<br>January 11, 2021; Manila |

who are personally known to me and to me known to be the same persons 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 this 16 MAR 2021.

Doc. No. 966;
Page No. 75;
Book No. X;
Series of 2021

ATTY. STRELLA MARIE G. SACDALAN
ROLL NO. 63289
NOTARY PUBLIC
TAGUIG CITY, PHILS.

Atty. Strella Marie G. Sacdalan
Notary Public for Taguig City
Notarial Commission No 99
Until June 30, 2021
NAC Tower, 32nd St. Bonifacio Global City, Taguig City
PTR No. A-5025311, January 6, 2021 Taguig City
IBP OR No. 144348, January 6, 2021
Roll No. 63289
MCLE Compliance No VI-0011090

SGV
Building a better working world

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1226 Makati City
Philippines

Tel: (632) 8891 0307
Fax: (632) 8819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

# INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
Aboitiz Power Corporation
32nd Street, Bonifacio Global City
Taguig City, Metro Manila
Philippines 1634

## Report on the Audit of the Parent Company Financial Statements

### Opinion

We have audited the parent company financial statements of Aboitiz Power Corporation (the Company), which comprise the parent company balance sheets as at December 31, 2020 and 2019, and the parent company statements of income, parent company statements of comprehensive income, parent company statements of changes in equity and parent company statements of cash flows for each of the three years in the period ended December 31, 2020, and notes to the parent company financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying parent company financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2020 and 2019, and its financial performance and its 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 (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Parent Company 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 parent company 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.

### Responsibilities of Management and Those Charged with Governance for the Parent Company Financial Statements

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

In preparing the parent company 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.

**Auditor's Responsibilities for the Audit of the Parent Company Financial Statements**

Our objectives are to obtain reasonable assurance about whether the parent company financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these parent company 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 parent company 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 auditor's report to the related disclosures in the parent company financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the parent company financial statements, including the disclosures, and whether the parent company 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 to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

**Report on the Supplementary Information Required Under Revenue Regulations 15-2010**

Our audits were conducted for the purpose of forming an opinion on the parent company financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 23 to the parent company financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of the Company. The information has been subjected to the auditing procedures applied in our audit of the parent company financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The engagement partner on the audit resulting in this independent auditor's report is
Maria Veronica Andresa R. Pore

SYCIP GORRES VELAYO & CO.

Maria Veronica Andresa R. Pore
Partner
CPA Certificate No. 90349
SEC Accreditation No. 0662-AR-4 (Group A),
November 21, 2019, valid until November 20, 2022
Tax Identification No. 164-533-282
BIR Accreditation No. 08-001998-071-2020,
December 3, 2020, valid until December 2, 2023
PTR No. 8534345, January 4, 2021, Makati City

March 5, 2021

## ABOITIZ POWER CORPORATION

## PARENT COMPANY BALANCE SHEETS

| | December 31 | |
|---|---|---|
| | **2020** | 2019 |
| **ASSETS** | | |
| **Current Assets** | | |
| Cash and cash equivalents (Note 4) | **₱8,320,836,713** | ₱4,210,064,412 |
| Trade and other receivables (Note 5) | **1,277,383,079** | 1,073,494,475 |
| Other current assets (Note 6) | **7,011,255** | 889,854,388 |
| **Total Current Assets** | **9,605,231,047** | 6,173,413,275 |
| **Noncurrent Assets** | | |
| Investments and advances (Note 7) | **120,096,381,604** | 120,634,208,641 |
| Project development costs (Note 10) | **702,671,150** | 623,339,367 |
| Property and equipment (Note 8) | **103,044,819** | 105,024,712 |
| Derivative asset - net of current portion (Note 19) | **—** | 80,134,271 |
| Other noncurrent assets (Note 9) | **1,061,321,422** | 16,375,794 |
| **Total Noncurrent Assets** | **121,963,418,995** | 121,459,082,785 |
| **TOTAL ASSETS** | **₱131,568,650,042** | ₱127,632,496,060 |
| **LIABILITIES AND EQUITY** | | |
| **Current Liabilities** | | |
| Current portion of long-term debts - net of deferred financing cost (Note 12) | **₱6,637,206,289** | ₱— |
| Trade and other payables (Note 11) | **638,678,090** | 627,503,138 |
| Current portion of lease liabilities (Note 20) | **22,084,295** | 13,886,300 |
| **Total Current Liabilities** | **7,297,968,674** | 641,389,438 |
| **Noncurrent Liabilities** | | |
| Long-term debts - net of deferred financing cost (Note 12) | **52,172,875,914** | 50,079,825,067 |
| Derivative liability (Note 19) | **429,498,461** | — |
| Pension liability (Note 15) | **33,139,892** | 219,744,469 |
| Lease liabilities - net of current portion (Note 20) | **29,296,845** | 37,715,847 |
| **Total Noncurrent Liabilities** | **52,664,811,112** | 50,337,285,383 |
| **Total Liabilities** | **59,962,779,786** | 50,978,674,821 |
| Equity | | |
| Capital stock (Note 13a) | **7,358,604,307** | 7,358,604,307 |
| Additional paid-in capital (Note 13a) | **12,588,894,332** | 12,588,894,332 |
| Cash flow hedge reserve (Note 19) | **(429,498,461)** | 80,134,271 |
| Actuarial losses on defined benefit plan (Note 15) | **(605,394,508)** | (556,796,826) |
| Retained earnings (Note 13b) | | |
| Appropriated | **33,660,000,000** | 33,660,000,000 |
| Unappropriated | **19,033,264,586** | 23,522,985,155 |
| **Total Equity** | **71,605,870,256** | 76,653,821,239 |
| **TOTAL LIABILITIES AND EQUITY** | **₱131,568,650,042** | ₱127,632,496,060 |

*See accompanying Notes to Parent Company Financial Statements.*

## ABOITIZ POWER CORPORATION
## PARENT COMPANY STATEMENTS OF INCOME

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2020** | 2019 | 2018 |
| **REVENUE** | | | |
| Dividends (Note 17) | **₱6,682,236,151** | ₱13,985,410,862 | ₱9,736,042,939 |
| Technical, management and other service fees (Note 17) | **1,308,299,061** | 1,964,330,515 | 1,679,158,424 |
| Interest income (Notes 4 and 17e) | **106,589,029** | 163,380,755 | 137,277,764 |
| | **8,097,124,241** | 16,113,122,132 | 11,552,479,127 |
| **GENERAL AND ADMINISTRATIVE EXPENSES** | | | |
| Interest and other financing charges (Notes 12 and 20) | **2,946,898,811** | 2,547,531,855 | 1,042,597,749 |
| Personnel (Note 14) | **1,000,114,150** | 841,147,414 | 955,955,320 |
| Service fees (Note 17) | **151,085,981** | 114,024,341 | 63,850,939 |
| Professional fees (Note 17) | **133,527,727** | 84,589,126 | 87,132,534 |
| Taxes and licenses | **67,867,303** | 98,277,343 | 111,156,568 |
| Transportation and travel (Note 17) | **54,115,983** | 55,316,885 | 49,791,744 |
| Depreciation and amortization (Notes 8 and 9) | **44,543,930** | 35,961,127 | 23,345,806 |
| Training | **10,301,594** | 19,972,985 | 35,117,465 |
| Entertainment, amusement and recreation | **9,170,026** | 15,218,626 | 10,734,116 |
| Repairs and maintenance | **7,323,199** | 7,583,781 | 6,518,422 |
| Project and bidding expenses (Note 10) | **7,240,368** | — | 51,122,382 |
| Advertising and sponsorships | **6,957,340** | 11,935,333 | 17,017,558 |
| Communication | **5,100,713** | 3,756,593 | 2,647,639 |
| Office supplies | **4,534,695** | 6,106,790 | 3,515,178 |
| Rent (Notes 17 and 20) | **3,426,142** | 7,027,319 | 27,559,033 |
| Light and water | **1,009,786** | 1,202,157 | 1,406,312 |
| Others | **7,739,307** | 9,621,206 | 7,770,467 |
| | **4,460,957,055** | 3,859,272,881 | 2,497,239,232 |
| **OTHER INCOME (CHARGES)** - net | | | |
| Foreign exchange gains (loss) (Note 18) | **571,207,124** | 104,238,709 | (16,965,185) |
| Provision for impairment of investment in a subsidiary | **—** | — | (45,933,000) |
| Others | **4,446,921** | 5,656,727 | 4,338,316 |
| | **575,654,045** | 109,895,436 | (58,559,869) |
| **INCOME BEFORE INCOME TAX** | **4,211,821,231** | 12,363,744,687 | 8,996,680,026 |
| **PROVISION FOR INCOME TAX** (Note 16) | **18,388,719** | 59,382,106 | 1,372,898 |
| **NET INCOME** | **4,193,432,512** | 12,304,362,581 | 8,995,307,128 |
| **EARNINGS PER COMMON SHARE** (Note 13c) | | | |
| Basic and diluted, for net income for the year | **₱0.57** | ₱1.67 | ₱1.22 |

*See accompanying Notes to Parent Company Financial Statements.*

## ABOITIZ POWER CORPORATION
## PARENT COMPANY STATEMENTS OF COMPREHENSIVE INCOME

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2020** | 2019 | 2018 |
| **NET INCOME** | **₱4,193,432,512** | ₱12,304,362,581 | ₱8,995,307,128 |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | | |
| *Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:* | | | |
| Actuarial gain (losses) on defined benefit plans (Note 15) | **(48,597,682)** | (258,909,416) | 25,906,863 |
| Income tax effect (Note 16) | **—** | (89,366,223) | (7,772,059) |
| Net other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods | **(48,597,682)** | (348,275,639) | 18,134,804 |
| *Other comprehensive income (loss) that may be reclassified to profit or loss in subsequent periods:* | | | |
| Changes in fair value of cash flow hedge (Note 19) | **(509,632,732)** | 80,134,271 | — |
| Total other comprehensive income (loss) for the year, net of tax | **(558,230,414)** | (268,141,368) | 18,134,804 |
| **TOTAL COMPREHENSIVE INCOME** | **₱3,635,202,098** | ₱12,036,221,213 | ₱9,013,441,932 |

*See accompanying Notes to Parent Company Financial Statements.*

## ABOITIZ POWER CORPORATION

## PARENT COMPANY STATEMENTS OF CHANGES IN EQUITY
### FOR THE YEARS ENDED DECEMBER 31, 2020, 2019 AND 2018

| | Capital Stock (Note 13a) | Additional Paid-In Capital (Note 13a) | Cash Flow Hedge Reserve (Note 19) | Actuarial Losses on Defined Benefit Plan | Retained Earnings (Note 13b) | | Total |
|---|---|---|---|---|---|---|---|
| | | | | | Appropriated | Unappropriated | |
| Balances at January 1, 2020 | ₱7,358,604,307 | ₱12,588,894,332 | ₱80,134,271 | (₱556,796,826) | ₱33,660,000,000 | ₱23,522,985,155 | ₱76,653,821,239 |
| Net income for the year | — | — | — | — | — | 4,193,432,512 | 4,193,432,512 |
| Other comprehensive loss | — | — | (509,632,732) | (48,597,682) | — | — | (558,230,414) |
| Total comprehensive income (loss) | — | — | (509,632,732) | (48,597,682) | — | 4,193,432,512 | 3,635,202,098 |
| Cash dividends (Note 13b) | — | — | — | — | — | (8,683,153,081) | (8,683,153,081) |
| Balances at December 31, 2020 | ₱7,358,604,307 | ₱12,588,894,332 | (₱429,498,461) | (₱605,394,508) | ₱33,660,000,000 | ₱19,033,264,586 | ₱71,605,870,256 |

| | Capital Stock (Note 13a) | Additional Paid-In Capital (Note 13a) | Cash Flow Hedge Reserve (Note 19) | Actuarial Losses on Defined Benefit Plan | Retained Earnings (Note 13b) | | Total |
|---|---|---|---|---|---|---|---|
| | | | | | Appropriated | Unappropriated | |
| Balances at January 1, 2019, as previously reported | ₱7,358,604,307 | ₱12,588,894,332 | ₱— | (₱208,521,187) | ₱34,060,000,000 | ₱21,658,436,837 | ₱75,457,414,289 |
| Effect of adoption - PFRS 16 | — | — | — | — | — | (22,665,932) | (22,665,932) |
| Balances at January 1, 2019, as restated | 7,358,604,307 | 12,588,894,332 | — | (208,521,187) | 34,060,000,000 | 21,635,770,905 | 75,434,748,357 |
| Net income for the year | — | — | — | — | — | 12,304,362,581 | 12,304,362,581 |
| Other comprehensive income (loss) | — | — | 80,134,271 | (348,275,639) | — | — | (268,141,368) |
| Total comprehensive income (loss) | — | — | 80,134,271 | (348,275,639) | — | 12,304,362,581 | 12,036,221,213 |
| Cash dividends (Note 13b) | — | — | — | — | — | (10,817,148,331) | (10,817,148,331) |
| Appropriation during the year (Note 13b) | — | — | — | — | 11,900,000,000 | (11,900,000,000) | — |
| Reversal of appropriation (Note 13b) | — | — | — | — | (12,300,000,000) | 12,300,000,000 | — |
| Balances at December 31, 2019 | ₱7,358,604,307 | ₱12,588,894,332 | ₱80,134,271 | (₱556,796,826) | ₱33,660,000,000 | ₱23,522,985,155 | ₱76,653,821,239 |

| | Capital Stock (Note 13a) | Additional Paid-In Capital (Note 13a) | Unrealized Valuation on AFS Investments | Actuarial Losses on Defined Benefit Plan | Retained Earnings (Note 13b) Appropriated | Retained Earnings (Note 13b) Unappropriated | Total |
|---|---|---|---|---|---|---|---|
| Balances at January 1, 2018, as previously reported | ₱7,358,604,307 | ₱12,588,894,332 | (₱625,169) | (₱226,655,991) | ₱34,060,000,000 | ₱22,892,214,864 | ₱76,672,432,343 |
| Effect of adoption - PFRS 9 | — | — | 625,169 | — | — | (625,169) | — |
| Balances at January 1, 2018, as restated | 7,358,604,307 | 12,588,894,332 | — | (226,655,991) | 34,060,000,000 | 22,891,589,695 | 76,672,432,343 |
| Net income for the year | — | — | — | | — | 8,995,307,128 | 8,995,307,128 |
| Other comprehensive income | — | — | | 18,134,804 | — | — | 18,134,804 |
| Total comprehensive income | — | — | — | 18,134,804 | — | 8,995,307,128 | 9,013,441,932 |
| Cash dividends (Note 13b) | — | — | — | — | — | (10,228,459,986) | (10,228,459,986) |
| Balances at December 31, 2018 | ₱7,358,604,307 | ₱12,588,894,332 | ₱— | (₱208,521,187) | ₱34,060,000,000 | ₱21,658,436,837 | ₱75,457,414,289 |

*See accompanying Notes to Parent Company Financial Statements.*

## ABOITIZ POWER CORPORATION
## PARENT COMPANY STATEMENTS OF CASH FLOWS

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2020** | 2019 | 2018 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Income before income tax | **₱4,211,821,231** | ₱12,363,744,687 | ₱8,996,680,026 |
| Adjustments for: | | | |
| Interest and other financing charges (Notes 12 and 20) | **2,946,898,811** | 2,547,531,855 | 1,042,597,749 |
| Depreciation and amortization (Notes 8 and 9) | **44,543,930** | 35,961,127 | 23,345,806 |
| Project and bidding expenses (Note 10) | **7,086,632** | — | 51,122,382 |
| Provision for impairment of investment in a subsidiary | **—** | — | 45,933,000 |
| Gain on disposal of financial assets at FVTPL | **—** | (1,250,542) | — |
| Unrealized fair valuation loss (gain) on financial assets at FVTPL | **—** | (2,464,564) | 1,839,395 |
| Loss (gains) on disposal of assets (Note 8) | **(3,983,013)** | (1,329,856) | 1,253,111 |
| Interest income (Notes 4 and 17e) | **(106,589,029)** | (163,380,755) | (137,277,764) |
| Unrealized foreign exchange loss (gains) (Note 18) | **(609,508,010)** | (605,762,999) | 162,355,812 |
| Operating income before working capital changes | **6,490,270,552** | 14,173,048,953 | 10,187,849,517 |
| Decrease (increase) in: | | | |
| Trade and other receivables | **(203,280,545)** | (123,992,097) | (428,309,647) |
| Pension asset | **—** | 38,061,504 | (3,730,594) |
| Other current assets | **4,614,590** | 168,232,322 | (2,764,943) |
| Increase (decrease) in: | | | |
| Trade and other payables | **(3,922,163)** | 103,142,505 | 16,275,537 |
| Pension liability | **(235,202,259)** | (39,164,947) | — |
| Net cash generated from operations | **6,052,480,175** | 14,319,328,240 | 9,769,319,870 |
| Income taxes paid | **(165,176,422)** | (168,612,212) | (173,434,916) |
| Net cash flows from operating activities | **5,887,303,753** | 14,150,716,028 | 9,595,884,954 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Interest received | **105,980,970** | 195,342,135 | 103,769,811 |
| Decrease (increase) in recoverable deposits | **(66,906)** | 75,420,311 | (75,710,456) |
| Proceeds from: | | | |
| Advances from subsidiaries and associates | **1,412,353,654** | — | — |
| Redemption on preferred shares (Note 7) | **6,939,000** | 5,340,000 | 2,122,216,000 |
| Disposal of property and equipment (Note 8) | **4,034,952** | 4,344,811 | 5,998,846 |
| Disposal of financial asset at FVTPL | **—** | 101,250,542 | — |
| Additions to: | | | |
| Investments and advances | **(881,465,617)** | (31,707,725,376) | (11,061,708,241) |
| Project development costs (Note 10) | **(86,418,415)** | (234,871,366) | (177,031,239) |
| Computer software license (Note 9) | **(22,597,540)** | (4,535,865) | (93,500) |
| Property and equipment (Note 8) | **(20,759,356)** | (29,851,823) | (14,283,786) |
| Net cash flows from (used in) investing activities | **518,000,742** | (31,595,286,631) | (9,096,842,565) |

(Forward)

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2020** | 2019 | 2018 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from long-term debts (Note 12) | **₱9,550,000,000** | ₱27,881,500,000 | ₱10,200,000,000 |
| Availment of bank loans | **8,600,000,000** | – | 4,700,000,000 |
| Payments of: | | | |
| Cash dividends (Note 13b) | **(8,682,746,344)** | (10,817,148,331) | (10,228,459,986) |
| Interest and other financing charges | **(2,797,326,277)** | (2,301,301,047) | (878,938,176) |
| Transaction costs from availment of long-term debt | **(116,717,375)** | (431,396,357) | (121,924,252) |
| Long-term debt | **(50,000,000)** | – | – |
| Lease liability, including accretion of interest (Note 20) | **(23,650,208)** | (17,825,560) | – |
| Bank loans | **(8,600,000,000)** | (4,700,000,000) | – |
| Net cash flows from (used in) financing activities | **(2,120,440,204)** | 9,613,828,705 | 3,670,677,586 |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | **4,284,864,291** | (7,830,741,898) | 4,169,719,975 |
| **EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS** | **(174,091,990)** | 165,617,999 | (120,700,812) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | **4,210,064,412** | 11,875,188,311 | 7,826,169,148 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** (Note 4) | **₱8,320,836,713** | ₱4,210,064,412 | ₱11,875,188,311 |

*See accompanying Notes to Parent Company Financial Statements.*

## ABOITIZ POWER CORPORATION
## NOTES TO PARENT COMPANY FINANCIAL STATEMENTS

1. **Corporate Information**

Aboitiz Power Corporation (the Company) was incorporated in the Philippines and registered with the Securities and Exchange Commission on February 13, 1998. The Company is a publicly-listed holding company of the entities engaged in power generation, retail electricity supply and power distribution in the Aboitiz Group. As of December 31, 2020, Aboitiz Equity Ventures, Inc. (AEV, a publicly-listed Company incorporated in the Philippines) owns 77% of the Company. The Company's ultimate parent is Aboitiz & Company, Inc. (ACO).

The Company's registered office address is 32nd Street, Bonifacio Global City, Taguig City, Metro Manila, Philippines 1634.

The parent company financial statements were approved and authorized for issue in accordance with a resolution by the Board of Directors (BOD) of the Company on March 5, 2021.

2. **Basis of Preparation, Statement of Compliance and Summary of Significant Accounting Policies**

Basis of Financial Statement Preparation
The accompanying parent company financial statements have been prepared on a historical cost basis, except for derivative financial instruments which are measured at fair value. The parent company financial statements are presented in Philippine peso which is the Company's functional currency.

Statement of Compliance
The parent company financial statements are prepared in compliance with Philippine Financial Reporting Standards (PFRSs).

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of new standards effective as of January 1, 2020. The Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective, except for the amendments to PFRS 16, *Leases*.

Except as otherwise indicated, adoption of the following new and amended standards and interpretations did not have any significant impact on the parent company financial statements:

- Amendments to PFRS 3, *Business Combination, Definition of a Business*

  The amendments to PFRS 3 clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs.

  These amendments do not have an impact to the parent company financial statements.

- Amendments to Philippines Accounting Standards (PAS) 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*

  The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence 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 that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

- Amendments to PFRS 7, *Financial Instruments: Disclosures* and PFRS 9, *Financial Instruments, Interest Rate Benchmark Reform*

  The amendments to PFRS 9 provide a number of reliefs, which apply to all hedging relationships that are directly affected by the interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument.

  The Company adopted the amendments starting January 1, 2020 and availed the reliefs covered by the amendments. The table below indicates the nominal amount and weighted average maturity of derivatives in hedging relations that will be affected by interbank offered rate (IBOR) reform as financial instruments transition to risk-free interest rates (RFRs), analyzed by interest rate basis. The derivative hedging instruments provide a close approximation to the extent of the risk exposure the Company manages through hedging relationships

| Interest rate swaps | Nominal Amount | Average maturity (years) |
|---|---|---|
| United States Dollar (USD) LIBOR (3 months) | $200 million | 3.41 |

  The Company's treasury function is managing the Company's LIBOR transition plan. The greatest change will be amendments to the contractual terms of the LIBOR-referenced floating-rate debt and the associated swap and the corresponding update of the hedge designation. However, the changed reference rate may also affect other systems, processes, risk and valuation models, as well as having tax and accounting implications.

  The Company has applied the following reliefs that were introduced by the amendments:

  - When considering the 'highly probable' requirement, the Company has assumed that the LIBOR interest rate on which the Company's hedged debt is based does not change as a result of IBOR reform;
  - In assessing whether the hedge is expected to be highly effective on a forward-looking basis the Company has assumed that the LIBOR interest rate on which the cash flows of the hedged debt and the interest rate swap that hedges it are based is not altered by the IBOR reform; and
  - The Company has not recycled the cash flow hedge reserve relating to the period after the reforms are expected to take effect.

In calculating the change in fair value attributable to the hedged risk of floating-rate debt, the Company has made the following assumptions that reflect its current expectations:

- The floating-rate debt will move to RFRs during 2022 and the spread will be similar to the spread included in the interest rate swap used as the hedging instrument;
- No other changes to the terms of the floating-rate debt are anticipated; and
- The Company has incorporated the uncertainty over when the floating-rate debt will move to RFR, the resulting adjustment to the spread, and the other aspects of the reform that have not yet been finalised by adding an additional spread to the discount rate used in the calculation.

- Conceptual Framework for Financial Reporting issued on March 29, 2018

  The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the standard-setters in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards.

  The revised Conceptual Framework includes new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts.

- Amendments to PFRS 16, *COVID-19-related Rent Concessions*

  The amendments provide relief to lessees from applying the PFRS 16 requirement on lease modifications to rent concessions arising as a direct consequence of the COVID-19 pandemic. A lessee may elect not to assess whether a rent concession from a lessor is a lease modification if it meets all of the following criteria:

  - The rent concession is a direct consequence of COVID-19;
  - The change in lease payments results in a revised lease consideration that is substantially the same as, or less than, the lease consideration immediately preceding the change;
  - Any reduction in lease payments affects only payments originally due on or before June 30, 2021; and
  - There is no substantive change to other terms and conditions of the lease.

  A lessee that applies this practical expedient will account for any change in lease payments resulting from the COVID-19 related rent concession in the same way it would account for a change that is not a lease modification, i.e., as a variable lease payment.

  The amendments are effective for annual reporting periods beginning on or after June 1, 2020. Early adoption is permitted. The Company adopted the amendments beginning January 1, 2020.

<u>New Standards and Interpretation Issued and Effective after December 31, 2020</u>

The Company will adopt the standards enumerated below when these become effective. Except as otherwise indicated, the Company does not expect the adoption of these new and amended PFRSs, PAS and Philippine Interpretations to have significant impact on the parent company financial statements.

*Effective beginning on or after January 1, 2021*

- Amendments to PFRS 9, PFRS 7, PFRS 4, *Insurance Contracts*, and PFRS 16, *Interest Rate Benchmark Reform - Phase 2*

  The amendments provide the following temporary reliefs which address the financial reporting effects when an IBOR is replaced with an alternative nearly RFR:

  - Practical expedient for changes in the basis for determining the contractual cash flows as a result of IBOR reform
  - Relief from discontinuing hedging relationships
  - Relief from the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component

  The Company shall also disclose information about:

  - The about the nature and extent of risks to which the entity is exposed arising from financial instruments subject to IBOR reform, and how the entity manages those risks; and
  - Their progress in completing the transition to alternative benchmark rates, and how the entity is managing that transition

  The amendments are effective for annual reporting periods beginning on or after January 1, 2021 and apply retrospectively, however, the Company is not required to restate prior periods.

*Effective beginning on or after January 1, 2022*

- Amendments to PFRS 3, *Reference to the Conceptual Framework*

  The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The amendments added an exception to the recognition principle of PFRS 3, *Business Combinations* to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of PAS 37, *Provisions, Contingent Liabilities and Contingent Assets,* or Philippine-IFRIC 21, *Levies*, if incurred separately. At the same time, the amendments add a new paragraph to PFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

  The amendments are applied prospectively.

- Amendments to PAS 16, *Property, Plant and Equipment: Proceeds before Intended Use*

  The amendments prohibit entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.

  The amendment must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

- Amendments to PAS 37, *Onerous Contracts - Costs of Fulfilling a Contract*

  The amendment specifies which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

  The Company will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

- *Annual Improvements to PFRSs* 2018-2020 Cycle

  - Amendments to PFRS 1, *First-time Adoption of PFRS* - Subsidiary as a first-time adopter

    The amendment permits a subsidiary that elects to apply paragraph D16(a) of PFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to PFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of PFRS 1. The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted.

  - Amendments to PFRS 9, *Financial Instruments - Fees in the '10 per cent' test for derecognition of financial liabilities*

    The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

    The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. The Company will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

  - PAS 41, *Agriculture - Taxation in fair value measurements*

    The amendment removes the requirement in paragraph 22 of PAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of PAS 41.

    An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting period beginning on or after January 1, 2022 with earlier adoption permitted.

*Effective beginning on or after January 1, 2023*

- PFRS 17, *Insurance Contracts*

  PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

  The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

  - A specific adaptation for contracts with direct participation features (the variable fee approach)
  - A simplified approach (the premium allocation approach) mainly for short-duration contracts

  PFRS 17 is effective for reporting periods beginning on or after January 1, 2023, with comparative figures required. Early application is permitted.

- Amendments to PAS 1: *Classification of Liabilities as Current or Non-current*

  The amendments clarify paragraphs 69 to 76 of PAS 1, *Presentation of Financial Statements*, to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

  - What is meant by a right to defer settlement
  - That a right to defer must exist at the end of the reporting period
  - That classification is unaffected by the likelihood that an entity will exercise its deferral right
  - That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

  The amendments are applied retrospectively. The Company is currently assessing the impact the amendments will have on current practice.

*Deferred effectivity*

- Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

  The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

On January 13, 2016, the Financial Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board (IASB) completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

**Summary of Significant Accounting Policies**

Current versus Noncurrent Classification
The Company presents assets and liabilities in the parent company balance sheet based on current/noncurrent classification. An asset as current when it is:

- Expected to be realized or intended to be sold or consumed in normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realized within twelve months after the reporting period or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for a least twelve months after reporting period

All other assets are classified as noncurrent.

A liability is current when:

- It is expected to be settled in normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period or
- There is no unconditional right to defer settlement of the liability for at least twelve months after the reporting period

All other liabilities are classified as noncurrent.

Deferred income tax assets and liabilities are classified as non-current assets and liabilities.

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

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

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

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

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

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

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

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

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

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

Foreign Currency Translation

The parent company financial statements are presented in Philippine Peso, which is the Company's functional currency. Transactions in foreign currencies are recorded using the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated using the rate of exchange at balance sheet date. Exchange gains and losses arising from foreign currency transactions and translations of foreign currency denominated monetary assets and liabilities are credited to or charged against current operations. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

Cash and Cash Equivalents

Cash and cash equivalents in the parent company balance sheet consist of cash on hand and with banks, and short-term, highly liquid investments that are readily convertible to known amounts of cash and subject to insignificant risk of changes in value. They are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

For the purpose of the parent company statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Financial Instruments - Classification and Measurement

*Classification of financial assets*

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

- financial assets measured at amortized cost
- financial assets measured at fair value through profit or loss (FVTPL)

- financial assets measured at fair value through other comprehensive income (FVOCI), where cumulative gains or losses previously recognized are reclassified to profit or loss
- financial assets measured at FVOCI, where cumulative gains or losses previously recognized are not reclassified to profit or loss

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

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

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

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

*Financial assets at amortized cost*
A financial asset is measured at amortized cost if (i) it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding. These financial assets are initially recognized at fair value plus directly attributable transaction costs and subsequently measured at amortized cost using the effective interest method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest method. The amortization is included in 'Interest income' in the parent company statement of income and is calculated by applying the effective interest method to the gross carrying amount of the financial asset, except for (i) purchased or originated credit-impaired financial assets and (ii) financial assets that have subsequently become credit-impaired, where, in both cases, the effective interest method is applied to the amortized cost of the financial asset. Losses arising from impairment are recognized in 'Provision for credit and impairment losses' in the parent company statement of income.

The Company's financial assets at amortized cost as of December 31, 2020 and 2019 consist of cash in banks, cash equivalents and trade and other receivables (see Note 18). The Company assessed that the contractual cash flows of these financial assets are SPPI and are expected to be held to collect all contractual cash flows until their maturity. As a result, the Company concluded these financial assets are to be measured at amortized cost.

*Financial assets at FVOCI*
A financial asset is measured at FVOCI if (i) it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and (ii) its contractual terms give rise on specified dates to cash flows that are SPPI on the principal amount outstanding. These financial assets are initially recognized at fair value plus directly attributable transaction costs and subsequently measured at fair value. Gains and losses arising from changes in fair value are included in other comprehensive income within a separate component of equity. Impairment losses or reversals, interest income and foreign exchange gains and losses are recognized in profit and loss until the financial asset is derecognized. Upon derecognition, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. This reflects the gain or loss that would have been recognized in profit or loss upon derecognition if the financial asset had been measured at amortized cost. Impairment is measured based on the expected credit loss (ECL) model.

The Company may also make an irrevocable election to measure at FVOCI on initial recognition investments in equity instruments that are neither held for trading nor contingent consideration recognized in a business combination in accordance with PFRS 3. Amounts recognized in OCI are not subsequently transferred to profit or loss. However, the Company may transfer the cumulative gain or loss within equity. Dividends on such investments are recognized in profit or loss, unless the dividend clearly represents a recovery of part of the cost of the investment.

Dividends are recognized in profit or loss only when:

- the Company's right to receive payment of the dividend is established
- it is probable that the economic benefits associated with the dividend will flow to the Company; and
- the amount of the dividend can be measured reliably.

The Company does not have any financial asset at FVOCI as of December 31, 2020 and 2019.

*Financial assets at FVTPL*
Financial assets at FVTPL are measured as at unless these are measured at amortized cost or at FVOCI. Included in this classification are equity investments held for trading and debt instruments with contractual terms that do not represent SPPI. Financial assets held at FVTPL are initially recognized at fair value, with transaction costs recognized in the parent company statement of income as incurred. Subsequently, they are measured at fair value and any gains or losses are recognized in the parent company statement of income.

Additionally, even if the asset meets the amortized cost or the FVOCI criteria, the Company may choose at initial recognition to designate the financial asset at FVTPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency (an accounting mismatch) that would otherwise arise from measuring financial assets on a different basis.

Trading gains or losses are calculated based on the results arising from trading activities of the Company, including all gains and losses from changes in fair value for financial assets and financial liabilities at FVTPL, and the gains or losses from disposal of financial investments.

The Company does not have any financial asset at FVTPL as of December 31, 2020 and 2019.

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

- financial liabilities measured at FVTPL;
- financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the Company retains continuing involvement;
- financial guarantee contracts;
- commitments to provide a loan at a below-market interest rate; and
- contingent consideration recognized by an acquirer in accordance with PFRS 3.

A financial liability may be designated at fair value through profit or loss if it eliminates or significantly reduces a measurement or recognition inconsistency (an accounting mismatch) or:

- if a host contract contains one or more embedded derivatives; or
- if a Company of financial liabilities or financial assets and liabilities is managed and its performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

Where a financial liability is designated at fair value through profit or loss, the movement in fair value attributable to changes in the Company's own credit quality is calculated by determining the changes in credit spreads above observable market interest rates and is presented separately in other comprehensive income.

The Company's financial liabilities measured at amortized cost (which were initially recognized at fair value, net of directly attributable transaction costs) as of December 2020 and 2019 which comprise of trade and other payables, long-term debts and lease liabilities (see Note 18).

*Reclassifications of financial instruments*
The Company reclassifies its financial assets when, and only when, there is a change in the business model for managing the financial assets. Reclassifications shall be applied prospectively by the Company and any previously recognized gains, losses or interest shall not be restated. The Company does not reclassify its financial liabilities.

The Company does not reclassify its financial assets when:

- A financial asset that was previously a designated and effective hedging instrument in a cash flow hedge or net investment hedge no longer qualifies as such;
- A financial asset becomes a designated and effective hedging instrument in a cash flow hedge or net investment hedge; and
- There is a change in measurement on credit exposures measured at fair value through profit or loss.

Derivative financial instruments
*Initial recognition and subsequent measurement*
Derivative financial instruments, including embedded derivatives, are initially recognized at fair value on the date in which a derivative transaction is entered into or bifurcated, and are subsequently remeasured at FVTPL, unless designated as effective hedge. Changes in fair value of derivative instruments not accounted as hedges are recognized immediately in the consolidated statement of income. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The Company assesses whether embedded derivatives are required to be separated from host contracts when the Company first becomes party to the contract. An embedded derivative is separated from the host financial or non-financial contract and accounted for as a separate derivative if all of the following conditions are met:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the hybrid or combined instrument is not recognized as at FVTPL.

Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Embedded derivatives that are bifurcated from the host contracts are accounted for either as financial assets or financial liabilities at FVTPL. The Company uses derivative financial instruments, such as foreign currency forward and interest rate swaps (IRS) to hedge its foreign currency risks and interest rate risk, respectively.

For the purpose of hedge accounting, the Company's hedge are classified as cash flow hedges. Hedges are classified as cash flow hedge when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment.

At the inception of a hedge relationship, the Company 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, the nature of the risk being hedged and how the Company will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is 'an economic relationship' between the hedged item and the hedging instrument.
- The effect of credit risk does not 'dominate the value changes' that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Company actually hedges and the quantity of the hedging instrument that the Company actually uses to hedge that quantity of hedged item.

The Company's hedges that meet all the qualifying criteria for hedge accounting are accounted for, as described below:

*Cash flow hedge*
The effective portion of the gain or loss on the hedging instrument is recognized in the cash flow hedge reserve, while any ineffective portion is recognized immediately in the parent company statement of income. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

The Company uses foreign currency forward contracts as hedges of its exposure to foreign currency risk in forecast transactions and IRS contracts to manage its floating interest rate exposure on its loans. The ineffective portion relating to these contracts are recognized in other operating income or expenses as realized gain or loss on derivative instruments.

The Company designated all of the foreign currency forward and IRS as hedging instrument. The amounts accumulated in other comprehensive income are accounted for, depending on the nature of the underlying hedged transaction. If the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is removed from the separate component of equity and included in the initial cost or other carrying amount of the hedged asset or liability. This is not a reclassification adjustment and will not be recognized in other comprehensive income for the period. This also applies where the hedged forecast transaction of a non-financial asset or non-financial liability subsequently becomes a firm commitment for which fair value hedge accounting is applied.

For any other cash flow hedges, the amount accumulated in other comprehensive income is reclassified to the parent company statement of income as a reclassification adjustment in the same period or periods during which the hedged cash flows affect profit or loss.

If cash flow hedge accounting is discontinued, the amount that has been accumulated in other comprehensive must remain in accumulated other comprehensive income if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to profit or loss as a reclassification adjustment. After discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated other comprehensive must be accounted for depending on the nature of the underlying transaction as described above.

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, and only when:

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

When the Company retains the contractual rights to receive the cash flows of a financial asset but assumes a contractual obligation to pay those cash flows to one or more entities, the Company treats the transaction as a transfer of a financial asset if the Company:

- has no obligation to pay amounts to the eventual recipients unless it collects equivalent amounts from the original asset;
- is prohibited by the terms of the transfer contract from selling or pledging the original asset other than as security to the eventual recipients for the obligation to pay them cash flows; and
- has an obligation to remit any cash flows it collects on behalf of the eventual recipients without material delay.

In transactions where the Company neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset and it retains control over the financial asset, the financial asset is recognized to the extent of the Company's continuing involvement in the financial asset. The extent of the Company's continuing involvement in the transferred asset is the extent to which it is exposed to changes in the value of the transferred asset. When the Company's continuing involvement takes the form of guaranteeing the transferred asset, the extent of the Company's continuing involvement is the lower of (i) the amount of the asset and (ii) the maximum amount of the consideration received that the Company could be required to repay ('the guarantee amount'). When the Company's continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the extent of the Company's continuing involvement is the amount of the transferred asset that the Company may repurchase. However, in the case of a written put option on an asset that is measured at fair value, the extent of the Company's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price. When the Company's continuing involvement takes the form of a cash-settled option or similar provision on the transferred asset, the extent of the Company's continuing involvement is measured in the same way as that which results from non-cash settled options.

*Modification of contractual cash flows*
When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset, the Company recalculates the gross carrying amount of the financial asset as the present value of the renegotiated or modified contractual cash flows discounted at the original effective interest method (or credit-adjusted effective interest method for purchased or originated credit-impaired financial assets) and recognizes a modification gain or loss in the parent company statement of income.

When the modification of a financial asset results in the derecognition of the existing financial asset and the subsequent recognition of the modified financial asset, the modified asset is considered a 'new' financial asset. Accordingly, the date of the modification shall be treated as the date of initial recognition of that financial asset when applying the impairment requirements to the modified financial asset.

*Financial liabilities*
A financial liability (or a part of a financial liability) is derecognized when the obligation under the liability is discharged, cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability or a part of it are substantially modified, such an exchange or modification is treated as a derecognition of the original financial liability and the recognition of a new financial liability, and the difference in the respective carrying amounts is recognized in the parent company statement of income.

Impairment of Financial Assets
The Company recognizes expected credit losses (ECL) for the following financial assets that are not measured at FVTPL:

- debt instruments that are measured at amortized cost and FVOCI;
- loan commitments; and
- financial guarantee contracts

ECLs are measured in a way that reflects the following:

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

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

*Stage 1: 12-month ECL*
For credit exposures where there have not been significant increases in credit risk since initial recognition and that are not credit-impaired upon origination, the portion of lifetime ECLs that represent the ECLs that result from default events that are possible within the 12-months after the balance sheet date are recognized.

*Stage 2: Lifetime ECL - not credit-impaired*
For credit exposures where there have been significant increases in credit risk since initial recognition on an individual or collective basis but are not credit-impaired, lifetime ECLs representing the ECLs that result from all possible default events over the expected life of the financial asset are recognized.

*Stage 3: Lifetime ECL - credit-impaired*
Financial assets are credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of those financial assets have occurred. For these credit exposures, lifetime ECLs are recognized and interest revenue is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the financial asset.

A financial asset is considered to have low credit risk if:

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

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

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

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

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount is reported in the parent company balance sheet 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 whereby the related assets and liabilities are presented gross in the parent company balance sheet.

Classification of Financial Instruments Between Liability and Equity
A financial instrument is classified as liability if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Company; or
- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Company does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

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 or a component that is a financial liability, are reported as income or expense. Distributions to holders of financial instruments classified as equity are charged directly to equity net of any related income tax benefits.

The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

Investments in Subsidiaries and Associates
A subsidiary is an entity over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity.

An associate is an entity in which the Company has significant influence and which is neither a subsidiary nor a joint venture. Significant influence is the power to participate in the financial and operating policy decision of the investee, but is not control or joint control over those policies.

Investments in subsidiaries and associates are carried at cost, less impairment in value, in the parent company financial statements.

The Company recognizes income from the investments only to the extent that the Company receives distributions or establishes a right to receive distributions from accumulated profits of the subsidiaries and associates arising after the date of acquisition. Distributions received in excess of such profits are regarded as a recovery of investment and are recognized as a reduction of the cost of the investment.

Property and Equipment
Property and equipment are stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value, if any. The initial cost of property and equipment compromises its purchase price, including import duties, if any, nonrefundable taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Such cost includes the cost of replacing parts of such property and equipment when that costs is incurred if the recognition criteria are met. Repairs and maintenance costs are recognized in the parent company statement of income as incurred.

Depreciation is computed using the straight-line method over the useful lives of the assets as follows:

| Category | Number of years |
|---|---|
| Transportation equipment | 5 |
| Office equipment | 3 |
| Communication equipment | 3 |
| Leasehold improvements | 10 |

Leasehold improvements are amortized over the shorter of the lease terms and the lives of the improvements.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the parent company statement of income in the year the asset is derecognized. The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable.

The assets' residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each financial year-end to ensure that the periods, residual values and method of depreciation are consistent with the expected patter of economic benefit from the items of property and equipment.

When each major inspection is performed, its cost is recognized in the carrying amount of the property and equipment as a replacement if the recognition criteria are satisfied.

Fully depreciated assets are retained in the accounts until these are no longer in use. When assets are retired or otherwise disposed of, both the cost and related accumulated depreciation and amortization and any allowance for impairment losses, if any, are removed from the accounts, and any resulting gain or loss is credited or charged to current operations.

Intangible Assets
Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of the acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the parent company statement of income in the year in which the expenditure is incurred.

*Computer software license*
Computer software license is initially recognized at cost. Following initial recognition, the computer software license cost is carried at cost less accumulated amortization and any accumulated impairment in value, if any.

The computer software license is amortized on a straight-line basis over its estimated useful economic life of three to five years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization commences when the computer software license is available for use. The amortization period and the amortization method for the license are reviewed at each financial year end. Changes in the estimated useful life is accounted for by changing the amortization period or method, as appropriate, and treating them as changes in accounting estimates. The amortization expense is recognized in the parent company statement of income in the expense category consistent with the function of the computer software license.

*Project Development Costs*
Project development costs include power plant projects in the development phase which meet the "identifiability" requirement under PAS 38, *Intangible Assets*, as they are separable and susceptible to individual sale and are carried at acquisition cost. During the period of development, the asset is tested for impairment annually.

Research and Development Expenditure
The Company's policy is to record research expenses in the parent company statement of income in the period when they are incurred.

Development costs are recognized as an intangible asset on the parent company balance sheet if the Company can identify them separately and show the technical viability of the asset, its intention and capacity to use or sell it, and how it will generate probable future economic benefits.

Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit. During the period of development, the asset is tested for impairment annually.

Impairment of Nonfinancial Assets
*Other current assets, project development costs, property and equipment and other noncurrent assets*
Except for project development costs, which are tested for impairment annually, the Company assesses at each balance sheet date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognized in the parent company statement of income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each balance sheet date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the parent company statement of income unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

*Investments and advances*
The Company performs impairment review on its investments and advances whenever an impairment indicator exists. This requires an estimation of the value in use of the investees. Estimating the value in use requires the Company to make an estimate of the future cash flows of the investees and to use a suitable discount rate to calculate the present value of those future cash flows. Impairment losses, if any, are recognized in the parent company statement of income.

Capital Stock and Additional Paid-in Capital
Capital stock is measured at par value for all shares issued. When the Company issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued. Capital stock includes common stock and preferred stock.

When the shares are sold at premium, the difference between the proceeds and the par value is credited to the "Additional paid-in capital" account. When shares are issued for a consideration other than cash, the proceeds are measured by the fair value of the consideration received. In case the shares are issued to extinguish or settle the liability of the Company, the shares shall be measured either at the fair value of the shares issued or fair value of the liability settled, whichever is more reliably determinable.

Direct costs incurred related to equity issuance, such as underwriting, accounting and legal fees, printing costs and taxes are debited to the "Additional paid-in capital" account. If additional paid-in capital is not sufficient, the excess is charged against an equity reserve account.

Retained Earnings
The amount included in retained earnings includes accumulated earnings of the Company and reduced by dividends on capital stock. Dividends on capital stock are recognized as a liability and deducted from equity when they are approved by the BOD. Dividends for the year that are approved after the balance sheet date are dealt with as an event after the balance sheet date. Retained earnings may also include effect of changes in accounting policy as may be required by the transition provisions of new and amended standards.

Revenue Recognition
Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as a principal or an agent.

The following specific recognition criteria must also be met before revenue is recognized:

*Dividend income*
Dividend income is recognized when the Company's right to receive payment is established.

*Technical, management and service fees*
Technical, management and other fees are recognized when the related services are rendered.

*Interest income*
Interest is recognized as it accrues taking into account the effective interest method.

Expenses
Expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. Expenses are recognized when incurred.

Leases (prior to adoption of PFRS 16 in 2019)
The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

(a) there is a change in contractual terms, other than a renewal or extension of the arrangement;
(b) a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
(c) there is a change in the determination of whether fulfillment is dependent on a specific asset; or
(d) there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gives rise to the reassessment for scenarios (a), (c) or (d) above, and at the date of renewal or extension period for scenario (b).

*Operating lease*
Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating lease. Operating lease payments are recognized as an expense in the parent company statement of income on a straight-line basis over the lease term.

Leases (upon adoption of PFRS 16 in 2019)
The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

*Company as a lessee*
The Company applies a single recognition and measurement approach for all leases, except for short-term leases. The Company recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

*Right-of-use assets*
The Company recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial

direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets only pertain to office spaces and are depreciated on a straight-line basis over the shorter of the lease term of 5 to 10 years and the estimated useful lives of the assets.

If ownership of the leased asset transfers to the Company at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. The right-of-use assets are also subject to impairment.

*Lease liabilities*
At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating the lease, if the lease term reflects the Company exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognized as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

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

*Short-term leases*
The Company applies the short-term lease recognition exemption to its short-term leases of conference rooms (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). Lease payments on short-term leases and leases of low value assets are recognized as expense on a straight-line basis over the lease term.

Pension benefits
The Company has defined benefit pension plans which require contributions to be made to separately administered funds. The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

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

Defined benefit costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

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

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

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

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

The Company's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

Borrowing Costs

Borrowing costs are capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset. To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization on that asset shall be determined as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings. To the extent that funds are borrowed generally, the amount of borrowing costs eligible for capitalization shall be determined by applying a capitalization rate to the expenditures on that asset. The capitalization rate shall be the weighted average of the borrowing costs applicable to the borrowings of the Company that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs capitalized during a period shall not exceed the amount of borrowing costs incurred during that period.

Taxes

*Current income tax*

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

Current income tax relating to items recognized directly in equity is recognized in the parent company statement of comprehensive income and not in the parent company statement of income.

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

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

Deferred income tax liabilities are recognized for all taxable temporary differences, except where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction affects neither the accounting profit nor taxable profit or loss.

Deferred income tax assets are recognized for all deductible temporary differences, carryforward benefits of unused net operating loss carryover (NOLCO) and excess minimum corporate income tax (MCIT), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward benefits of unused NOLCO and excess MCIT can be utilized in the future, except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the account profit nor taxable profit or loss.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred income tax asset to be recovered.

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

Income tax relating to items recognized directly in other comprehensive income is also recognized in other comprehensive income and not in the parent company statement of income.

Value-added Tax (VAT)
Revenues, expenses, and assets are recognized net of the amount of VAT, if applicable.

When VAT from sales of goods and/or services (output VAT) exceeds VAT passed on from purchases of goods or services (input VAT), the excess is recognized as payable in the parent company balance sheet. When VAT passed on from purchases of goods or services (input VAT) exceeds VAT from sales of goods and/or services (output VAT), the excess is recognized as an asset in the parent company balance sheet to the extent of the recoverable amount.

Provisions
Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the

obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the parent company statement of income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a borrowing cost.

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

Events After the Reporting Period
Post year-end events that provide additional information about the Company's financial position at the balance sheet date (adjusting events) are reflected in the parent company financial statements. Post year-end events that are not adjusting events are disclosed when material.

Earnings Per Common Share
Basic earnings per common share are computed by dividing net income for the year by the weighted average number of common shares issued and outstanding during the year, after retroactive adjustments for any stock dividends declared and stock rights exercised during the year.

Diluted earnings per share amounts are calculated by dividing the net income for the year by the weighted average number of common shares outstanding during the year plus the weighted average number of common shares that would be issued for outstanding common stock equivalents. The Company does not have dilutive common stock equivalents.

## 3. Significant Accounting Judgment, Estimates and Assumptions

The preparation of the parent company financial statements requires management to make judgments, estimates and assumptions that affect the amounts reported in the financial statements and related notes. The judgment, estimates and assumptions used in the parent company financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the parent company financial statements. Actual results could differ from such estimates. Judgments, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The following items are those matters which the Company assess to have significant risk arising from judgement and estimation uncertainty:

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

*Classification of financial instruments*
The Company exercises judgment in classifying a financial instrument, or its component parts, on initial recognition as either a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definition of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the parent company balance sheet.

*Contractual cash flows assessment*
For each financial asset, the Group assesses the contractual terms to identify whether the instrument is consistent with the concept of SPPI.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortization of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Group applies judgment and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

*Evaluation of business model in managing financial instruments*
The Company determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Company's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed; and
- The expected frequency, value and timing of sales are also important aspects of the Company's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Company's original expectations, the Company does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

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

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

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

The Company will continue to recognize revenue from rendering of services over time, since customers simultaneously receives and consumes the benefits as the Company provides the services.

*Identifying methods for measuring progress of revenue recognized over time*
The Company determines the appropriate method of measuring progress which is either through the use of input or output methods. Input method recognizes revenue on the basis of the entity's efforts or inputs to the satisfaction of a performance obligation while output method recognizes revenue on the basis of direct measurements of the value to the customer of the goods or services transferred to date.

Estimates and Assumptions
The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

*Measurement of expected credit losses*
ECLs are derived from unbiased and probability-weighted estimates of expected loss. Financial assets that are not credit-impaired at the balance sheet date are measured as the present value of all cash shortfalls over the expected life of the financial asset discounted by the effective interest rate. The cash shortfall is the difference between the cash flows due to the Company in accordance with the contract and the cash flows that the Company expects to receive.

The Company leverages existing risk management indicators (e.g., internal credit risk classification and restructuring triggers), credit risk rating changes and reasonable and supportable information which allows the Company to identify whether the credit risk of financial assets has significantly increased.

No allowance for expected credit losses was recognized in 2020 and 2019. Trade and other receivables amounted to ₱1.3 billion and ₱1.1 billion as of December 31, 2020 and 2019, respectively (see Note 5).

*Inputs, assumptions and estimation techniques*
The ECL is measured on either a 12-month or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD), defined as follows:

- *PD*
  The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months, or over the remaining life of the obligation. PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures. The 12-months and lifetime PD represent the expected point-in-time probability of a default over the next 12 months and remaining lifetime of the financial instrument, respectively, based on conditions existing at the balance sheet date and future economic conditions that affect credit risk.

- *LGD*
  Loss Given Default represents the Company's expectation of the extent of loss on a defaulted exposure, taking into account the mitigating effect of collateral, its expected value when realized and the time value of money. LGD varies by type of counterparty, type of seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of EAD.

- *EAD*
  EAD is based on the amounts the Company expects to be owed at the time of default, over the next 12 months or over the remaining lifetime.

The ECL is determined by projecting the PD, LGD, and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e., the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the balance sheet date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The lifetime PD is developed by applying a maturity profile to the current 12-month PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis. The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by counterparty.

The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default. LGDs are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGD's are influenced by collection strategies.

The assumptions underlying the ECL calculation such as how the maturity profile of the PDs change are monitored and reviewed on a quarterly basis.

*Simplified approach for trade receivables*
The Company uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for various customer segments that have similar loss patterns.

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

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

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

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

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

Predicted relationship between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analyzing historical data over the past 5 years. The methodologies and assumptions including any forecasts of future economic conditions are reviewed regularly.

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

*Estimating allowance for impairment of losses on investment in and advances to subsidiaries and associates*
Investments in and advances to subsidiaries and associates are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. No additional impairment loss was recognized in 2020 and 2019. The aggregate carrying amount of the investments in and advances to subsidiaries and associates amounted to ₱120.1 billion and ₱120.6 billion as of December 31, 2020 and 2019, respectively (see Note 7).

*Estimating impairment of project development costs*
Impairment is determined for development costs by assessing the recoverable amount of each projects. Where the recoverable amount of the project is less than the carrying amount, an impairment loss is recognized. When calculating recoverable amount, the future cash flow is

discounted by a discount factor that takes into consideration risk free interest and the risk associated with the specific project.

The Company did not recognize impairment loss on project development costs in 2020 and 2019. The carrying amount of the Company's project development costs amounted to ₱702.7 million and ₱623.3 million as of December 31, 2020 and 2019, respectively (see Note 10).

*Estimating useful lives of property and equipment*
The Company estimates the useful lives of property and equipment based on the period over which 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, the estimation of the useful lives of property and equipment 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 the factors and circumstances mentioned above. As of December 31, 2020 and 2019, the net book values of property and equipment amounted to ₱103.0 million and ₱105.0 million, respectively (see Note 8).

*Assessing impairment of nonfinancial assets*
The Company assesses whether there are any indicators of impairment for nonfinancial assets at each balance sheet date. These nonfinancial assets (property and equipment and other current and noncurrent assets) are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

Determining the recoverable amount of the assets, which require the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the Company to make estimates and assumptions that can materially affect its financial statements. Future events could cause the Company to conclude that these assets are impaired. Any resulting impairment loss could have a material adverse impact on the financial condition and results of operations.

As of December 31, 2020, the carrying values of property and equipment and other current and noncurrent assets amounted to ₱103.0 million, ₱7.0 million and ₱1.1 billion, respectively. As of December 31, 2019, the carrying values of property and equipment and other current and noncurrent assets amounted to ₱105.0 million, ₱889.9 million and ₱16.4 million, respectively (see Notes 6, 8, and 9).

*Estimating the incremental borrowing rate*
The Company cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure its lease liability. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Company 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Company estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates. As of December 31, 2020 and 2019, lease liability amounted to ₱51.4 million and ₱51.6 million, respectively (see Note 20).

*Pension benefits*
The cost of defined benefit pension plans, as well as the present value of the pension obligation, are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each balance sheet date.

In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

The mortality rate is based on publicly available mortality tables for the specific country and is modified accordingly with estimates of mortality improvements. Future salary increases and pension increases are based on expected future inflation rates for the specific country.

Further details about the assumptions used are provided in Note 15.

Net benefit expense amounted to ₱54.5 million, ₱29.8 million and ₱41.9 million in 2020,2019 and 2018, respectively. Net pension liability amounted to ₱33.1 and ₱219.7 million in 2020 and 2019, respectively (see Note 15).

*Recognition of deferred income tax assets*
The Company reviews the carrying amounts of deferred income tax assets at each balance sheet date and reduces deferred income tax assets to the extent that it is no longer probable that sufficient income will be available to allow all or part of the deferred income tax assets to be utilized. Deferred income tax asset amounted to ₱313.2 million and ₱130.3 million as of December 31, 2020 and 2019, respectively (see Note 16).

No deferred income tax assets were recognized for deductible temporary difference and carryforward benefit from unused NOLCO and excess MCIT as disclosed in Note 16.

*Legal contingencies*
The estimate of probable costs for the resolution of possible claims has been developed in consultation with outside counsels handling the Company's defense in these matters and is based upon an analysis of potential results. No provision for probable losses arising from legal contingencies was recognized in the parent company financial statements for the years ended December 31, 2020 and 2019.

## 4. Cash and Cash Equivalents

| | 2020 | 2019 |
|---|---|---|
| Cash on hand and in banks | **₱569,409,822** | ₱25,680,412 |
| Short-term deposits | **7,751,426,891** | 4,184,384,000 |
| | **₱8,320,836,713** | ₱4,210,064,412 |

Cash in banks earn interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods depending on the immediate cash requirements of the Company and earn interest at the respective short-term deposits rates.

Interest income earned from cash in banks and short-term deposits amounted to ₱106.6 million, ₱163.4 million and ₱137.3 million in 2020, 2019 and 2018, respectively.

## 5. Trade and Other Receivables

| | 2020 | 2019 |
|---|---|---|
| Trade Receivables: | | |
| Related Parties (Note 17) | **₱586,147,450** | ₱998,981,154 |
| Others | **26,864,936** | 28,786,827 |
| Dividends (Note 17) | **645,719,866** | — |
| Interest | **12,424,360** | 11,816,301 |
| Nontrade | **—** | 18,428,595 |
| Others | **6,226,467** | 15,481,598 |
| | **₱1,277,383,079** | ₱1,073,494,475 |

Trade receivables are non-interest bearing and are generally on 30 days' term.

For terms and conditions relating to related party receivables, refer to Note 17.

## 6. Other Current Assets

| | 2020 | 2019 |
|---|---|---|
| Prepaid tax | **₱—** | ₱878,228,543 |
| Input VAT | **7,011,255** | 11,625,845 |
| | **₱7,011,255** | ₱889,854,388 |

In 2020, the Company reclassified its prepaid tax to "Other noncurrent assets" account based on its assessment that realization is not within 12 months.

## 7. Investments and Advances

The details of the Company's investments and advances follow:

| | 2020 | 2019 |
|---|---|---|
| Investments in Subsidiaries: | | |
| Therma Power, Inc. (TPI) | **₱30,116,058,873** | ₱30,116,058,873 |
| Aboitiz Renewables, Inc. (ARI) | **25,172,988,814** | 25,172,988,814 |
| Therma Visayas, Inc. (TVI) | **7,118,681,570** | 7,118,681,570 |
| Hedcor Bukidnon, Inc. (Hedcor Bukidnon) | **2,997,000,000** | 2,997,000,000 |
| Hedcor Sabangan, Inc. (Hedcor Sabangan) | **1,732,643,142** | 1,732,643,142 |
| Lima Enerzone Corporation (LEZC) | **1,329,696,667** | 1,329,696,667 |
| Hedcor, Inc. (HI) | **1,237,204,309** | 974,875,000 |
| Therma South, Inc. (Therma South) | **877,892,679** | 877,892,679 |
| Therma Mobile, Inc. (Therma Mobile) | **742,400,000** | 742,400,000 |
| Davao Light & Power Co., Inc. (DLPC) | **738,472,506** | 738,472,506 |
| Visayan Electric Co., Inc. (VECO) | **665,438,202** | 665,438,202 |
| Hedcor Tudaya, Inc. (HTI) | **656,250,000** | 656,250,000 |
| Mactan Enerzone Corporation (MEZC) | **609,532,287** | 609,532,287 |
| Balamban Enerzone Corporation (BEZC) | **444,869,161** | 444,869,161 |
| Subic Enerzone Corporation (SEZC) | **227,000,000** | 227,000,000 |
| Cotabato Light & Power Co. (CLPC) | **214,047,443** | 214,047,443 |
| AboitizPower International Pte. Ltd. (AP Int) | **171,404,666** | 120,733,027 |
| Retensol, Inc. (RI) | **135,116,116** | 135,000,000 |
| East Asia Utilities Corporation (EAUC) | **100,914,275** | 100,914,275 |
| Malvar Enerzone Corporation (Malvez) | **110,500,000** | 70,400,000 |
| AP Renewable Energy Corporation (APREC) | **27,382,759** | 25,000,000 |
| Aboitiz Energy Solutions, Inc. (AESI) | **21,000,000** | 21,000,000 |
| Cebu Private Power Corporation (CPPC) | **17,806,608** | 17,806,608 |
| Prism Energy, Inc. (PEI) | **12,648,600** | 12,648,600 |
| AdventEnergy, Inc. (AI) | **812,500** | 812,500 |
| | **75,477,761,177** | 75,122,161,354 |
| Investments in Associates: | | |
| AA Thermal, Inc. | **31,643,684,239** | 31,082,935,376 |
| STEAG State Power, Inc. (STEAG) | **4,400,611,465** | 4,400,611,465 |
| Hijos de F. Escaño, Inc. (Hijos) | **873,491,034** | 858,069,586 |
| Pampanga Energy Ventures, Inc. (PEVI) | **209,465,106** | 209,465,106 |
| San Fernando Electric Light & Power Co., Inc. (SFELAPCO) | **180,863,801** | 180,863,801 |
| AEV Aviation, Inc. (AAI) | **156,996,000** | 163,935,000 |
| Western Mindanao Power Corporation (WMPC) | **79,099,377** | 79,099,377 |
| Southern Philippines Power Corporation (SPPC) | **45,776,067** | 45,776,067 |
| | **37,589,987,089** | 37,020,755,778 |
| Less allowance for impairment loss | **1,071,358,480** | 1,071,358,480 |
| | **111,996,389,786** | 111,071,558,652 |
| Advances (see Note 17) | **8,099,991,818** | 9,562,649,989 |
| | **₱120,096,381,604** | ₱120,634,208,641 |

*Investment in Malvez*
The Company subscribed additional 40.1 million and 47.61 million Redeemable Preferred Shares (RPS) for ₱40.1 million and ₱47.6 million in 2020 and 2019, respectively.

*Investment in HI*
The Company subscribed additional 262.33 million RPS for ₱262.33 million and 369.75 million RPS for ₱369.75 million in 2020 and 2019, respectively.

*Investment in AA Thermal, Inc.*
On May 2, 2019, the Company completed its acquisition of a 49% voting stake and a 60% economic stake in AA Thermal, Inc., AC Energy's thermal platform in the Philippines.

AA Thermal has interests in GNPower Mariveles Energy Center Ltd. Co. (GMEC; formerly GNPower Mariveles Coal Plant Ltd. Co.), the owner and operator of an operating 2x316 MW coal plant in Mariveles, Bataan and in GNPower Dinginin Ltd. Co. (GNPD), the developer and owner of a 2x668 MW supercritical coal plant project in Dinginin, Bataan, which is currently under construction.

The completion of the transaction increase the Company's economic interests in GMEC and GNPD to 78.3%, and 70%, respectively.

The Company subscribed additional RPS amounting to US$11.2 million (₱560.7 million) and US$ 18.1 million (₱929.3 million) in 2020 and 2019, respectively.

*Investment in AAI*
AAI redeemed shares attributable to the Company at 6,939 RPS and for ₱6.9 million and 5,340 RPS for ₱5.34 million in 2020 and 2019, respectively at ₱1,000 per share

*Investment in RI*
In 2020, the Company subscribed additional 116.1 thousand RPS for ₱116.1 thousand.

*Investment in APREC*
In 2020, the Company subscribed additional 2.4 million RPS for ₱2.4 million.

*Investment in AP Int*
In 2020, the Company converted the advances to AP Int to equity in the form RPS amounting to ₱50.7 million.

*Investment in Hijos*
In 2020, the Company converted the advances to Hijos to equity in the form of common and redeemable preferred shares amounting to ₱15.4 million.

<u>Advances</u>
These advances include advances to subsidiaries that will be applied against future subscriptions of the Company to the shares of stock of the subsidiaries.

In 2020, the Company received partial settlement from TPI and TSI's advances amounting to ₱1.2 billion and ₱212.4 million, respectively

The Company's subsidiaries, all incorporated in the Philippines except for AP Int which was incorporated in Singapore and the corresponding percentage equity ownership are as follows:

| | | 2020 | | 2019 | |
|---|---|---|---|---|---|
| Name of Company | Nature of Business | Direct | Indirect | Direct | Indirect |
| TPI | Holding company | 100% | – | 100% | – |
| ARI | Holding company | 100% | – | 100% | – |
| TVI | Power generation | – | 80% | – | 80% |
| Hedcor Bukidnon | Power generation | – | 100% | – | 100% |
| Hedcor Sabangan | Power generation | – | 100% | – | 100% |
| LEZ | Power distribution | 100% | – | 100% | – |
| HI | Power generation | – | 100% | – | 100% |
| Therma South | Power generation | – | 100% | – | 100% |
| Therma Mobile | Power generation | – | 100% | – | 100% |
| DLPC | Power distribution | 100% | – | 100% | – |
| VECO | Power distribution | 55% | – | 55% | – |
| HTI | Power generation | – | 100% | – | 100% |
| MEZC | Power distribution | 100% | – | 100% | – |
| BEZC | Power distribution | 100% | – | 100% | – |
| SEZC | Power distribution | 65% | 35% | 65% | 35% |
| CLPC | Power distribution | 100% | – | 100% | – |
| AP Int | Holding company | 100% | – | 100% | – |
| RI* | Power generation | – | 100% | – | 100% |
| EAUC | Power generation | 50% | 50% | 50% | 50% |
| Malvez * | Power distribution | 100% | – | 100% | – |
| APREC * | Power generation | – | 100% | – | 100% |
| AESI | Retail electricity supplier | 100% | – | 100% | – |
| CPPC | Power generation | 60% | – | 60% | – |
| PEI | Retail electricity supplier | 60% | – | 60% | – |
| AI | Retail electricity supplier | 100% | – | 100% | – |

** No commercial operations as of December 31, 2020.*

The percentage of the Company's ownership in its associates is as follows:

| | | Percentage of Ownership | |
|---|---|---|---|
| Name of Company | Nature of Business | 2020 | 2019 |
| AAI | Service | 49% | 49% |
| AA Thermal, Inc. | Holding company | 49% | 49% |
| Hijos | Holding company | 47% | 47% |
| PEVI * | Holding company | 43% | 43% |
| STEAG | Power generation | 34% | 34% |
| SFELAPCO * | Power distribution | 20% | 20% |
| SPPC | Power generation | 20% | 20% |
| WMPC | Power generation | 20% | 20% |

**PEVI has direct ownership in SFELAPCO of 54.83% while the Company's direct ownership in SFELAPCO is 20.29% resulting to the Company's effective ownership in SFELAPCO of 43.78%.*

## 8. Property and Equipment

**December 31, 2020**

| | Transportation Equipment | Office Equipment | Communication Equipment | Leasehold Improvements | Right-of-use asset - Office Space | Total |
|---|---|---|---|---|---|---|
| Cost: | | | | | | |
| Balances at beginning of year | ₱82,586,235 | ₱46,431,216 | ₱752,009 | ₱40,644,292 | ₱46,702,778 | ₱217,116,530 |
| Additions | 9,521,245 | 9,963,375 | 64,906 | 1,209,830 | 19,121,556 | 39,880,912 |
| Disposals | (1,103,547) | (58,215) | — | — | — | (1,161,762) |
| Balances at end of year | 91,003,933 | 56,336,376 | 816,915 | 41,854,122 | 65,824,334 | 255,835,680 |
| Accumulated Depreciation and Amortization: | | | | | | |
| Balances at beginning of year | 41,417,997 | 37,818,494 | 752,009 | 20,612,633 | 11,490,685 | 112,091,818 |
| Depreciation and amortization | 14,546,720 | 6,685,848 | 10,818 | 3,996,145 | 16,569,335 | 41,808,866 |
| Disposals | (1,051,608) | (58,215) | — | — | — | (1,109,823) |
| Balances at end of year | 54,913,109 | 44,446,127 | 762,827 | 24,608,778 | 28,060,020 | 152,790,861 |
| Net book values | ₱36,090,824 | ₱11,890,249 | ₱54,088 | ₱17,245,344 | ₱37,764,314 | ₱103,044,819 |

December 31, 2019

| | Transportation Equipment | Office Equipment | Communication Equipment | Leasehold Improvements | Right-of-use asset - Office Space | Total |
|---|---|---|---|---|---|---|
| Cost: | | | | | | |
| Balances at beginning of year | ₱70,562,199 | ₱38,119,555 | ₱752,009 | ₱39,504,153 | ₱46,702,778 | ₱195,640,694 |
| Additions | 20,357,166 | 8,354,518 | — | 1,140,139 | — | 29,851,823 |
| Disposals | (8,333,130) | (42,857) | — | — | — | (8,375,987) |
| Balances at end of year | 82,586,235 | 46,431,216 | 752,009 | 40,644,292 | 46,702,778 | 217,116,530 |
| Accumulated Depreciation and Amortization: | | | | | | |
| Balances at beginning of year | 33,327,228 | 32,611,441 | 752,009 | 16,662,008 | — | 83,352,686 |
| Depreciation and amortization | 13,451,801 | 5,207,053 | — | 3,950,625 | 11,490,685 | 34,100,164 |
| Disposals | (5,361,032) | — | — | — | — | (5,361,032) |
| Balances at end of year | 41,417,997 | 37,818,494 | 752,009 | 20,612,633 | 11,490,685 | 112,091,818 |
| Net book values | ₱41,168,238 | ₱8,612,722 | ₱— | ₱20,031,659 | ₱35,212,093 | ₱105,024,712 |

The Company recognized gain on disposal of property and equipment amounting to ₱3.9 million and ₱1.3 million in 2020 and 2019, respectively. There are no restrictions on the title and no property and equipment are pledged as security for liabilities.

Fully depreciated property and equipment with cost amounting to ₱71.45 million and ₱42.9 million as of December 31, 2020 and 2019, respectively, are still carried in the books of the Company and still in use.

## 9. Other Noncurrent Assets

| | 2020 | 2019 |
|---|---|---|
| Prepaid Tax (see Note 6) | ₱1,025,016,246 | ₱— |
| Computer software licenses - net | 30,452,405 | 10,589,929 |
| Recoverable deposits | 5,852,771 | 5,785,865 |
| | ₱1,061,321,422 | ₱16,375,794 |

The rollforward analysis of computer software licenses is presented below:

| | 2020 | 2019 |
|---|---|---|
| Cost: | | |
| Balances at beginning of year | ₱21,227,530 | ₱16,691,665 |
| Additions | 22,597,540 | 4,535,865 |
| Balances at end of year | 43,825,070 | 21,227,530 |
| Accumulated amortization: | | |
| Balances at beginning of year | 10,637,601 | 8,776,638 |
| Amortization for the year | 2,735,064 | 1,860,963 |
| Balances at end of year | 13,372,665 | 10,637,601 |
| Net book values | ₱30,452,405 | ₱10,589,929 |

10. **Project Development Costs**

| | 2020 | 2019 |
|---|---|---|
| Balances at beginning of year | ₱623,339,367 | ₱388,468,001 |
| Additions | 86,418,415 | 234,871,366 |
| Write-offs | (7,086,632) | – |
| Balances at end of year | ₱702,671,150 | ₱623,339,367 |

Project development costs consist of rights, titles and interests for various power plant development projects.

11. **Trade and other payables**

| | 2020 | 2019 |
|---|---|---|
| Trade payables (see Note 17) | ₱13,196,121 | ₱45,852,175 |
| Accrued interest (see Note 12) | 395,121,338 | 380,430,960 |
| Output VAT | 111,204,790 | 57,142,953 |
| Accrued taxes and fees | 92,119,057 | 93,395,503 |
| Nontrade payables | 25,499,920 | 49,736,029 |
| Others | 1,536,864 | 945,518 |
| | ₱638,678,090 | ₱627,503,138 |

Trade payables are noninterest-bearing and generally on 30-day term. Accrued taxes and fees represent taxes withheld on compensation, benefits, interests and other fees.

12. **Bank Loans and Long-term Debts**

*Bank Loans*

The Company obtained unsecured bank loans from financial institution with a total principal amount of ₱8.6 billion and ₱4.7 billion at an annual interest rate ranging from 3.25% to 5.20% for working capital purposes in 2020 and 2019, respectively. These loans are covered by the respective borrower's existing credit lines with the banks and are not subject to any significant covenants and warranties. As of December 31, 2020, the loans have been fully paid.

Interest expenses on bank loans amounted to ₱124.7 million and ₱380.3 million, in 2020 and 2019, respectively.

*Long-term Debts*

| | Interest Rate | 2020 | 2019 |
|---|---|---|---|
| Financial and non-financial institutions - unsecured | | | |
| 2014 7-year retail bonds | 5.21% | **₱6,600,000,000** | ₱6,600,000,000 |
| 2014 12-year retail bonds | 6.10% | **3,400,000,000** | 3,400,000,000 |
| 2017 10-year retail bonds | 5.34% | **3,000,000,000** | 3,000,000,000 |
| 2018 5.25-year retail bonds | 7.51% | **7,700,000,000** | 7,700,000,000 |
| 2018 10-year retail bonds | 8.51% | **2,500,000,000** | 2,500,000,000 |
| 2019 5-year long-term loan | LIBOR + 1.20% | **14,406,900,000** | 15,190,500,000 |
| 2019 7-year retail bonds | 5.28% | **7,250,000,000** | 7,250,000,000 |
| 2019 7-year long-term loan | 5.28% | **4,950,000,000** | 5,000,000,000 |
| 2020 2-year retail bonds | 3.13% | **9,000,000,000** | — |
| 2020 5-year retail bonds | 3.94% | **550,000,000** | — |
| | | **59,356,900,000** | 50,640,500,000 |
| Less deferred financing costs | | **546,817,797** | 560,674,933 |
| | | **58,810,082,203** | 50,079,825,067 |
| Less current portion - net of deferred financing costs | | **6,637,206,289** | — |
| | | **₱52,172,875,914** | ₱50,079,825,067 |

Retail Bonds - ₱9.6 billion

In July 2020, the Company issued the fourth and last tranche of its 30 billion debt securities program, equivalent to P9.6 billion in July (the "Series E and F Bonds"). The Fixed Rate "Series E and F Bonds" has an interest rate of 3.125% and 3.935% per annum maturing in 2022 and 2025, respectively. The bonds have been rated PRS Aaa by PhilRatings.

Long-term Loan - ₱5.0 billion

In November 2019, the Company obtain a ₱5.0 billion 7-year long term loan from the BDO Unibank, Inc. at a fixed rate of 5.28% p.a.

In 2020, the Company amend the "Mode of Payment" for the Principal from bullet payment to partial payments equal to 1 percent (%) of total principal amount payable annually starting November 2020 and the remaining 94 percent (%) upon maturity.

Under the facility agreement, the Company shall not incur any obligation with a maturity of more than 1 year, if on the date of such borrowing, the net debt to consolidated equity ratio will exceed 3:1. The Company is in compliance with the debt covenants as of December 31, 2020.

Dollar Loan - $300.0 million
On April 2019, the Company executed and availed a US$300,000,000 syndicated bridge loan facility loan agreement with DBS Bank Ltd., Mizuho Bank, Ltd., MUFG Bank, Ltd. and Standard Chartered Bank as lead arrangers and bookrunners to finance the AA Thermal, Inc. acquisition. The loan bears a floating interest based on credit spread over applicable LIBOR plus 1.2% margin. The loan will mature on the 5th anniversary of the first utilization date.

Under the facility agreement, the Company shall ensure that the net consolidated debt to net consolidated equity ratio is not more than 3:1 at all times and the leverage ratio is not more than 5:50:1 at all times. The Company is in compliance with the debt covenants as of December 31, 2020.

Retail Bonds - ₱7.3 billion
In October 2019, the Company issued ₱7.3 billion 7-year bond due 2026 at a fixed rate of 5.28% p.a. The bonds have been rated PRS Aaa by PhilRatings.

Retail Bonds - ₱10.2 billion
In October 2018, the Company issued a total of ₱10.2 billion bonds, broken down into a ₱7.7 billion 5.25-year bond due 2024 at a fixed rate equivalent to 7.51% p.a. and a ₱2.5 billion 10-year bond due 2028 at a fixed rate equivalent to 8.51% p.a. The bonds have been rated PRS Aaa by PhilRatings.

Retail Bonds - ₱3.0 billion
In July 2017, the Company issued ₱3.0 billion 10-year bond due 2027 at an annual fixed rate of 5.34% p.a. The bonds have been rated PRS Aaa by PhilRatings.

Retail Bonds - ₱10.0 billion
In September 2014, the Company issued a total of ₱10.0 billion bonds, broken down into a ₱6.6 billion 7-year bond due 2021 at a fixed rate equivalent to 5.21% p.a. and a ₱3.4 billion 12-year bond due 2026 at a fixed rate equivalent to 6.10% p.a. The bonds have been rated PRS Aaa by PhilRatings.

The principal amount of these bonds shall be payable on a lump sum basis on the respective maturity date at its face value. These bonds may be redeemed in advance by the Company based on stipulated early redemption option dates and on agreed early redemption price.

Under the bond trust agreements, the Company shall not permit its debt-to-equity ratio to exceed 3:1 calculated based on the year-end debt and consolidated equity. The Company is in compliance with the debt covenants as of December 31, 2020.

Total interest expense recognized amounted to ₱2.7 billion, ₱2.1 billion and ₱858.2 million in 2020, 2019 and 2018, respectively.

## 13 Equity and Earnings per Common Share

a. Paid-in Capital

| | 2020 | 2019 |
|---|---|---|
| Capital Stock: | | |
| Authorized - ₱1 par value: | | |
| Common shares - 16,000,000,000 shares | | |
| Preferred shares - 1,000,000,000 shares | | |
| Issued: | | |
| Common shares - 7,358,604,307 shares | **₱7,358,604,307** | ₱7,358,604,307 |
| Additional Paid-in Capital | **12,588,894,332** | 12,588,894,332 |
| | **₱19,947,498,639** | ₱19,947,498,639 |

On May 25, 2007, the Company listed with the Philippine Stocks Exchange its 7,187,664,000 common shares with a par value of ₱1.00 to cover the initial public offering (IPO) of 1,787,664,000 common shares at an issue price of ₱5.80 per share. On March 17, 2008, the Company listed an additional 170,940,307 common shares, which it issued pursuant to a share swap agreement at the IPO price of ₱5.80 per share. The total proceeds from the issuance of new shares amounted to ₱10.4 billion. The Company incurred transaction costs incidental to the initial public offering amounting to ₱412.4 million, which is charged against "Additional paid-in capital" in the parent company balance sheet.

As of December 31, 2020, 2019 and 2018, the Company has 598, 631 and 629 shareholders, respectively.

Preferred shares are non-voting, non-participating, non-convertible, redeemable, cumulative, and may be issued from time to time by the BOD in one or more series. The BOD is authorized to issue from time to time before issuance thereof, the number of shares in each series, and all the designations, relative rights, preferences, privileges and limitations of the shares of each series. Preferred shares redeemed by the Company may be reissued. Holders thereof are entitled to receive dividends payable out of the unrestricted retained earnings of the Company at a rate based on the offer price that is either fixed or floating from the date of the issuance to final redemption. In either case, the rate of dividend, whether fixed or floating, shall be referenced, or be a discount or premium, to market-determined benchmark as the BOD may determine at the time of issuance with due notice to the SEC.

In the event of any liquidation or dissolution or winding up of the Company, the holders of the preferred stock shall be entitled to be paid in full the offer price of their shares before any payment in liquidation is made upon the common stock.

There are no preferred shares issued and outstanding as of December 31, 2020 and 2019.

b. Retained Earnings

As of December 31, 2020 and 2019, the Company has an appropriated retained earnings amounting to ₱33.7 billion, with regard to the development and construction of power plants. The BOD has approved the appropriation of ₱11.9 billion, ₱13.2 billion and ₱20.9 billion on March 7, 2019, November 24, 2016 and November 27, 2014, respectively. On March 7, 2019, the BOD also approved the reversal of ₱12.3 billion retained earnings appropriation that was set up in 2014.

On March 8, 2018, the BOD approved the declaration of regular cash dividends of ₱1.39 a share (₱10.2 billion) to all stockholders of record as of March 22, 2018. These dividends were paid on April 12, 2018.

On March 7, 2019, the BOD approved the declaration of regular cash dividends of ₱1.47 a share (₱10.8 billion) to all stockholders of record as of March 21, 2019. These dividends were paid on April 5, 2019.

On March 6, 2020, the BOD approved the declaration of regular cash dividends of ₱1.18 a share (₱8.7 billion) to all stockholders of record as of March 20, 2020. These dividends were paid on April 3, 2020.

On March 5, 2021, the BOD approved the reversal of a total of ₱13.6 billion appropriation of retained earnings.

To comply with the requirements of Section 43 of the Corporation Code, on March 5, 2021, the BOD approved the declaration of regular cash dividends of ₱0.85 a share (₱6.3 billion) to all stockholders of record as of March 19, 2021. The cash dividends are payable on March 31, 2021.

c. Earnings per Common Share

Earnings per common share amounts were computed as follows:

| | **2020** | 2019 | 2018 |
|---|---|---|---|
| a. Net income | **₱4,193,432,512** | ₱12,304,362,581 | ₱8,995,307,128 |
| b. Weighted average number of common shares issued and outstanding | **7,358,604,307** | 7,358,604,307 | 7,358,604,307 |
| Earnings per common share (a/b) | **₱0.57** | ₱1.67 | ₱1.22 |

## 14. Personnel Costs

| | **2020** | 2019 | 2018 |
|---|---|---|---|
| Salaries and wages | **₱670,398,476** | ₱572,060,660 | ₱562,610,627 |
| Employee benefits | **275,233,905** | 239,240,032 | 351,449,279 |
| Retirement benefit costs (Note 15) | **54,481,769** | 29,846,722 | 41,895,414 |
| | **₱1,000,114,150** | ₱841,147,414 | ₱955,955,320 |

## 15. Retirement Costs

The Company has a funded, non-contributory, defined benefit pension plan (the "Plan") covering all regular and full-time employees and requiring contributions to be made to separately administered fund. This retirement benefit fund (the "Fund") is in the form of a trust being maintained and managed by AEV, under the supervision of the Board of Trustees (BOT) of the Plan. The BOT, whose members are also officers of AEV, is responsible for the investment of the Fund assets. Taking into account the Plan's objectives, benefit obligations and risk capacity, the BOT periodically defines the investment strategy in the form of a long-term target structure.

The following tables summarize the components of net benefit expense recognized in the parent company statements of income and the funded status and amounts recognized in the parent company balance sheets for the plan.

*Net benefit expense* (recognized as part of personnel costs):

| | **2020** | 2019 | 2018 |
|---|---|---|---|
| Retirement expense to be recognized in the parent company statements of income: | | | |
| Current service cost | **₱43,670,341** | ₱32,960,153 | ₱42,726,275 |
| Net interest cost (income) | **10,811,428** | (3,113,431) | (830,861) |
| | **₱54,481,769** | ₱29,846,722 | ₱41,895,414 |

*Remeasurement effect to be recognized in other comprehensive income:*

| | **2020** | 2019 | 2018 |
|---|---|---|---|
| Actuarial gains (loss) due to: | | | |
| Experience adjustments | **(₱11,775,982)** | (₱197,172,700) | (₱4,861,370) |
| Changes in financial assumptions | **(37,371,952)** | (61,716,402) | 44,542,333 |
| Actual return excluding amount included in net interest cost | **(91,442,619)** | (20,314) | (13,774,100) |
| Changes in demographic assumptions | **91,992,871** | – | – |
| | **(₱48,597,682)** | (₱258,909,416) | ₱25,906,863 |

*Pension liability*

| | **2020** | 2019 |
|---|---|---|
| Present value of obligation | **₱510,957,588** | ₱533,382,355 |
| Fair value of plan assets | **(477,817,696)** | (313,637,886) |
| | **₱33,139,892** | ₱219,744,469 |

Changes in the present value of the defined benefit obligation are as follows:

| | 2020 | 2019 |
|---|---|---|
| At January 1 | ₱533,382,355 | ₱402,201,925 |
| Net benefit expense: | | |
| Current service cost | 43,670,341 | 32,960,153 |
| Interest cost | 26,242,412 | 32,900,117 |
| | 69,912,753 | 65,860,270 |
| Benefits paid | (63,575,517) | (207,506,511) |
| Employee transfers | 14,082,934 | 13,937,569 |
| Remeasurements in other comprehensive income: | | |
| Actuarial gain (loss) due to: | | |
| Experience adjustments | 11,775,982 | 197,172,700 |
| Changes in demographic assumptions | (91,992,871) | — |
| Changes in financial assumptions | 37,371,952 | 61,716,402 |
| | (42,844,937) | 258,889,102 |
| At December 31 | ₱510,957,588 | ₱533,382,355 |

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

| | 2020 | 2019 |
|---|---|---|
| At January 1 | ₱313,637,886 | ₱440,263,429 |
| Actual contributions | 289,684,028 | 30,950,165 |
| Interest income included in net interest cost | 15,430,984 | 36,013,548 |
| Benefits paid | (63,575,517) | (207,506,511) |
| Employee transfers | 14,082,934 | 13,937,569 |
| Actual return excluding amount included in net interest cost | (91,442,619) | (20,314) |
| At December 31 | ₱477,817,696 | ₱313,637,886 |

Changes in pension liability recognized in the parent company balance sheets are as follows:

| | 2020 | 2019 |
|---|---|---|
| At January 1 | ₱219,744,469 | (₱38,061,504) |
| Actual contributions | (289,684,028) | (30,950,165) |
| Actuarial loss recognized for the year | 48,597,682 | 258,909,416 |
| Retirement expense for the year | 54,481,769 | 29,846,722 |
| At December 31 | ₱33,139,892 | ₱219,744,469 |

The fair value of plan assets by each class at the end of the reporting period are as follows:

| | 2020 | 2019 |
|---|---|---|
| Assets: | | |
| Financial assets at FVOCI | ₱570,586,556 | ₱278,197,078 |
| Equity instruments - financial institution: | | |
| Financial assets at amortized cost | 60,321,478 | 65,141,440 |
| Holding | 4,805 | 5,305 |
| Power | 37,892,745 | 56,654,455 |
| Financial institution | 10,026,135 | 11,190,644 |
| Others | 130,129,078 | 191,025,973 |
| | 808,960,797 | 602,214,895 |
| Liability: | | |
| Financial liability | (331,143,101) | (288,577,009) |
| Fair value of plan assets | ₱477,817,696 | ₱313,637,886 |

The plan assets have diverse investments and do not have any concentration risk.

The principal assumptions used as of December 31, 2020 and 2019 in determining net pension liability for the Company's Plan is shown below:

| | 2020 | 2019 |
|---|---|---|
| Discount rate | 3.70% | 4.92% |
| Salary increase rate | 6.00% | 6.00% |

The sensitivity analysis below has been determined based on reasonable possible changes of each significant assumption on the defined benefit obligation as of December 31, 2020 and 2019, respectively, assuming all other assumptions were held constant:

| | Increase (decrease) in basis points | Effect on defined benefit obligation | |
|---|---|---|---|
| | | 2020 | 2019 |
| Discount rates | 100 | (₱31,137,705) | (₱30,900,955) |
| | (100) | 35,974,948 | 35,877,896 |
| Future salary increases | 100 | ₱37,058,928 | ₱37,627,187 |
| | (100) | (32,766,595) | (33,087,992) |

The Company's defined benefit pension plan is funded by the Company.

The Company expected to contribute ₱32.5 million to the defined benefit plans in 2021. The average duration of the defined benefit obligation as of December 31, 2020 and 2019 is 13.0 and 14.86, respectively.

The BOT reviews the performance of the plans on a regular basis. It assesses whether the retirement plans will achieve investment returns which, together with contributions, will be sufficient to pay retirement benefits as they fall due. The Company also reviews the solvency position of the different member companies on an annual basis and estimates, through the actuary, the expected contribution to the Plan in the subsequent year.

## 16. Income Tax

Details of provision for income tax are as follows:

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| Current: | | | |
| Corporate income tax | **₱4,166,070** | ₱21,180,971 | ₱15,959,091 |
| Final | **14,222,649** | 26,101,092 | 23,267,247 |
| | **18,388,719** | 47,282,063 | 39,226,338 |
| Deferred | **–** | 12,100,043 | (37,853,440) |
| | **₱18,388,719** | ₱59,382,106 | ₱1,372,898 |

The provision for corporate income tax represents MCIT in 2020, 2019 and 2018.

Reconciliation between the statutory income tax rate and the Company's effective income tax rates follows:

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| At statutory rate of 30% | **₱1,263,546,369** | ₱3,709,123,406 | ₱2,699,004,008 |
| *Additions to (reductions in) income tax resulting from:* | | | |
| Movement in unrecognized deferred income tax assets on: | | | |
| NOLCO | **754,815,801** | 568,058,043 | 181,865,467 |
| Unamortized past service cost | **(26,308,544)** | 49,398,725 | – |
| MCIT | **4,166,070** | 21,180,971 | 15,959,091 |
| Pension liability | **5,149,103** | (101,115,717) | – |
| Provision for impairment loss on investment in a subsidiary | **–** | – | 13,779,900 |
| Nondeductible expenses: | | | |
| Interest expense | **7,620,867** | 15,570,740 | 13,590,499 |
| Project and bidding expenses | **2,172,111** | – | 15,336,715 |
| Others | **20,768,673** | 14,986,699 | 14,363 |
| Dividend income | **(2,004,670,845)** | (4,195,623,259) | (2,920,812,882) |
| Interest income already subjected to final tax at a lower rate | **(8,870,886)** | (21,082,970) | (17,916,082) |
| Others | **–** | (1,114,532) | 551,819 |
| | **₱18,388,719** | ₱59,382,106 | ₱1,372,898 |

The components of the Company's net deferred income tax assets (liability) are as follows:

| | 2020 | 2019 |
|---|---|---|
| Deferred income tax asset on NOLCO | **₱313,161,044** | ₱130,308,641 |
| Deferred income tax liability on unrealized foreign exchange gains | **(313,161,044)** | (130,308,641) |
| | **₱—** | ₱— |

As of December 31, 2020, the Company has MCIT that can be claimed as deduction from regular income tax liability as follows:

| Period of Recognition | Availment Period | Amount | Applied | Expired | Balance |
|---|---|---|---|---|---|
| 2017 | 2018-2020 | ₱10,440,532 | ₱— | ₱10,440,532 | ₱— |
| 2018 | 2019-2021 | 15,959,089 | — | — | 15,959,089 |
| 2019 | 2020-2022 | 21,180,971 | — | — | 21,180,971 |
| 2020 | 2021-2023 | 4,166,070 | — | — | 4,166,070 |
| | | ₱51,746,662 | ₱— | ₱10,440,532 | ₱41,306,130 |

*Bayanihan to Recover as One Act (Bayanihan 2)*
On September 30, 2020, the BIR issued Revenue Regulations No. 25-2020 implementing Section 4 of Bayanihan 2 which states that the NOLCO incurred for taxable years 2020 and 2021 can be carried over as a deduction from gross income for the next five (5) consecutive taxable years immediately following the year of such loss.

As of December 31, 2020, the Company has NOLCO before taxable year 2020 which are valid as deduction against the regular taxable income for the next three (3) consecutive taxable years, as follows:

| Period of Recognition | Availment Period | Amount | Applied | Expired | Balance |
|---|---|---|---|---|---|
| 2017 | 2018-2020 | ₱419,615,728 | ₱— | ₱419,615,728 | ₱— |
| 2018 | 2019-2021 | 606,218,323 | — | — | 606,218,323 |
| 2019 | 2020-2022 | 2,327,888,945 | — | — | 2,327,888,945 |
| | | ₱3,353,722,996 | ₱— | ₱419,615,728 | ₱2,934,107,268 |

As of December 31, 2020, the Group has NOLCO in taxable year 2020 which can be claimed as deduction against the regular taxable income for the next five (5) consecutive taxable years pursuant to the Bayanihan 2, as follows:

| Period of Recognition | Availment Period | Amount | Applied | Expired | Balance |
|---|---|---|---|---|---|
| 2020 | 2021-2025 | ₱3,125,560,681 | ₱— | ₱— | ₱3,125,560,681 |

No deferred income tax assets have been recognized on the following as it is probable that no sufficient taxable income will be available to allow the benefit of the net deferred income tax assets to be utilized:

| | 2020 | 2019 |
|---|---|---|
| NOLCO | **₱5,015,797,802** | ₱2,919,360,861 |
| Pension liability | **33,139,892** | 219,744,469 |
| Unamortized past service cost | **329,333,209** | 164,662,418 |
| MCIT | **41,306,130** | 47,580,592 |

No deferred income tax asset has been recognized on the allowance for impairment of investment in subsidiaries amounting to ₱1.1 billion as of December 31, 2020 and 2019 as management's intention of recovering this amount is through future dividend which is exempt from income tax.

The Company has unrecognized deductible and taxable temporary differences that arise from the initial recognition of the lease liability and the right-of-use asset upon adoption of PFRS 16. No deferred income tax asset and liability were recognized as the initial recognition of lease liability and right-of-use assets affects neither the accounting nor taxable profit. The amount of deductible and taxable temporary differences amounted to ₱51.4 million and ₱37.8 million, respectively as of December 31, 2020 and ₱51.6 million and ₱35.2 million, respectively, as of December 31, 2019.

## 17. Related Party Disclosures

Parties are considered to be related if one party has the ability to control, directly or indirectly, 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 common significant influence. Related parties may be individuals or corporate entities.

The sales to and purchases from related parties are made on terms equivalent to those that prevail in arm's length transactions.

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

a. The Company has management agreements with each of the following subsidiaries: CLPC, Cotabato Ice Plant, Inc. (CIPI), DLPC, and CPPC for which it is entitled to management fees.

b. The Company renders various services to related parties such as technical and legal assistance for various projects, trainings and other services, for which it bills technical and service fees.

c. The Company obtained standby letters of credit (SBLC) and is acting as surety for the benefit of certain subsidiaries, associates and joint ventures in connection with certain loans and credit accommodations. As of December 31, 2020 and 2019, the Company provided SBLCs for AP Renewables, Inc. (APRI), Cebu Energy Development Corporation (CEDC), Luzon Hydro Corporation (LHC), SN Aboitiz Power-Benguet, Inc. (SNAP B), Therma South, Pagbilao Energy Corporation (PEC), Hedcor Inc. (HI), STEAG, and TVI in the amount of ₱5.7 billion and ₱6.4 billion, respectively.

d. AEV provides human resources, internal audit, legal, treasury and corporate finance services, among others, to the Company and shares with the member companies the business expertise of its highly qualified professionals. Transactions are priced based on agreed rates, and billed costs are always benchmarked to third party rates to ensure competitive pricing. Service Level Agreements are in place to ensure quality of service. This arrangement enables the Company to maximize efficiencies and realize cost synergies.

e. Cash deposits and money market placements with Union Bank of the Philippines (UBP), an associate of AEV. At prevailing rates, these fixed-rate investments earned interest income amounting to ₱38.6 million and ₱106.7 million in 2020 and 2019, respectively. Outstanding balances amounted ₱5.8 billion and ₱22.8 million as of December 31, 2020 and 2019, respectively.

f. Rentals paid at current market rates to Cebu Praedia Development Corporation (CPDC) for the use of CPDC's properties by the Company's officers and employees.

g. Aviation service fees paid at arm's length basis to AAI for the use of aircraft during travel of the Company's officers and employees.

The parent company balance sheets and parent company statements of income include the following accounts resulting from the above transactions with related parties:

*Technical, Management and other Service Fees*

| | Revenue | | | Receivable | | Terms | Conditions |
|---|---|---|---|---|---|---|---|
| | 2020 | 2019 | 2018 | 2020 | 2019 | | |
| *Subsidiaries:* | | | | | | | |
| DLPC | ₱437,377,855 | ₱367,741,901 | ₱454,474,711 | ₱— | ₱31,359,884 | 30-day; non-interest bearing | Unsecured; no impairment |
| VECO | 260,857,566 | 391,849,526 | 779,315,539 | — | 118,807,969 | 30-day; non-interest bearing | Unsecured; no impairment |
| ALSI | 66,551,036 | 57,630,764 | 57,622,636 | — | 5,282,820 | 30-day; non-interest bearing | Unsecured; no impairment |
| CLPC | 51,782,341 | 46,897,878 | 45,559,907 | — | 2,168,636 | 30-day; non-interest bearing | Unsecured; no impairment |
| GMEC | 42,390,557 | 43,374,465 | 43,111,345 | 3,325,878 | 3,289,015 | 30-day; non-interest bearing | Unsecured; no impairment |
| AI | 34,776,983 | 26,315,382 | 26,306,785 | — | 7,236,730 | 30-day; non-interest bearing | Unsecured; no impairment |
| Therma Luzon, Inc. (TLI) | 32,668,804 | 41,166,971 | 42,601,704 | — | 11,389,529 | 30-day; non-interest bearing | Unsecured; no impairment |
| APRI | 19,663,735 | 10,253,796 | 10,991,418 | — | 3,810,994 | 30-day; non-interest bearing | Unsecured; no impairment |
| Therma South | 13,431,519 | 12,674,586 | 11,064,511 | — | 2,393,319 | 30-day; non-interest bearing | Unsecured; no impairment |
| PEI | 10,516,295 | 2,627,543 | 2,657,033 | — | 55,938 | 30-day; non-interest bearing | Unsecured; no impairment |
| SFZC | 9,585,362 | 10,905,487 | 7,347,207 | — | | 30-day; non-interest bearing | Unsecured; no impairment |
| San Carlos Sun Power, Inc. (SACASUN) | 9,160,805 | 118,706 | — | — | 11,079 | 30-day; non-interest bearing | Unsecured; no impairment |
| TPVI | 7,838,252 | — | — | — | | 30-day; non-interest bearing | Unsecured; no impairment |
| MEZC | 6,901,875 | 5,429,535 | 4,671,093 | — | — | 30-day; non-interest bearing | Unsecured; no impairment |
| BEZC | 6,824,396 | 4,848,405 | 4,599,602 | — | — | 30-day; non-interest bearing | Unsecured; no impairment |
| LEZC | 5,677,043 | 4,390,866 | 4,463,298 | — | — | 30-day; non-interest bearing | Unsecured; no impairment |
| Hedcor Bukidnon | 5,033,883 | | — | — | — | 30-day; non-interest bearing | Unsecured; no impairment |
| TVI | 3,752,756 | 625,236,619 | 1,364,303 | 573,848,932 | 631,295,206 | 30-day; non-interest bearing | Unsecured; no impairment |
| Therma Marine, Inc. (TMI) | 2,036,277 | 5,979,579 | 3,560,921 | — | 1,644,384 | 30-day; non-interest bearing | Unsecured; no impairment |
| EAUC | 1,635,682 | 3,191,420 | 1,878,478 | — | 783,525 | 30-day; non-interest bearing | Unsecured; no impairment |
| CPPC | 1,003,228 | 20,900,607 | 58,728,956 | — | 82,713,295 | 30-day; non-interest bearing | Unsecured; no impairment |
| Aboitiz Power Distributed Energy, Inc. | 596,647 | 15,856 | — | — | — | 30-day; non-interest bearing | Unsecured; no impairment |
| Therma Mobile | 595,162 | 40,682 | 467,973 | — | 7,458 | 30-day; non-interest bearing | Unsecured; no impairment |
| Aboitiz Power Distributed Renewables, Inc. | 548,220 | 15,856 | — | — | 4,469 | 30-day; non-interest bearing | Unsecured; no impairment |

(Forward)

| | Revenue | | | Receivable | | Terms | Conditions |
|---|---|---|---|---|---|---|---|
| | 2020 | 2019 | 2018 | 2020 | 2019 | | |
| HI | ₱390,019 | ₱5,169,208 | ₱5,169,208 | ₱— | ₱1,921,222 | 30-day, non-interest bearing | Unsecured, no impairment |
| CIPI | 191,920 | 597,083 | 746,357 | — | 49,706 | 30-day, non-interest bearing | Unsecured, no impairment |
| Malvez | — | 41,235 | | — | — | 30-day; non interest bearing | Unsecured; no impairment |
| *Associates:* | | | | | | | |
| SFELAPCO | 108,837,850 | 106,760,000 | 132,622,875 | — | 57,439,525 | 30-day; non-interest bearing | Unsecured; no impairment |
| CLDC | 88,445,000 | 74,074,000 | 71,880,000 | 5,860,740 | 24,614,950 | 30-day; non-interest bearing | Unsecured; no impairment |
| GNPD | 39,883,596 | 41,768,304 | 42,360,271 | 3,111,900 | 3,440,683 | 20-day; non interest bearing | Unsecured; no impairment |
| *Joint Venture:* | | | | | | | |
| SN Aboitiz Power - Magat, Inc. | 6,696,429 | — | 30,000 | — | — | 30-day; non-interest bearing | Unsecured, no impairment |
| SNAP B | 6,696,429 | — | — | — | — | 30-day; non-interest bearing | Unsecured, no impairment |
| *Affiliates:* | | | | | | | |
| Apo Agua Infrastructura, Inc. | 4,253,406 | 7,482,550 | — | — | 8,380,456 | 30-day; non-interest bearing | Unsecured; no impairment |
| Aboitiz Infracapital, Inc. | — | 907,589 | — | — | 880,362 | 30-day; non interest bearing | Unsecured; no impairment |
| Aboitizland, Inc. | — | — | 321,429 | — | — | 30-day; non interest bearing | Unsecured; no impairment |
| Pilmico Foods Corporation | — | — | 133,929 | — | — | 30 day; non interest bearing | Unsecured; no impairment |
| Pagbilao Energy Corporation | — | — | 292,947,450 | — | — | 30-day, non-interest bearing | Unsecured; no impairment |
| | ₱1,286,100,928 | ₱1,918,406,399 | ₱1,606,797,939 | ₱586,147,450 | ₱998,981,154 | | |

Advances to Related Parties

| | Advances | | | Receivable | | Terms | Conditions |
|---|---|---|---|---|---|---|---|
| | 2020 | 2019 | 2018 | 2020 | 2019 | | |
| *Subsidiaries:* | | | | | | | |
| TPI | ₱— | ₱— | ₱ | ₱8,099,063,840 | ₱9,299,063,840 | On-demand; non-interest bearing | Unsecured; no impairment |
| TSI | — | — | — | — | 212,353,654 | On-demand; non-interest bearing | Unsecured; no impairment |
| AP Int | — | | — | — | 50,671,638 | On-demand; non-interest bearing | Unsecured; no impairment |
| *Associate:* | | | | | | | |
| Hijos | 367,121 | — | — | 367,121 | — | On-demand; non-interest bearing | Unsecured; no impairment |
| Others | — | — | — | 560,857 | 560,857 | On-demand; non-interest bearing | Unsecured; no impairment |
| | ₱367,121 | ₱ | ₱— | ₱8,099,991,818 | ₱9,562,649,989 | | |

Dividends

| | Revenue | | | Receivable | | | |
|---|---|---|---|---|---|---|---|
| | 2020 | 2019 | 2018 | 2020 | 2019 | Terms | Conditions |
| *Subsidiaries:* | | | | | | | |
| DLPC | ₱1,780,720,001 | ₱1,545,389,160 | ₱1,388,749,051 | ₱389,719,866 | ₱– | 30 day; non-interest bearing | Unsecured; no impairment |
| VECO | 1,176,607,600 | 686,176,541 | 1,709,162,960 | – | – | 30 day; non-interest bearing | Unsecured; no impairment |
| AESI | 926,533,750 | 437,000,000 | 692,300,000 | – | – | 30 day; non-interest bearing | Unsecured; no impairment |
| Hedcor Bukidnon | 531,854,481 | – | | – | – | 30-day; non-interest bearing | Unsecured; no impairment |
| CPPC | 477,000,000 | 80,400,000 | 182,316,000 | 186,000,000 | – | 30-day; non-interest bearing | Unsecured; no impairment |
| LEZC | 369,680,000 | 65,600,000 | 510,560,000 | – | – | 30-day; non-interest bearing | Unsecured; no impairment |
| Therma South | 247,800,000 | 482,500,000 | 168,344,500 | – | – | 30-day; non-interest bearing | Unsecured; no impairment |
| SEZC | 140,205,000 | 86,385,000 | 545,284,820 | – | – | 30-day; non-interest bearing | Unsecured; no impairment |
| EAUC | 115,000,000 | 97,500,000 | 153,500,000 | 70,000,000 | – | 30-day; non-interest bearing | Unsecured; no impairment |
| Hedcor Sabangan | 108,612,660 | 110,378,720 | 111,261,749 | – | – | 30 day; non-interest bearing | Unsecured; no impairment |
| CLPC | 76,722,542 | 78,953,374 | 67,829,359 | – | – | 30 day; non-interest bearing | Unsecured; no impairment |
| PEI | 69,000,000 | – | 6,157,153 | – | – | 30-day; non-interest bearing | Unsecured; no impairment |
| Hedcor Tudaya | 37,662,260 | 50,216,346 | 58,753,126 | – | – | 30-day; non-interest bearing | Unsecured; no impairment |
| BLZC | 20,935,262 | 36,278,222 | 124,966,302 | – | – | 30-day; non-interest bearing | Unsecured; no impairment |
| MEZC | 20,310,308 | 39,745,171 | 130,003,479 | – | – | 30-day; non-interest bearing | Unsecured; no impairment |
| AI | 555,736 | 217,000,000 | 97,000,000 | – | – | 30-day; non-interest bearing | Unsecured; no impairment |
| TMO * | (2,890,362) | – | – | – | – | 30-day; non-interest bearing | Unsecured; no impairment |
| TPI | – | 6,070,000,000 | – | – | – | 30-day; non-interest bearing | Unsecured; no impairment |
| ARI | – | 3,358,000,000 | 3,980,000,000 | – | – | 30-day; non-interest bearing | Unsecured; no impairment |
| *Affiliates:* | | | | | | | |
| STEAG | 392,524,220 | 402,784,740 | – | – | – | 30-day; non-interest bearing | Unsecured; no impairment |
| PEVI | 79,339,670 | 51,236,633 | 128,990,591 | – | – | 30-day; non-interest bearing | Unsecured; no impairment |
| SFELAPCO | 68,995,283 | 88,398,806 | 111,585,529 | – | – | 30-day; non-interest bearing | Unsecured; no impairment |
| WMPC | 44,000,000 | – | 10,000,000 | – | – | 30-day; non-interest bearing | Unsecured; no impairment |
| AAI | 1,067,740 | 1,468,144 | – | – | – | 30-day; non-interest bearing | Unsecured; no impairment |
| Hijos | – | – | 59,278,320 | – | – | 30-day; non-interest bearing | Unsecured; no impairment |
| | ₱6,682,236,151 | ₱13,985,410,862 | ₱9,736,042,939 | ₱645,719,866 | ₱– | | |

*Pertains to refunds on 2017 dividend income

Transportation and Travel

| | Amount | | | Payable | | Terms | Condition |
|---|---|---|---|---|---|---|---|
| | 2020 | 2019 | 2018 | 2020 | 2019 | | |
| *Parent:* | | | | | | | |
| AFV | ₱— | ₱704 | ₱— | ₱— | ₱— | 30-day; non-interest bearing | Unsecured |
| *Affiliate:* | | | | | | | |
| AAI | 16,939,847 | 17,138,321 | 18,142,687 | | 2,375,783 | 30-day; non-interest bearing | Unsecured |
| | ₱16,939,847 | ₱17,139,025 | ₱18,142,687 | ₱ | ₱2,375,783 | | |

Rent

| | Amount | | | Payable | | Terms | Condition |
|---|---|---|---|---|---|---|---|
| | 2020 | 2019 | 2018 | 2020 | 2019 | | |
| *Parent:* | | | | | | | |
| AFV | ₱411,400 | ₱2,212,900 | ₱3,206,807 | ₱— | ₱— | 30-day, non-interest bearing | Unsecured |
| *Affiliate:* | | | | | | | |
| CPDC | 1,141,394 | 1,095,894 | 600,434 | — | — | 30-day, non interest bearing | Unsecured |
| | ₱1,552,794 | ₱3,308,794 | ₱3,807,241 | ₱— | ₱— | | |

Professional, Legal and Service Fees

| | Amount | | | Payable | | Terms | Condition |
|---|---|---|---|---|---|---|---|
| | 2020 | 2019 | 2018 | 2020 | 2019 | | |
| *Parents:* | | | | | | | |
| ALV | ₱81,335,683 | ₱80,916,869 | ₱65,141,015 | ₱— | ₱4,079,713 | 30-day; non interest bearing | Unsecured |
| *Subsidiary:* | | | | | | | |
| HI | 18,803,326 | — | — | — | — | 30-day; non-interest bearing | Unsecured |
| | ₱100,139,009 | ₱80,916,869 | ₱65,141,015 | ₱— | ₱4,079,713 | | |

The above transactions are expected to be settled in cash.

The Company's Fund is in the form of a trust being maintained and managed by AEV under the supervision of the BOT of the plan. In 2020 and 2019, other than contributions to the Fund, no transactions occurred between the Company or any of its subsidiaries and the Fund.

Total compensation and benefits of key management personnel of the Company are as follows:

| | **2020** | 2019 | 2018 |
|---|---|---|---|
| Short-term benefits | **₱209,576,892** | ₱182,349,079 | ₱286,022,170 |
| Post-employment benefits (see Note 15) | **9,879,034** | 10,403,791 | 13,737,830 |
| | **₱219,455,926** | ₱192,752,870 | ₱299,760,000 |

## 18. Financial Risk Management Objectives and Policies

The Company's principal financial instruments comprise of cash and cash equivalents and long-term debts. The main purpose of these financial instruments is to raise financing for the Company's operations. The Company has various other financial instruments such as trade and other receivables and trade and other payables which arise directly from its operations.

The Company also enters into derivative transactions, particularly foreign currency forwards, to economically hedge its foreign currency risk from foreign currency denominated liabilities (see Note 19).

Risk Management Structure
The BOD is mainly responsible for the overall risk management approach and for the approval of risk strategies and principles of the Company.

*Financial risk committee*
The Financial Risk Committee has the overall responsibility for the development of risk strategies, principles, frameworks, policies and limits. It establishes a forum of discussion of the Company's approach to risk issues in order to make relevant decisions.

*Treasury service group*
The Treasury Service Group is responsible for the comprehensive monitoring, evaluating and analyzing of the Company's risks in line with the policies and limits.

The main risks arising from the Company's financial instruments are credit risk involving possible exposure to counter party default on its cash and cash equivalents and trade and other receivables; liquidity risk in terms of the proper matching of the type of financing required for specific investments; and foreign exchange risk in terms of foreign exchange fluctuations that may significantly affect its foreign currency denominated placements.

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

The Company's policy is to manage its interest cost using effective hedging derivatives subject to BOD approval.

The following tables set out the carrying amounts, by maturity, of the Company's financial instruments that are exposed to cash flow interest rate risk (amounts in thousands):

**As of December 31, 2020**

| | <1 year | 1-5 years | >5 years | Total |
|---|---|---|---|---|
| **Floating rate - long-term debt** | **₱—** | **₱14,196,824** | **₱—** | **₱14,196,824** |

As of December 31, 2019

| | <1 year | 1-5 years | >5 years | Total |
|---|---|---|---|---|
| Floating rate - long-term debt | ₱— | ₱14,922,681 | ₱— | ₱14,922,681 |

The following tables demonstrate the sensitivity to a reasonably possible change in rates, with all other variables held constant, of the Company's income before tax (through the impact on floating rate borrowings). The effect on equity pertains to the impact of the Company's derivative designated under cash flow hedge accounting:

| | Increase (decrease) in basis points | Effect on income before tax |
|---|---|---|
| **2020** | **200** | **₱283,936,000** |
| | **(100)** | **(141,968,000)** |
| 2019 | 200 | ₱312,630,000 |
| | (100) | (156,315,000) |

There is no other impact on the Company's equity other than those already affecting the parent company statements of income.

Credit risk

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

The Company's credit risk on cash in banks and cash equivalents and trade and other receivables pertains to possible default by the counterparty, with a maximum exposure equal to the carrying amount of these assets. With respect to cash in banks and cash equivalents, the risk is mitigated by the short-term and/or liquid nature of its short-term deposits mainly in bank deposits and placements, which are placed with financial institutions of high credit standing. With respect to trade and other receivables, credit risk is controlled by the application of credit approval, limit and monitoring procedures. It is the Company's policy that all debtors who wish to trade on credit terms are subject to credit procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant.

The Company has no significant concentration risk to a counterparty or group of counterparties. The credit quality per class of financial assets as of December 31 is as follows (amounts in thousands):

**2020**

| | Neither past due nor impaired | | | Past due but not impaired | Total |
|---|---|---|---|---|---|
| | High Grade | Standard | Sub-standard | | |
| **Cash and cash equivalents*** | ₱8,319,639 | ₱— | ₱— | ₱— | ₱8,319,639 |
| **Trade and other receivables** | 668,483 | — | — | 608,900 | 1,277,383 |
| | ₱8,988,122 | ₱— | ₱— | ₱608,900 | ₱9,597,022 |

**Excluding cash on hand*

2019

| | Neither past due nor impaired | | | Past due but not impaired | Total |
|---|---|---|---|---|---|
| | High Grade | Standard | Sub-standard | | |
| Cash and cash equivalents* | ₱4,208,752 | ₱— | ₱— | ₱— | ₱4,208,752 |
| Trade and other receivables | 570,285 | — | — | 503,209 | 1,073,494 |
| Derivative asset | 80,134 | — | — | — | 80,134 |
| | ₱4,859,171 | ₱— | ₱— | ₱503,209 | ₱5,362,380 |

**Excluding cash on hand*

High grade pertains to receivables from customers with good favorable credit standing and have no history of default.

Standard grade pertains to those customers with history of sliding beyond the credit terms but pay a week after being past due.

Sub-standard grade pertains to those customers with payment habits that normally extend beyond the approved credit terms and has high probability of being impaired.

The aging analyses of financial assets as of December 31 are as follows (amounts in thousands):

**2020**

| | Total | Neither past due nor impaired | Past due but not impaired | | |
|---|---|---|---|---|---|
| | | | 30 days | 30 - 60 days | More than 60 days |
| **Cash and cash equivalents*** | ₱8,319,638 | ₱8,319,638 | ₱— | ₱— | ₱— |
| **Trade and other receivables** | 1,277,383 | 668,483 | 17,189 | 3,341 | 588,370 |
| | ₱9,597,021 | ₱8,988,121 | ₱17,189 | ₱3,341 | ₱588,370 |

**Excluding cash on hand*

2019

| | Total | Neither past due nor impaired | Past due but not impaired | | |
|---|---|---|---|---|---|
| | | | 30 days | 30 - 60 days | More than 60 days |
| Cash and cash equivalents* | ₱4,208,752 | ₱4,208,752 | ₱— | ₱— | ₱— |
| Trade and other receivables | 1,073,494 | 570,285 | 253,123 | 111,105 | 138,981 |
| Derivative asset | 80,134 | 80,134 | — | — | — |
| | ₱5,362,380 | ₱4,859,171 | ₱253,123 | ₱111,105 | ₱138,981 |

**Excluding cash on hand*

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

In managing its short-term fund requirements, the Company's policy is to ensure that there are sufficient working capital inflows to match repayments of short-term borrowings. With regard to its long-term financing requirements, the Company's policy is that not more than 25% of long-term borrowings should mature in any 12-month period.

The following tables summarize the maturity profile of the Company's financial liabilities based on contractual undiscounted payments as of December 31 (amounts in thousands):

**2020**

| | | Contractual undiscounted payments | | | | |
|---|---|---|---|---|---|---|
| | Total Carrying Value | Total | On Demand | Less than 1 year | 1 to 5 years | More than 5 years |
| *Financial liabilities:* | | | | | | |
| Trade and other payables* | ₱434,224 | ₱434,224 | ₱— | ₱434,224 | ₱— | ₱— |
| Long-term debts | 58,810,082 | 72,011,720 | — | 9,242,052 | 56,684,406 | 6,085,262 |
| Lease liabilities | 51,381 | 56,259 | — | 25,345 | 30,914 | — |
| Derivative liability | 429,498 | 429,498 | — | — | 429,498 | — |
| Total | ₱59,725,185 | ₱72,931,701 | ₱— | ₱9,701,621 | ₱57,144,818 | ₱6,085,262 |

**Excluding output VAT, withholding tax and other statutory liabilities*

2019

| | | Contractual undiscounted payments | | | | |
|---|---|---|---|---|---|---|
| | Total Carrying Value | Total | On Demand | Less than 1 year | 1 to 5 years | More than 5 years |
| *Financial liabilities:* | | | | | | |
| Trade and other payables* | ₱476,018 | ₱476,018 | ₱— | ₱476,018 | ₱— | ₱— |
| Long-term debts | 50,079,825 | 65,046,411 | — | 2,649,800 | 39,724,703 | 22,671,908 |
| Lease liabilities | 51,602 | 59,644 | — | 17,858 | 41,786 | — |
| Total | ₱50,607,445 | ₱65,582,073 | ₱— | ₱3,143,676 | ₱39,766,489 | ₱22,671,908 |

**Excluding output VAT, withholding tax and other statutory liabilities*

Market Risk
The risk of loss, immediate or over time, due to adverse fluctuations in the price or market value of instruments, products, and transactions in the Company's overall portfolio (whether on or off-balance sheet) is market risk. These are influenced by foreign and domestic interest rates, foreign exchange rates and gross domestic product growth.

*Foreign exchange risk*
The foreign exchange risk of the Company pertains to its foreign currency-denominated cash and cash equivalents.

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | **US Dollar** | **Peso Equivalent** | US Dollar | Peso Equivalent |
| *Financial asset:* | | | | |
| Cash and cash equivalents | **$113,585,317** | **₱5,454,707,694** | $38,479,047 | ₱1,948,386,531 |
| *Financial liability:* | | | | |
| Long-term debt | **(300,000,000)** | **(14,406,900,000)** | (300,000,000) | (15,190,500,000) |
| Net foreign currency denominated liability | **($186,414,683)** | **(₱8,952,192,306)** | ($261,520,953) | (₱13,242,113,469) |

The exchange rate for December 31, 2020 and 2019 is ₱48.023:US$1 and ₱50.635:US$1, respectively. As a result of the translation of these foreign currency denominated assets, the Company reported net unrealized foreign exchange gain of ₱609.5 million and ₱605.8 million in 2020 and 2019, respectively.

The following tables demonstrate the sensitivity to a reasonable possible change in the US dollar exchange rates, with all other variables held constant, of the Company's income before income tax as of December 31, 2020 and 2019 (amounts in thousands).

| | Increase (decrease) in US dollar | Effect on income before tax |
|---|---|---|
| **2020** | | |
| **US dollar-denominated accounts** | **5%** | **(₱447,610)** |
| **US dollar-denominated accounts** | **-5%** | **447,610** |
| 2019 | | |
| US dollar-denominated accounts | 5% | (₱662,106) |
| US dollar-denominated accounts | -5% | 662,106 |

There is no other impact on the Company's equity other than those already affecting the parent company statements of income.

Capital management

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value. The Company considers equity as its capital.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Company monitors capital using a gearing ratio, which is net debt divided by equity plus net debt. Its policy is to keep the gearing ratio at 70% or below. The Company determines net debt as the sum of interest-bearing short-term and long-term loans less cash and short-term deposits.

| | 2020 | 2019 |
|---|---|---|
| Long-term debts (Note 12) | ₱58,810,082,203 | ₱50,079,825,067 |
| Cash and cash equivalents (Note 4) | (8,320,836,713) | (4,210,064,412) |
| Net debt (a) | 50,489,245,490 | 45,869,760,655 |
| Equity | 71,605,870,256 | 76,653,821,239 |
| Equity and net debt (b) | ₱122,095,115,746 | ₱122,523,581,894 |
| Gearing ratio (a/b) | 41.35% | 37.44% |

Part of the Company's capital management is to ensure that it meets financial covenants attached to long-term borrowings. Breaches in meeting the financial covenants would permit the banks to immediately call loans and borrowings. The Company is in compliance with the financial covenants attached to its long-term debts as of December 31, 2020 and 2019 (see Note 12).

No changes were made in the objectives, policies or processes during the years ended December 31, 2020 and 2019.

## 19. Financial Instruments

Fair Value of Financial Instruments

Fair value is defined as the amount at which the financial instrument could be sold in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced liquidation or sale. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models, as appropriate.

A financial instrument is regarded as quoted in an active market if quoted prices are readily available from an exchange, dealer, broker, pricing services or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis. For a financial instrument with an active market, the quoted market price is used as its fair value. On the other hand, if transactions are no longer regularly occurring even if prices might be available and the only observed transactions are forced transactions or distressed sales, then the market is considered inactive. For a financial instrument with no active market, its fair value is determined using a valuation technique (e.g. discounted cash flow approach) that incorporates all factors that market participants would consider in setting a price.

Set out below is a comparison by category of carrying amounts and fair values of the Company's financial instruments whose fair values are different from their carrying amounts (amounts in thousands).

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| *Financial liabilities:* | | | | |
| Long-term debts | ₱58,810,082 | ₱62,456,152 | ₱50,079,825 | ₱49,456,980 |
| Lease liabilities | 51,381 | 49,324 | 51,602 | 54,628 |
| | ₱58,861,463 | ₱62,505,476 | ₱50,131,427 | ₱49,511,608 |

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

*Cash and cash equivalents, trade and other receivables and trade and other payables*
The carrying amounts of cash and cash equivalents, trade and other receivables and trade and other payables approximate fair values due to the relatively short-term maturity of these financial instruments.

*Long-term debts*
The fair value of long-term debt is computed using Level 3 of the fair value hierarchy and is based on the discounted value of future cash flows using the applicable rates for similar types of loans. Discount rates used range from 3.03% to 4.34% in 2020 and 5.14% to 5.89% in 2019.

*Lease liabilities*
The fair values are computed using Level 3 of the fair value hierarchy and are based on the discounted value of expected future cash flows using the applicable credit-adjusted risk-free rates of 3.29% to 3.44% and 4.70% to 5.36% in 2020 and 2019, respectively.

Derivative Financial Instruments
The fair value of forward contracts is calculated by reference to prevailing interest rate differential and spot exchange rate as of valuation date (Level 2), taking into account its remaining term to maturity. The fair value of the embedded prepayment options is determined using Binomial Option Pricing Model which allows for the specification of points in time until option expiry date. This valuation incorporates inputs such as interest rates and volatility. The fair value of the IRS and interest rate cap are determined by generally accepted valuation techniques with reference to observable market data such as interest rates.

The Company entered into an IRS agreement to fully hedge its floating rate exposure on its foreign currency-denominated loan and par forward contracts to hedge the floating rate exposure on foreign-currency denominated payments.

*Interest rate swap (IRS)*
On September 6, 2019, the Company entered into an IRS agreement effective September 30, 2019 to hedge $150 million of its floating rate exposure on its loan (see Note 12). Under the IRS agreement, the Company, on a quarterly basis, pays a fixed rate of 1.449300% per annum and received variable interest at 3-month LIBOR, subject to a floor of 0%. On February 5, 2020, the Company entered additional IRS agreement effective April 29, 2020 to hedge $50 million of its floating rate exposure on its loan (see Note 12). Under the IRS agreement, the Company, on a quarterly basis, pays a fixed rate of 1.434000% per annum and received variable interest at 3-month LIBOR, subject to a floor of 0%. The interest payments and receipts are based on the outstanding USD notional amount simultaneous with the interest payments on the hedged loan. Similar with the hedged loan, the IRS has amortizing notional amounts which cover a period of up to April 30, 2024. The Company designated the swap as a cash flow hedge.

As of December 31, 2020, the outstanding notional amount and fair value of the swap amounted to ₱9.6 billion and ₱389.4 million, respectively. As of December 31, 2019, the outstanding notional amount and fair value of the swap amounted to ₱7.6 billion and ₱80.1 million, respectively.

*Foreign currency forward contracts*
In 2020, the Company entered into foreign currency forward contracts, namely Principal-only Swap (POS) and Call Spread (CS), with counterparty banks to manage foreign currency risks associated with foreign currency-denominated liabilities and purchases. The notional amount of the forward

contract is $25.0 million (₱1.2 billion) and $10.0 million (₱480.0 million) for POS and CS, respectively. The Company designated both the forward contracts as a cash flow hedge.

Hedge Effectiveness Results
Since the critical terms of the hedged loan and the IRS match, the hedge was assessed to be highly effective. The effective portion of the changes in the fair value of the swap amounting to ₱429.5 million loss and ₱80.1 million gain as of December 31, 2020 and 2019, respectively, was deferred in equity under the "Cash flow hedge reserve" account.

The following is the maturity analysis of the notional amount and the corresponding average fixed interest rate (amounts in thousands):

**December 31, 2020**

| | Maturity | | | | | |
|---|---|---|---|---|---|---|
| | Less than 3 months | 3 to 6 months | 6 to 12 months | 1 to 2 years | More than 2 years | Total |
| IRS - Derivative liability | | | | | | |
| Notional amount | ₱— | ₱— | ₱— | ₱— | ₱9,604,600 | ₱9,604,600 |
| Average fixed interest rate (%) | — | — | — | — | 1.45%-1.51% | |
| POS - Derivative liability | | | | | | |
| Notional amount | — | — | — | — | 1,214,775 | 1,214,775 |
| CS - Derivative liability | | | | | | |
| Notional amount | — | — | — | — | 480,360 | 480,360 |

December 31, 2019

| | Maturity | | | | | |
|---|---|---|---|---|---|---|
| | Less than 3 months | 3 to 6 months | 6 to 12 months | 1 to 2 years | More than 2 years | Total |
| IRS - Derivative assets | | | | | | |
| Notional amount | ₱— | ₱— | ₱— | ₱— | ₱7,595,250 | ₱7,595,250 |
| Average fixed interest rate (%) | 1.4493% | 1.4493% | 1.4493% | 1.4493% | 1.4493% | |

The impact of the hedged item and hedging instrument in the parent company balance sheets and in the parent company statements of income and parent company statements of comprehensive income is as follows:

**December 31, 2020**

| | Carrying amount | Change in fair value used for measuring ineffectiveness | Total hedging loss recognized in other comprehensive income | Ineffectiveness recognized in other income (charges) |
|---|---|---|---|---|
| IRS - Derivative liability | (₱389,376,797) | (₱469,511,068) | (₱469,511,068) | ₱— |
| POS - Derivative liability | (39,350,319) | (39,350,319) | (39,350,319) | — |
| CS - Derivative liability | (771,345) | (771,345) | (771,345) | — |
| | (₱429,498,461) | (₱509,632,732) | (₱509,632,732) | ₱— |

December 31, 2019

| | Carrying amount | Change in fair value used for measuring ineffectiveness | Total hedging gain recognized in other comprehensive income | Ineffectiveness recognized in other income (charges) |
|---|---|---|---|---|
| IRS - Derivative asset | ₱80,134,271 | ₱80,134,271 | ₱80,134,271 | ₱— |

The movements in fair value changes of derivative instruments for the year ended December 31, 2020 and 2019 are as follows:

| | **2020** | 2019 |
|---|---|---|
| At beginning of year | **(₱80,134,271)** | ₱— |
| Net changes in fair value of derivatives designated as accounting hedges | **509,632,732** | (80,134,271) |
| At end of year | **₱429,498,461** | (₱80,134,271) |

The changes in the fair value of derivatives designated as cash flow hedges were deferred in equity under "Cash flow hedge reserve."

Fair Value Hierarchy
The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

For the years ended December 31, 2020 and 2019, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements were made.

20. **Lease Agreements**

a. Lease Agreement with Manta Equities, Inc. (MEI)

The Company entered into a lease agreement with MEI for administrative office space and parking space for a period of ten (10) years from April 1, 2013 to May 31, 2023 and nine (9) years and three (3) months from and March 1, 2014 to May 31, 2023, respectively. Both lease contracts have an escalation rate of 5.0%.

The Company entered into an additional lease agreement with MEI in 2020 for administrative office space and parking space for a period of three (3) years and five (5) months from January 1, 2020 to May 31, 2023. The lease contract has an escalation rate of 5.0%

b. Lease Agreement with Limketkai Sons, Inc. (LSI)

The Company entered into a lease agreement with LSI for administrative and sales office space for a period of three (3) years from November 1, 2016 to October 31, 2019.

c. Lease Agreement with SM Prime Holdings, Inc. (SMPH)

The Company entered into a lease agreement with SMPH for administrative and sales office space for a period of three (3) years from August 1, 2019 to July 31, 2022. The lease contract has an escalation of 5.0%

Set out below, are the carrying amounts of the Company's right-of-use assets and lease liabilities and the corresponding movements:

| | **2020** | 2019 |
|---|---|---|
| Balances at beginning of year | **₱51,602,147** | ₱64,347,091 |
| Additions | **19,121,556** | — |
| Interest expense | **4,307,645** | 5,080,616 |
| Payments | **(23,650,208)** | (17,825,560) |
| Balances at end of year | **₱51,381,140** | ₱51,602,147 |

The Company also has certain leases of conference rooms with lease terms of 12 months or less. The Company applies the 'short-term lease' recognition exemption on these arrangement.

Set out below, are the amounts recognized in the parent company statements of income for the year ended December 31, 2020 and 2019:

| | **2020** | 2019 |
|---|---|---|
| Amortization of right-of-use assets | **₱16,569,335** | ₱11,490,685 |
| Interest expense on lease liabilities | **4,307,645** | 5,080,616 |
| Rent expense - short-term leases | **3,426,142** | 7,027,319 |
| | **₱24,303,122** | ₱23,598,620 |

## 21. Note to Statements of Cash Flows

The following are the cash flow movements of the Company's financing liabilities:

| | January 1, 2020 | Net cash flows | Non-cash Changes: Lease addition | Dividend declaration | Amortized deferred financing costs | Foreign exchange movement | Interest expense | Others | December 31, 2020 |
|---|---|---|---|---|---|---|---|---|---|
| **Lease liability** | **₱51,602,147** | **(₱23,650,208)** | **₱19,121,556** | **₱—** | **₱—** | **₱—** | **₱4,307,645** | **₱—** | **₱51,381,140** |
| **Non-current interest-bearing loans and borrowings** | **50,079,825,067** | **9,383,282,625** | **—** | **—** | **130,574,511** | **(783,600,000)** | **—** | **—** | **58,810,082,203** |
| **Interest on loans and borrowings** | **380,430,960** | **(2,797,326,277)** | **—** | **—** | **—** | **—** | **2,789,726,329** | **22,290,326** | **395,121,338** |
| **Dividend payable** | **—** | **(8,682,746,344)** | **—** | **8,683,153,081** | **—** | **—** | **—** | **—** | **406,737** |
| **Total liabilities from financing activities** | **₱50,511,858,174** | **(₱2,120,440,204)** | **₱19,121,556** | **₱8,683,153,081** | **₱130,574,511** | **(₱783,600,000)** | **₱2,794,033,974** | **₱22,290,326** | **₱59,256,991,418** |

| | January 1, 2019 | Net cash flows | Non-cash Changes: Adoption of PFRS 16 | Dividend declaration | Amortized deferred financing costs | Foreign Exchange Movement | Interest expense | Others | December 31, 2019 |
|---|---|---|---|---|---|---|---|---|---|
| Lease Liability | ₱— | (₱17,825,560) | ₱64,347,091 | ₱— | ₱— | ₱— | ₱5,080,616 | ₱— | ₱51,602,147 |
| Current interest bearing loans and borrowings | 4,700,000,000 | (4,700,000,000) | — | | — | — | — | — | — |
| Non-current interest-bearing loans and borrowings | 22,997,821,292 | 27,450,103,643 | | — | 72,900,132 | (441,000,000) | | — | 50,079,825,067 |
| Interest on loans and borrowings | 212,180,900 | (2,301,301,047) | — | — | — | — | 2,445,928,120 | 23,622,987 | 380,430,960 |
| Dividend payable | — | (10,817,148,331) | | 10,817,148,331 | — | | | | — |
| Total liabilities from financing activities | ₱27,910,002,192 | ₱9,613,828,705 | ₱64,347,091 | ₱10,817,148,331 | ₱72,900,132 | (₱441,000,000) | ₱2,451,008,736 | ₱23,622,987 | ₱50,511,858,174 |

## 22. Others

a. COVID-19

In a move to contain the COVID-19 outbreak, on March 13, 2020, the Office of the President of the Philippines issued a Memorandum directive to impose stringent social distancing measures in the National Capital Region effective March 15, 2020. On March 16, 2020, Presidential Proclamation No. 929 was issued, declaring a State of Calamity throughout the Philippines for a period of six (6) months and imposed an enhanced community quarantine (ECQ) throughout the island of Luzon until April 12, 2020, as subsequently extended to April 30, 2020. This was further extended to May 15, 2020 in selected areas including the National Capital Region. This community quarantine has been extended on a more relaxed form after May 15, 2020 extension. As of March 5, 2021, general community quarantine is in effect in selected areas including the National Capital Region until March 31, 2021. These measures have caused disruptions to businesses and economic activities, and its impact on businesses continue to evolve.

The economic slowdown during the ECQ has been caused by reduced consumer spending in most sectors and therefore, affects the Company's operations.

The Company has an in-placed and extensive business continuity plan on similar risk, including the lay out of the necessary steps that will help address or minimize the Company's business exposures. However, considering the evolving nature of this outbreak, the Company will continue to monitor the situation and adjust the steps it is currently implementing in subsequent periods.

b. Corporate Recovery and Tax Incentives for Enterprises (CREATE) Bill

On February 3, 2021, the House of Representatives and the Senate have ratified the Bicameral Committee's version of the proposed CREATE bill. Among others, CREATE bill contains provisions that affect the taxability of an entity:

- Reduction of corporate income tax rate from 30% to 25% or 20% as the case maybe, depending on the classification of an entity, effective July 1, 2020;
- Reduction of MCIT rate from 2% to 1% of gross income, effective from July 1, 2020 to June 30, 2023;
- Repeal of the imposition of 10% improperly accumulated earnings tax; and
- VAT exemption on certain sale of real properties.

## 23. Supplementary Information Required Under Revenue Regulations (RR) 15-2010

The Company also reported and/or paid the following types of taxes for the year:

VAT

The Company's sales are subject to output value added tax (VAT) while its importations and purchases from other VAT-registered individuals or corporations are subject to input VAT. The VAT rate is 12.0%.

I. Net Receipts and Output VAT declared in the Company's VAT returns in 2020

| | Net Sales/Receipts | Output VAT |
|---|---|---|
| Taxable Sales: | | |
| Sales of services | ₱1,730,694,009 | ₱203,807,809 |

The Company's sales that are subject to VAT are reported under the following accounts:

- Service Income - Management fees
- Service Income - Professional fees
- Service Income - Technical fees
- Miscellaneous Income - Operating
- Miscellaneous Income - Non-operating

The Company's sales of services are based on actual collections received, hence, may not be the same as amounts accrued in the parent company statement of income.

II. Input VAT for 2020

| | |
|---|---|
| Balance at January 1 | ₱19,262,179 |
| Current year's domestic purchases/payments for: | |
| Goods other than for resale or manufacture | 2,104,707 |
| Capital goods subject to amortization | 2,572,153 |
| Capital goods not subject to amortization | 152,886 |
| Services lodged under the other accounts | 36,843,367 |
| | 60,935,292 |
| Claims for tax credit/refund and other adjustments | (48,731,217) |
| Balance at December 31 | ₱12,204,075 |

Other taxes and licenses
Taxes and licenses, local and national, include real estate taxes, licenses and permit fees for 2020:

| | |
|---|---|
| Documentary stamp taxes (DST) | ₱31,809,472 |
| License and permit fees | 15,410,526 |
| Deficiency and amnesty taxes | 16,002,887 |
| Fringe benefit taxes | 4,414,349 |
| Others | 230,069 |
| | ₱67,867,303 |

Withholding taxes

| | |
|---|---|
| Final withholding taxes | ₱521,812,886 |
| Withholding taxes on compensation and benefits | 227,701,148 |
| Expanded withholding taxes | 30,175,481 |
| Withholding VAT | 24,317 |
| | ₱779,713,832 |

Tax Assessment and Cases
The Company has no pending tax cases outside of the administration of the BIR as of December 31, 2020.

Gmail

ap accounting <ap200652460@gmail.com>

## Your BIR AFS eSubmission uploads were received

1 message

**eafs@bir.gov.ph** <eafs@bir.gov.ph>

Fri, Apr 9, 2021 at 7:01 AM

To: AP200652460@gmail.com
Cc: AP200652460@gmail.com

Hi ABOITIZ POWER CORPORATION,

**Valid files**

- EAFS200652460TCRTY122020-01.pdf
- EAFS200652460OTHTY122020.pdf
- EAFS200652460ITRTY122020.pdf
- EAFS200652460AFSTY122020.pdf

**Invalid file**

- <None>

Transaction Code: **AFS-0-MPNQVQQX06C5K9KKFQ1QVYZX30MVZ3SQ41**
Submission Date/Time: **Apr 09, 2021 07:01 AM**
Company TIN: **200-652-460**

Please be reminded that you accepted the terms and conditions for the use of this portal and expressly agree, warrant and certify that:

- The submitted forms, documents and attachments are complete, truthful and correct based on the personal knowledge and the same are from authentic records;
- The submission is without prejudice to the right of the BIR to require additional document, if any, for completion and verification purposes;
- The hard copies of the documents submitted through this facility shall be submitted when required by the BIR in the event of audit/investigation and/or for any other legal purpose.

This is a system-generated e-mail. Please do not reply

# COVER SHEET

for

**AUDITED FINANCIAL STATEMENTS**

SEC Registration Number

| C | 1 | 9 | 9 | 8 | 0 | 0 | 1 | 3 | 4 | |
|---|---|---|---|---|---|---|---|---|---|---|

COMPANY NAME

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

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

32nd Street, Bonifacio Global City, Taguig City, Metro Manila, Philippines 1634

| Form Type | Department requiring the report | Secondary License Type, If Applicable |
|---|---|---|
| AACFS | CFD | -NA- |

**COMPANY INFORMATION**

| Company's Email Address | Company's Telephone Number | Mobile Number |
|---|---|---|
| www.aboitizpower.com | (02) 8886-2800 | None |

| No. of Stockholders | Annual Meeting (Month / Day) | Fiscal Year (Month / Day) |
|---|---|---|
| 598 | April 26 | December/31 |

**CONTACT PERSON INFORMATION**

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

| Name of Contact Person | Email Address | Telephone Number/s | Mobile Number |
|---|---|---|---|
| Liza Luv T. Montelibano | liza.montelibano@aboitiz.com | (02) 8886-2813 | Not Available |

**CONTACT PERSON's ADDRESS**

32nd Street, Bonifacio Global City, Taguig City, Metro Manila, Philippines 1634

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

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

SEC Extension Office

13 APR 2021

By

RECEIVED SUBJECT TO REVIEW OF FORM AND CONTENTS

AboitizPower

SECURITIES AND EXCHANGE COMMISSION
SEC Building, EDSA Greenhills
Mandaluyong, Metro Manila

STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS

The management of Aboitiz Power Corporation is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, for the years ended December 31, 2020, 2019 and 2018 in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

**ERRAMON I. ABOITIZ**
Chairman of the Board

**EMMANUEL V. RUBIO**
President & Chief Executive Officer

**LIZA LUV T. MONTELIBANO**
SVP & Chief Financial Officer/Corporate Information Officer

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS DIVISION-CEBU
RECEIVED
MAR 23 2021
DPQA SECTION INITIAL

Signed this March 05, 2021

Republic of the Philippines)
City of Taguig ) S.S.

Before me, a notary public in and for the city named above, personally appeared:

| Name | Passport/CTC No. | Date/Place Issued |
|---|---|---|
| ERRAMON I. ABOITIZ | P2251997A<br>04602767 | March 11, 2017; DFA Manila<br>February 18, 2021; Cebu City |
| EMMANUEL V. RUBIO | P3162364B<br>08514240 | September 13, 2019; DFA Manila<br>January 15, 2021; Manila |
| LIZA LUV T. MONTELIBANO | P7070135A<br>08514241 | May 7, 2018, DFA Manila<br>January 11, 2021; Manila |

who are personally known to me and to me known to be the same persons 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 this Mar 17 2021.

Doc. No. 896;
Page No. 81;
Book No. X;
Series of 2021

STRELLA MARIE G. SACDALAN
ROLL NO 63289
NOTARY PUBLIC
TAGUIG CITY, PHILS.

Atty. Strella Marie G. Sacdalan
Notary Public for Taguig City
Notarial Commission No 99
Until June 30, 2021
NAC Tower, 32nd St. Bonifacio Global City, Taguig City
PTR No. A-5325311, January 6, 2021 Taguig City
IBP OR no. 144348, January 6, 2021
Roll No. 63289
MCLE Compliance No. VI-0011090

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS DIVISION-CEBU
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MAR 23 2021
OPQA SECTION INITIAL

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Building a better working world

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 8891 0307
Fax: (632) 8819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

## INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
Aboitiz Power Corporation
32nd Street, Bonifacio Global City
Taguig City, Metro Manila
Philippines

### Opinion

We have audited the consolidated financial statements of Aboitiz Power Corporation and its subsidiaries (the Group), which comprise the consolidated balance sheets 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 to the consolidated financial statements, including a summary of significant accounting policies.

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

### Key Audit Matters

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

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

***Impairment Testing of Goodwill***

Under PFRSs, the Group is required to annually test the amount of goodwill for impairment. As of December 31, 2020, the goodwill attributable to several cash-generating units (CGUs) amounted to ₱38.81 billion or 10% of total assets, which is considered significant to the consolidated financial statements. In addition, management's assessment process requires significant judgment and is based on assumptions which are subject to uncertainty on the estimation process due to the current economic conditions which have been impacted by the coronavirus pandemic, specifically discount and growth rates, revenue assumptions, and material price inflation.

The Group's disclosures about goodwill are included in Note 12 to the consolidated financial statements.

*Audit Response*
We involved our internal specialist in assessing the methodologies and assumptions used. These assumptions include discount and growth rates, revenue assumptions, and material price inflation. We compared the key assumptions used, such as growth rate and revenue assumptions against the historical performance of the CGUs, industry outlook and other relevant external data, taking into consideration the impact associated with the coronavirus pandemic. We tested the parameters used in the determination of the discount rates against market data. We also reviewed the Group's disclosures about those assumptions to which the outcome of the impairment test is most sensitive; specifically, those that have the most significant effect on the determination of the recoverable amount of goodwill.

***Revenue Recognition of Distribution Utilities***

The distribution utilities' revenue from the sale of electricity amounting to ₱41.87 billion accounts for 38% of the Group's consolidated revenues and is material to the Group. This matter is significant to the audit because the revenue recognized depends on the electric consumption captured, the rates applied across different customers, and the systems involved in the billing process. Electric consumption captured is based on the meter readings taken on various dates for the different types of customers (i.e., industrial, commercial, and residential customers) within the franchise areas of operations of the distribution utilities.

The Group's disclosures related to this matter are provided in Notes 3 and 20 to the consolidated financial statements.

*Audit Response*
We obtained an understanding and evaluated the design and tested the controls over the billing and revenue process which includes the capture and accumulation of meter data in the billing system and calculation of billed amounts, and uploading of billed amounts from the billing system to the financial

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reporting system. We performed a test calculation of the rates using the Energy Regulatory Commission-approved rates and formulae, then compared them with the rates used in billing statements.

***Recoverability of Certain Segments of Property, Plant and Equipment***

Based on the assessment of the Group as of December 31, 2020, certain segments of its property, plant and equipment totaling ₱41.6 billion, may be impaired due to the existence of impairment indicators. As such, the Group assessed the recoverable amount of these segments of property and equipment and this requires significant judgment and involves estimation and assumptions about future electricity generation levels and costs as well as external inputs such as fuel prices, electricity prices and discount rates. In addition, because of the coronavirus pandemic, there is heightened level of uncertainty on the future economic outlook and market forecast. Hence, we consider such assessment as a key audit matter in our audit.

The disclosures about the recoverability of certain segments of property, plant and equipment are included in Note 11 to the consolidated financial statements.

*Audit Response*
We involved our internal specialist in assessing the methodologies and assumptions used. These assumptions include future electricity generation levels and costs, as well as external inputs such as fuel prices, electricity prices and discount rates. We compared the key assumptions used against the historical performance of certain segments of property, plant and equipment, industry outlook and other relevant external data, taking into consideration the impact associated with the coronavirus pandemic. We tested the parameters used in the determination of the discount rate against market data. We also reviewed the Group's disclosures about those assumptions to which the outcome of the impairment test is most sensitive; specifically those that have the most significant effect on the determination of the recoverable amounts of certain segments of property, plant and equipment.

***Consolidation Process***

Aboitiz Power Corporation owns a significant number of domestic and foreign entities at varying equity interests. We considered the consolidation process as a key audit matter because it required significant auditor attention, particularly on the following areas: (a) fair value adjustments arising from business combinations, (b) numerous intercompany transactions, (c) alignment of accounting policies of the investees with the Group's policy on property, plant and equipment and investment properties, (d) translation of investees' foreign-currency-denominated financial information to the Group's functional currency and (e) other equity adjustments.

The Group's disclosures on the basis of consolidation are in Note 3 to the consolidated financial statements.

*Audit Response*
We obtained an understanding of the Group's consolidation process and the related controls, the process for identifying related parties and related party transactions, as well as the reconciliation of intercompany balances. We also checked the entities included in the consolidation and reviewed the

eliminating entries recorded, including fair value adjustments. In addition, we reviewed the foreign currency translation adjustments, as well as the alignment of accounting policies on property, plant and equipment and investment properties.

**Other Information**

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2020 but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2020 are expected to be made available to us after the date of this auditor's report.

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Maria Veronica Andresa R. Pore

SYCIP GORRES VELAYO & CO.

Maria Veronica Andresa R. Pore
Partner
CPA Certificate No. 90349
SEC Accreditation No. 0662-AR-4 (Group A),
November 21, 2019, valid until November 20, 2022
Tax Identification No. 164-533-282
BIR Accreditation No. 08-001998-071-2020,
December 3, 2020, valid until December 2, 2023
PTR No. 8534345, January 4, 2021, Makati City

March 5, 2021

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## ABOITIZ POWER CORPORATION AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

(Amounts in Thousands)

| | December 31 | |
|---|---|---|
| | **2020** | 2019 |
| **ASSETS** | | |
| **Current Assets** | | |
| Cash and cash equivalents (Note 5) | **₱38,699,545** | ₱37,433,929 |
| Trade and other receivables (Note 6) | **22,017,309** | 21,747,422 |
| Inventories (Note 7) | **6,308,200** | 6,632,029 |
| Other current assets (Note 8) | **10,479,648** | 11,083,405 |
| **Total Current Assets** | **77,504,702** | 76,896,785 |
| **Noncurrent Assets** | | |
| Investments and advances (Note 9) | **61,828,801** | 60,878,541 |
| Property, plant and equipment (Notes 11 and 34) | **203,451,243** | 209,521,466 |
| Intangible assets (Note 12) | **44,279,386** | 46,712,501 |
| Derivative assets (see Note 33) | **—** | 82,327 |
| Net pension assets (Note 26) | **50,410** | 68,209 |
| Deferred income tax assets - net (Note 28) | **1,539,020** | 2,786,310 |
| Other noncurrent assets (Note 13) | **9,271,556** | 13,523,218 |
| **Total Noncurrent Assets** | **320,420,416** | 333,572,572 |
| **TOTAL ASSETS** | **₱397,925,118** | ₱410,469,357 |
| **LIABILITIES AND EQUITY** | | |
| **Current Liabilities** | | |
| Short-term loans (Note 15) | **₱11,743,413** | ₱10,335,420 |
| Current portions of: | | |
| Long-term debts (Note 16) | **17,254,213** | 10,386,311 |
| Lease liabilities (Note 34) | **7,104,181** | 5,486,745 |
| Long-term obligation on power distribution system (Note 12) | **40,000** | 40,000 |
| Derivative liabilities (Note 33) | **787,273** | 2,255,736 |
| Trade and other payables (Note 14) | **18,371,798** | 22,376,120 |
| Income tax payable (Note 28) | **722,715** | 510,137 |
| **Total Current Liabilities** | **56,023,593** | 51,390,469 |

(Forward)

| | December 31 | |
|---|---|---|
| | 2020 | 2019 |
| **Noncurrent Liabilities** | | |
| Noncurrent portions of: | | |
| Long-term debts (Note 16) | ₱160,067,119 | ₱167,585,311 |
| Lease liabilities (Note 34) | 32,158,796 | 39,302,899 |
| Long-term obligation on power distribution system (Note 12) | 143,436 | 159,350 |
| Derivative liabilities - net of current portion (Note 33) | 1,001,529 | 212,588 |
| Customers' deposits (Note 17) | 6,798,845 | 6,521,469 |
| Decommissioning liability (Note 18) | 5,008,033 | 3,567,492 |
| Deferred income tax liabilities - net (Note 28) | 745,214 | 848,471 |
| Net pension liabilities (Note 26) | 294,086 | 426,047 |
| Other noncurrent liabilities (Note 39k) | 1,099,394 | 6,812,250 |
| **Total Noncurrent Liabilities** | 207,316,452 | 225,435,877 |
| **Total Liabilities** | 263,340,045 | 276,826,346 |
| **Equity Attributable to Equity Holders of the Parent** | | |
| Paid-in capital (Note 19a) | 19,947,498 | 19,947,498 |
| Share in net unrealized valuation gains on fair value through other comprehensive income (FVOCI) of an associate (Note 9) | 98,602 | 101,727 |
| Cumulative translation adjustments (Note 33) | (2,446,773) | (994,253) |
| Share in cumulative translation adjustments of associates and joint ventures (Note 9) | (684,042) | (153,485) |
| Actuarial losses on defined benefit plans (Note 26) | (1,239,612) | (923,833) |
| Share in actuarial gain (loss) on defined benefit plans of associates and joint ventures (Note 9) | 8,748 | (14,299) |
| Acquisition of non-controlling interests (Note 9) | (6,321,325) | (6,321,325) |
| Excess of cost over net assets of investments | (421,260) | (421,260) |
| Loss on dilution (Note 2) | (433,157) | (433,157) |
| Retained earnings (Note 19b) | | |
| Appropriated | 33,660,000 | 33,660,000 |
| Unappropriated (Notes 9 and 19c) | 84,989,900 | 81,095,377 |
| | 127,158,579 | 125,542,990 |
| **Non-controlling Interests** | 7,426,494 | 8,100,021 |
| **Total Equity** | 134,585,073 | 133,643,011 |
| **TOTAL LIABILITIES AND EQUITY** | ₱397,925,118 | ₱410,469,357 |

*See accompanying Notes to Consolidated Financial Statements.*

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## ABOITIZ POWER CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME

**(Amounts in Thousands, Except Earnings Per Share Amounts)**

| | Years Ended December 31 | | |
|---|---|---|---|
| | 2020 | 2019 | 2018 |
| **OPERATING REVENUES** | | | |
| Sale of power (Notes 20 and 31): | | | |
| Generation | ₱51,750,660 | ₱55,895,587 | ₱61,854,685 |
| Distribution | 41,872,331 | 46,120,403 | 44,880,546 |
| Retail electricity supply | 16,476,713 | 22,805,450 | 24,216,767 |
| Technical, management and other fees (Note 31) | 276,945 | 813,717 | 620,086 |
| **OPERATING REVENUES** | 110,376,649 | 125,635,157 | 131,572,084 |
| **OPERATING EXPENSES** | | | |
| Cost of purchased power (Notes 21 and 31) | 31,409,251 | 35,835,144 | 36,006,080 |
| Cost of generated power (Note 22) | 23,461,858 | 35,526,706 | 35,674,218 |
| Depreciation and amortization (Notes 11, 12 and 34) | 10,973,364 | 9,895,695 | 8,681,403 |
| Operations and maintenance (Note 24) | 8,988,916 | 7,366,372 | 6,525,189 |
| General and administrative (Note 23) | 8,663,373 | 8,155,366 | 8,188,512 |
| | 83,496,762 | 96,779,283 | 95,075,402 |
| **FINANCIAL INCOME (EXPENSES) - net** | | | |
| Interest income (Notes 5 and 31) | 653,076 | 1,291,703 | 880,085 |
| Interest expense and other financing costs (Notes 15, 16, 32 and 34) | (14,253,528) | (14,047,646) | (12,082,158) |
| | (13,600,452) | (12,755,943) | (11,202,073) |
| **OTHER INCOME (EXPENSES) - net** | | | |
| Share in net earnings of associates and joint ventures (Note 9) | 2,675,136 | 3,813,962 | 4,356,825 |
| Other income (expenses) - net (Note 27) | 4,928,563 | 3,483,387 | (1,292,311) |
| | 7,603,699 | 7,297,349 | 3,064,514 |
| **INCOME BEFORE INCOME TAX** | 20,883,134 | 23,397,280 | 28,359,123 |
| **PROVISION FOR INCOME TAX** (Note 28) | 6,061,912 | 3,215,498 | 2,925,623 |
| **NET INCOME** | ₱14,821,222 | ₱20,181,782 | ₱25,433,500 |
| **ATTRIBUTABLE TO:** | | | |
| Equity holders of the parent | ₱12,577,676 | ₱17,322,677 | ₱21,707,603 |
| Non-controlling interests | 2,243,546 | 2,859,105 | 3,725,897 |
| | ₱14,821,222 | ₱20,181,782 | ₱25,433,500 |
| **EARNINGS PER COMMON SHARE** (Note 29) | | | |
| Basic and diluted, income for the period attributable to ordinary equity holders of the parent | ₱1.71 | ₱2.35 | ₱2.95 |

*See accompanying Notes to Consolidated Financial Statements.*

## ABOITIZ POWER CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

**(Amounts in Thousands)**

| | Years Ended December 31 | | |
|---|---|---|---|
| | 2020 | 2019 | 2018 |
| **NET INCOME ATTRIBUTABLE TO:** | | | |
| Equity holders of the parent | **₱12,577,676** | ₱17,322,677 | ₱21,707,603 |
| Non-controlling interests | **2,243,546** | 2,859,105 | 3,725,897 |
| | **14,821,222** | 20,181,782 | 25,433,500 |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | | |
| *Other comprehensive income (loss) that may be reclassified to profit or loss in subsequent periods:* | | | |
| Movement in cumulative translation adjustments | **(1,985,467)** | (1,767,498) | 584,087 |
| Share in movement in cumulative translation adjustment of associates and joint ventures (Note 9) | **(530,557)** | (474,624) | 465,646 |
| Share in net unrealized valuation losses on FVOCI investments of an associate (Note 9) | **(3,125)** | — | (22,394) |
| Net other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods | **(2,519,149)** | (2,242,122) | 1,027,339 |
| *Other comprehensive income (loss) that will not be reclassified to profit or loss in subsequent periods:* | | | |
| Share in actuarial gains (loss) on defined benefit plans of associates and joint ventures, net of tax (Note 9) | **23,047** | (44,028) | 24,766 |
| Actuarial gain (loss) on defined benefit plans, net of tax (Note 26) | **(327,505)** | (329,029) | 8,893 |
| Net other comprehensive gain (loss) not to be reclassified to profit or loss in subsequent periods | **(304,458)** | (373,057) | 33,659 |
| Total other comprehensive income (loss) for the period, net of tax | **(2,823,607)** | (2,615,179) | 1,060,998 |
| **TOTAL COMPREHENSIVE INCOME** | **₱11,997,615** | ₱17,566,603 | ₱26,494,498 |
| **ATTRIBUTABLE TO:** | | | |
| Equity holders of the parent | **₱10,298,742** | ₱14,947,290 | ₱22,602,094 |
| Non-controlling interests | **1,698,873** | 2,619,313 | 3,892,404 |
| | **₱11,997,615** | ₱17,566,603 | ₱26,494,498 |

*See accompanying Notes to Consolidated Financial Statements.*

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# ABOITIZ POWER CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

**FOR THE YEARS ENDED DECEMBER 31, 2020, 2019 AND 2018**

**(Amounts in Thousands, Except Dividends Per Share Amounts)**

| | Attributable to Equity Holders of the Parent | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | Retained Earnings (Note 19b) | | | |
| | Paid in Capital (Note 19a) | Share in Net Unrealized Valuation Gains on FVOCI (Note 9) | Cumulative Translation Adjustments | Share in Cumulative Translation Adjustments of Associates and Joint Ventures (Note 9) | Actuarial Losses on Defined Benefit Plans (Note 26) | Share in Actuarial Gain (Loss) on Defined Benefit Plans of Associates and Joint Ventures (Note 9) | Acquisition of Non-controlling Interests (Note 9) | Excess of cost over net assets of investment | Loss on Dilution | Appropriated | Unappropriated | Non-controlling Interests | Total |
| Balances at January 1, 2020 | ₱19,947,498 | ₱101,727 | (₱994,253) | (₱153,485) | (₱923,833) | (₱14,299) | (₱6,321,325) | (₱421,260) | (₱433,157) | ₱33,660,000 | ₱81,095,377 | ₱8,100,021 | ₱133,643,011 |
| Net income for the year | – | – | – | – | – | – | – | – | – | – | 12,577,676 | 2,243,546 | 14,821,222 |
| *Other comprehensive income (loss)* | | | | | | | | | | | | | |
| Share in movement in unrealized loss on FVOCI investments | – | (3,125) | – | – | – | – | – | – | – | – | – | – | (3,125) |
| Movement in cumulative translation adjustments | – | – | (1,452,520) | – | – | – | – | – | – | – | – | (532,947) | (1,985,467) |
| Share in movement in cumulative translation adjustment of associates and joint ventures | – | – | – | (530,557) | – | – | – | – | – | – | – | – | (530,557) |
| Actuarial loss on defined benefit plans, net of tax | – | – | – | – | (315,779) | – | – | – | – | – | – | (11,726) | (327,505) |
| Share in actuarial gain on defined benefit plans of associates and joint ventures | – | – | – | – | – | 23,047 | – | – | – | – | – | – | 23,047 |
| Total comprehensive income (loss) for the year | – | (3,125) | (1,452,520) | (530,557) | (315,779) | 23,047 | – | – | – | – | 12,577,676 | 1,698,873 | 11,997,615 |
| Cash dividends - ₱1.18 per share (Note 19b) | – | – | – | – | – | – | – | – | – | – | (8,683,153) | – | (8,683,153) |
| Cash dividends paid to non-controlling interests | – | – | – | – | – | – | – | – | – | – | – | (2,350,216) | (2,350,216) |
| Change in non-controlling interests | – | – | – | – | – | – | – | – | – | – | – | (22,184) | (22,184) |
| Balances at December 31, 2020 | ₱19,947,498 | ₱98,602 | (₱2,446,773) | (₱684,042) | (₱1,239,612) | ₱8,748 | (₱6,321,325) | (₱421,260) | (₱433,157) | ₱33,660,000 | ₱84,989,900 | ₱7,426,494 | ₱134,585,073 |

| | Attributable to Equity Holders of the Parent | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | Retained Earnings (Note 19b) | | | |
| | Paid-in Capital (Note 19a) | Share in Net Unrealized Valuation Gain on FVOCI (Note 9) | Cumulative Translation Adjustments | Share in Cumulative Translation Adjustments of Associates and Joint Ventures (Note 9) | Actuarial Losses on Defined Benefit Plans (Note 26) | Share in Actuarial Gains (Losses) on Defined Benefit Plans of Associates and Joint Ventures (Note 9) | Acquisition of Non-controlling Interests (Note 9) | Excess of cost over net assets of investment | Loss on Dilution | Appropriated | Unappropriated | Non-controlling Interests | Total |
| Balances at January 1, 2019, as previously reported | ₱19,947,498 | ₱101,727 | ₱525,916 | ₱321,139 | (₱587,267) | ₱29,729 | (₱259,147) | (₱421,260) | (₱433,157) | ₱34,060,000 | ₱74,427,738 | ₱8,863,751 | ₱136,576,667 |
| Effect of adoption - PFRS 16 | – | – | – | – | – | – | – | – | – | – | (237,890) | (40,070) | (277,960) |
| Balances at January 1, 2019, as restated | 19,947,498 | 101,727 | 525,916 | 321,139 | (587,267) | 29,729 | (259,147) | (421,260) | (433,157) | 34,060,000 | 74,189,848 | 8,823,681 | 136,298,707 |
| Net income for the year | – | – | – | – | – | – | – | – | – | – | 17,322,677 | 2,859,105 | 20,181,782 |
| *Other comprehensive income (loss)* | | | | | | | | | | | | | |
| Movement in cumulative translation adjustments | – | – | (1,520,169) | – | – | – | – | – | – | – | – | (247,329) | (1,767,498) |
| Share in movement in cumulative translation adjustment of associates and joint ventures | – | – | – | (474,624) | – | – | – | – | – | – | – | – | (474,624) |
| Actuarial gains (losses) on defined benefit plans, net of tax | – | – | – | – | (336,566) | – | – | – | – | – | – | 7,537 | (329,029) |
| Share in actuarial loss on defined benefit plans of associates and joint ventures | – | – | – | – | – | (44,028) | – | – | – | – | – | – | (44,028) |
| Total comprehensive income (loss) for the year | – | – | (1,520,169) | (474,624) | (336,566) | (44,028) | – | – | – | – | 17,322,677 | 2,619,313 | 17,566,603 |
| Reversal of appropriation | – | – | – | – | – | – | – | – | – | (12,300,000) | 12,300,000 | – | – |
| Appropriations | – | – | – | – | – | – | – | – | – | 11,900,000 | (11,900,000) | | – |
| Acquisition of non-controlling interest (Note 9) | – | – | – | – | – | – | (6,062,178) | – | – | – | – | (710,830) | (6,773,008) |
| Cash dividends - ₱1.47 per share (Note 19b) | – | – | – | – | – | – | – | – | – | – | (10,817,148) | – | (10,817,148) |
| Cash dividends paid to non-controlling interests | – | – | – | – | – | – | – | – | – | – | – | (2,580,724) | (2,580,724) |
| Change in non-controlling interests | – | – | – | – | – | – | – | – | – | – | – | (51,419) | (51,419) |
| Balances at December 31, 2019 | ₱19,947,498 | ₱101,727 | (₱994,253) | (₱153,485) | (₱923,833) | (₱14,299) | (₱6,321,325) | (₱421,260) | (₱433,157) | ₱33,660,000 | ₱81,095,377 | ₱8,100,021 | ₱133,643,011 |

| | Attributable to Equity Holders of the Parent | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | | Retained Earnings (Note 19b) | | | |
| | Paid-in Capital (Note 19a) | Net Unrealized Loss on AFS Investments | Share in Net Unrealized Valuation Gain on FVOCI (Note 9) | Cumulative Translation Adjustments | Share in Cumulative Translation Adjustments of Associates and Joint Ventures (Note 9) | Actuarial Gains (Losses) on Defined Benefit Plans (Note 26) | Share in Actuarial Gains (Losses) on Defined Benefit Plans of Associates and Joint Ventures (Note 9) | Acquisition of Non-controlling Interests (Note 9) | Excess of cost over net assets of investment | Loss on Dilution | Appropriated | Unappropriated | Non-controlling Interests | Total |
| Balances at January 1, 2018, as previously reported | ₱19,947,498 | (₱625) | ₱124,121 | ₱113,637 | (₱144,507) | (₱601,461) | ₱4,963 | (₱259,147) | (₱421,260) | (₱433,157) | ₱34,060,000 | ₱63,006,308 | ₱8,582,094 | ₱123,978,464 |
| Effect of adoption - PFRS 9 | – | 625 | – | – | – | – | – | – | – | – | – | (57,713) | (3,767) | (60,855) |
| Balances at January 1, 2018, as restated | 19,947,498 | – | 124,121 | 113,637 | (144,507) | (601,461) | 4,963 | (259,147) | (421,260) | (433,157) | 34,060,000 | 62,948,595 | 8,578,327 | 123,917,609 |
| Net income for the year | – | – | – | – | – | – | – | – | – | – | – | 21,707,603 | 3,725,897 | 25,433,500 |
| *Other comprehensive income* | | | | | | | | | | | | | | |
| Share in movement in unrealized loss on FVOCI investments | – | – | (22,394) | – | – | – | – | – | – | – | – | – | – | (22,394) |
| Movement in cumulative translation adjustments | – | – | – | 412,279 | – | – | – | – | – | – | – | – | 171,808 | 584,087 |
| Share in movement in cumulative translation adjustment of associates and joint ventures | – | – | – | – | 465,646 | – | – | – | – | – | – | – | – | 465,646 |
| Actuarial gains (losses) on defined benefit plans, net of tax | – | – | – | – | – | 14,194 | – | – | – | – | – | – | (5,301) | 8,893 |
| Share in actuarial gain on defined benefit plans of associates and joint ventures | – | – | – | – | – | – | 24,766 | – | – | – | – | – | – | 24,766 |
| Total comprehensive income (loss) for the year | – | – | (22,394) | 412,279 | 465,646 | 14,194 | 24,766 | – | – | – | – | 21,707,603 | 3,892,404 | 26,494,498 |
| Cash dividends - ₱1.39 per share (Note 19b) | – | – | – | – | – | – | – | – | – | – | – | (10,228,460) | – | (10,228,460) |
| Cash dividends paid to non-controlling interests | – | – | – | – | – | – | – | – | – | – | – | – | (4,768,596) | (4,768,596) |
| Change in non-controlling interests | – | – | – | – | – | – | – | – | – | – | – | – | 1,161,616 | 1,161,616 |
| Balances at December 31, 2018 | ₱19,947,498 | ₱– | ₱101,727 | ₱525,916 | ₱321,139 | (₱587,267) | ₱29,729 | (₱259,147) | (₱421,260) | (₱433,157) | ₱34,060,000 | ₱74,427,738 | ₱8,863,751 | ₱136,576,667 |

*See accompanying Notes to Consolidated Financial Statements.*

## ABOITIZ POWER CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS
**(Amounts in Thousands)**

| | Years Ended December 31 | | |
|---|---|---|---|
| | 2020 | 2019 | 2018 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Income before income tax | ₱20,883,134 | ₱23,397,280 | ₱28,359,123 |
| Adjustments for: | | | |
| Interest expense and other financing costs (Note 32) | 14,253,528 | 14,047,646 | 12,082,158 |
| Depreciation and amortization (Notes 11 and 12) | 10,973,364 | 9,895,695 | 8,681,403 |
| Losses on disposal of property, plant and equipment (Note 27) | 88,227 | 304,631 | 292,799 |
| Write-off of project costs and other assets (Note 12) | 7,240 | 31,431 | 50,922 |
| Unrealized fair valuation loss on derivatives and financial assets at fair value through profit or loss (FVTPL) (Note 33) | 4,848 | 1,424 | 196,297 |
| Share in net earnings of associates and joint ventures (Note 9) | (2,675,136) | (3,813,962) | (4,356,825) |
| Net unrealized foreign exchange (gain) loss | (2,022,493) | (1,950,762) | 997,010 |
| Interest income (Notes 5 and 31) | (653,076) | (1,291,703) | (880,085) |
| Unrealized fair valuation losses on investment property (Note 27) | (115,829) | (126,842) | — |
| Impairment loss (recovery) on property, plant and equipment, goodwill and other assets (Notes 4, 11, 12 and 13) | — | (245,489) | 847,619 |
| Gain on sale of financial assets at FVTPL | — | (1,251) | — |
| Operating income before working capital changes | 40,743,807 | 40,248,098 | 46,270,421 |
| Decrease (increase) in: | | | |
| Trade and other receivables | (8,407,645) | (5,765,526) | (3,449,871) |
| Inventories | 323,829 | 58,424 | (1,057,730) |
| Other current assets | 2,857,713 | 2,780,992 | (3,401,458) |
| Increase (decrease) in: | | | |
| Long-term obligation on power distribution system | (40,000) | (40,000) | (40,000) |
| Trade and other payables | 632,050 | 5,230,984 | 2,687,675 |
| Customers' deposits | 277,376 | 513,105 | (86,326) |
| Net cash generated from operations | 36,387,130 | 43,026,077 | 40,922,711 |
| Income and final taxes paid | (4,605,461) | (3,669,115) | (3,634,811) |
| Net cash flows from operating activities | 31,781,669 | 39,356,962 | 37,287,900 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Cash dividends received (Note 9) | 3,238,926 | 3,784,671 | 4,346,071 |
| Interest received | 654,133 | 1,421,536 | 919,255 |
| Proceeds from redemption of shares (Note 9) | 6,939 | 5,340 | 80,216 |
| Decrease in other noncurrent assets | (634,764) | (2,109,404) | (1,450,074) |
| Net collection of advances from associates and joint ventures (Note 9) | 2,035 | — | 2,054 |
| Proceeds from sale of property, plant and equipment | 8,851 | 63,555 | 18,388 |
| Disposal of assets at FVTPL | — | 101,251 | — |

(Forward)

| | Years Ended December 31 | | |
|---|---|---|---|
| | 2020 | 2019 | 2018 |
| Additions to: | | | |
| Property, plant and equipment (Note 11) | (₱5,428,730) | (₱9,675,816) | (₱8,607,781) |
| Intangible assets - service concession rights (Note 12) | (41,772) | (60,625) | (52,343) |
| Additional investments in associates and joint ventures (Note 9) | (2,332,591) | (27,591,092) | (2,498,905) |
| Net cash flows used in investing activities | (4,526,973) | (34,060,584) | (7,243,119) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Net proceeds from long-term debt (Note 16) | 21,447,441 | 33,500,091 | 24,494,810 |
| Net availments (payment of) short-term loans (Note 15) | 1,407,993 | (1,187,800) | 6,829,260 |
| Cash dividends paid (Note 19b) | (8,682,746) | (10,817,148) | (10,228,460) |
| Payments of: | | | |
| Long-term debt (Note 16) | (19,905,432) | (11,819,230) | (20,626,654) |
| Lease liabilities, including accretion of interest (Note 34) | (7,632,923) | (7,424,990) | (7,804,460) |
| Acquisition of non-controlling interest (Note 9) | – | (6,773,008) | – |
| Changes in non-controlling interests | (2,515,930) | (2,580,724) | (3,387,726) |
| Interest paid | (10,032,413) | (7,273,246) | (8,432,523) |
| Net cash flows used in financing activities | (25,914,010) | (14,376,055) | (19,155,753) |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | 1,340,686 | (9,079,677) | 10,889,028 |
| **EFFECT OF EXCHANGE RATE CHANGES ON CASH AND EQUIVALENTS** | (75,070) | 170,565 | (245,618) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | 37,433,929 | 46,343,041 | 35,699,631 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** (Note 5) | ₱38,699,545 | ₱37,433,929 | ₱46,343,041 |

*See accompanying Notes to Consolidated Financial Statements.*

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(Amounts in Thousands, Except Earnings per Share and Exchange Rate Data and When Otherwise Indicated)

## 1. Corporate Information

Aboitiz Power Corporation (the Company) was incorporated in the Philippines and registered with the Securities and Exchange Commission on February 13, 1998. The Company is a publicly-listed holding company of the entities engaged in power generation, retail electricity supply and power distribution in the Aboitiz Group. As of December 31, 2020, Aboitiz Equity Ventures, Inc. (AEV, also incorporated in the Philippines) owns 77.00% of the Company. The ultimate parent of the Company is Aboitiz & Company, Inc. (ACO).

The Company's registered office address is 32nd Street, Bonifacio Global City, Taguig City, Metro Manila, Philippines 1634.

The consolidated financial statements of the Group were approved and authorized for issue in accordance with a resolution by the Board of Directors (BOD) of the Company on March 5, 2021.

## 2. Group Information

The consolidated financial statements comprise the financial statements of the Company, subsidiaries controlled by the Company and a joint operation that is subject to joint control (collectively referred to as "the Group"; see Note 10). The following are the subsidiaries as of December 31 of each year:

| | | Percentage of Ownership | | | | | |
|---|---|---|---|---|---|---|---|
| | | 2020 | | 2019 | | 2018 | |
| | Nature of Business | Direct | Indirect | Direct | Indirect | Direct | Indirect |
| Aboitiz Renewables, Inc. (ARI) and Subsidiaries | Power generation | 100.00 | – | 100.00 | – | 100.00 | – |
| AP Renewables, Inc. (APRI) | Power generation | – | 100.00 | – | 100.00 | – | 100.00 |
| Aboitiz Power Distributed Energy, Inc. | Power generation | – | 100.00 | – | 100.00 | – | 100.00 |
| Aboitiz Power Distributed Renewables, Inc. | Power generation | – | 100.00 | – | 100.00 | – | 100.00 |
| Hedcor, Inc. (HI) | Power generation | – | 100.00 | – | 100.00 | – | 100.00 |
| Hedcor Sibulan, Inc. (HSI) | Power generation | – | 100.00 | – | 100.00 | – | 100.00 |
| Hedcor Tudaya, Inc. (Hedcor Tudaya) | Power generation | – | 100.00 | – | 100.00 | – | 100.00 |
| Luzon Hydro Corporation (LHC) | Power generation | – | 100.00 | – | 100.00 | – | 100.00 |
| AP Solar Tiwi, Inc.* | Power generation | – | 100.00 | – | 100.00 | – | 100.00 |
| Retensol, Inc.* | Power generation | – | 100.00 | – | 100.00 | – | 100.00 |
| AP Renewable Energy Corporation* | Power generation | – | 100.00 | – | 100.00 | – | 100.00 |
| Aseagas Corporation (Aseagas)* | Power generation | – | 100.00 | – | 100.00 | – | 100.00 |
| Bakun Power Line Corporation* | Power generation | – | 100.00 | – | 100.00 | – | 100.00 |
| Cleanergy, Inc.* | Power generation | – | 100.00 | – | 100.00 | – | 100.00 |
| Cordillera Hydro Corporation* | Power generation | – | 100.00 | – | 100.00 | – | 100.00 |
| Hedcor Benguet, Inc.* | Power generation | – | 100.00 | – | 100.00 | – | 100.00 |
| Hedcor Bukidnon, Inc. (Hedcor Bukidnon) | Power generation | – | 100.00 | – | 100.00 | – | 100.00 |
| Hedcor Kabayan, Inc. * | Power generation | – | 100.00 | – | 100.00 | – | 100.00 |

(Forward)

| | | Percentage of Ownership | | | | | |
|---|---|---|---|---|---|---|---|
| | | 2020 | | 2019 | | 2018 | |
| | Nature of Business | Direct | Indirect | Direct | Indirect | Direct | Indirect |
| PV Sinag Power, Inc. (formerly Hedcor Ifugao, Inc.)* | Power generation | – | 100.00 | – | 100.00 | – | 100.00 |
| Aminan Power, Inc. (formerly Hedcor Kalinga, Inc.)* | Power generation | – | 100.00 | – | 100.00 | – | 100.00 |
| Aboitiz Solar Power, Inc. (formerly Hedcor Itogon Inc.)* | Power generation | – | 100.00 | – | 100.00 | – | 100.00 |
| Hedcor Manolo Fortich, Inc.* | Power generation | – | 100.00 | – | 100.00 | – | 100.00 |
| Hedcor Mt. Province, Inc.* | Power generation | – | 100.00 | – | 100.00 | – | 100.00 |
| Hedcor Sabangan, Inc. (Hedcor Sabangan) | Power generation | – | 100.00 | – | 100.00 | – | 100.00 |
| Hedcor Tamugan, Inc.* | Power generation | – | 100.00 | – | 100.00 | – | 100.00 |
| Mt. Apo Geopower, Inc.* | Power generation | – | 100.00 | – | 100.00 | – | 100.00 |
| Negron Cuadrado Geopower, Inc. (NCGI)* | Power generation | – | 100.00 | – | 100.00 | – | 100.00 |
| Tagoloan Hydro Corporation* | Power generation | – | 100.00 | – | 100.00 | – | 100.00 |
| Luzon Hydro Company Limited* | Power generation | – | 100.00 | – | 100.00 | – | 100.00 |
| Hydro Electric Development Corporation* | Power generation | – | 99.97 | – | 99.97 | – | 99.97 |
| Therma Power, Inc. (TPI) and Subsidiaries | Power generation | 100.00 | – | 100.00 | – | 100.00 | – |
| Mindanao Sustainable Solutions, Inc.* | Services | – | 100.00 | – | 100.00 | – | 100.00 |
| Therma Luzon, Inc. (TLI) | Power generation | – | 100.00 | – | 100.00 | – | 100.00 |
| Therma Marine, Inc. (Therma Marine) | Power generation | – | 100.00 | – | 100.00 | – | 100.00 |
| Therma Mobile, Inc. (Therma Mobile) | Power generation | – | 100.00 | – | 100.00 | – | 100.00 |
| Therma South, Inc. (TSI) | Power generation | – | 100.00 | – | 100.00 | – | 100.00 |
| Therma Power-Visayas, Inc. (TPVI) | Power generation | – | 100.00 | – | 100.00 | – | 100.00 |
| Therma Central Visayas, Inc.* | Power generation | – | 100.00 | – | 100.00 | – | 100.00 |
| Therma Subic, Inc.* | Power generation | – | 100.00 | – | 100.00 | – | 100.00 |
| Therma Mariveles Holdings, Inc. | Holding company | – | 100.00 | – | 100.00 | – | 100.00 |
| GNPower Mariveles Energy Center Ltd. Co. (formerly GNPower Mariveles Coal Plant; GMEC) (B) | Power generation | – | 78.33 | – | 78.33 | – | 66.07 |
| Therma Dinginin Holding Cooperatief U.A. (A,C) | Holding company | – | – | – | – | – | 100.00 |
| Therma Dinginin B.V. (A,C) | Holding company | – | – | – | – | – | 100.00 |
| Therma Dinginin Holdings, Inc. | Holding company | – | 100.00 | – | 100.00 | – | 100.00 |
| Therma Visayas, Inc. (TVI) | Power generation | – | 80.00 | – | 80.00 | – | 80.00 |
| Abovant Holdings, Inc. | Holding company | – | 60.00 | – | 60.00 | – | 60.00 |
| AboitizPower International Pte. Ltd. (API) | Holding company | 100.00 | – | 100.00 | – | 100.00 | – |
| Aboitiz Energy Solutions, Inc. (AESI) | Retail electricity supplier | 100.00 | – | 100.00 | – | 100.00 | – |
| Adventenergy, Inc. (AI) | Retail electricity supplier | 100.00 | – | 100.00 | – | 100.00 | – |
| Balamban Enerzone Corporation (BEZ) | Power distribution | 100.00 | – | 100.00 | – | 100.00 | – |
| Lima Enerzone Corporation (LEZ) | Power distribution | 100.00 | – | 100.00 | – | 100.00 | – |
| Mactan Enerzone Corporation (MEZ) | Power distribution | 100.00 | – | 100.00 | – | 100.00 | – |
| Malvar Enerzone Corporation (MVEZ) | Power distribution | 100.00 | – | 100.00 | – | 100.00 | – |
| East Asia Utilities Corporation (EAUC) | Power generation | 50.00 | 50.00 | 50.00 | 50.00 | 50.00 | 50.00 |
| Cotabato Light and Power Company (CLP) | Power distribution | 99.94 | – | 99.94 | – | 99.94 | – |
| Cotabato Ice Plant, Inc. | Manufacturing | – | 100.00 | – | 100.00 | – | 100.00 |
| Davao Light & Power Company, Inc. (DLP) | Power distribution | 99.93 | – | 99.93 | – | 99.93 | – |
| Maaraw Holdings San Carlos, Inc. (MHSCI) | Holding company | – | 100.00 | – | 100.00 | – | 100.00 |
| San Carlos Sun Power, Inc. (Sacasun) | Power generation | – | 100.00 | – | 100.00 | – | 100.00 |
| AboitizPower International B.V. (APIBV) | Holding company | – | 100.00 | – | 100.00 | – | 100.00 |
| Subic Enerzone Corporation (SEZ) | Power distribution | 65.00 | 34.98 | 65.00 | 34.98 | 65.00 | 34.98 |
| Cebu Private Power Corporation (CPPC) | Power generation | 60.00 | – | 60.00 | – | 60.00 | – |
| Prism Energy, Inc. (PEI) | Retail electricity supplier | 60.00 | – | 60.00 | – | 60.00 | – |
| Visayan Electric Company, Inc. (VECO) | Power distribution | 55.26 | – | 55.26 | – | 55.26 | – |

*a) Part of Therma Dinginin Group*
*b) In 2019, ownership increased in relation to AA Thermal acquisition (Note 9).*
*c) Dissolved and liquidated in 2019 as part of TPI's restructuring of its offshore intermediary companies acquired as part of the GNPower acquisition.*
** No commercial operations as of December 31, 2020.*

All of the foregoing subsidiaries are incorporated and registered with the Philippine SEC and operate in the Philippines except for the following:

| Subsidiary | Country of incorporation |
|---|---|
| API | Singapore |
| APIBV | Netherlands |
| Therma Dinginin Holding Cooperatief U.A. | Netherlands |
| Therma Dinginin B.V. | Netherlands |

*Material partly-owned subsidiary*

Information of subsidiaries that have material non-controlling interests is provided below:

| | **2020** | 2019 | **2020** | 2019 | **2020** | 2019 |
|---|---|---|---|---|---|---|
| | **TVI** | TVI | **GMEC** | GMEC | **VECO** | VECO |
| **Summarized balance sheet information** | | | | | | |
| Current assets | **₱8,884,283** | ₱10,470,714 | **₱8,799,937** | ₱10,006,452 | **₱3,927,347** | ₱4,989,549 |
| Noncurrent assets | **34,999,698** | 40,431,490 | **31,011,841** | 32,432,202 | **13,172,421** | 13,621,804 |
| Current liabilities | **5,085,904** | 5,550,324 | **5,413,454** | 4,612,886 | **6,983,082** | 6,869,764 |
| Noncurrent liabilities | **27,114,919** | 33,843,394 | **32,243,565** | 35,149,248 | **4,084,624** | 4,945,832 |
| Non-controlling interests | **9,471,619** | 9,417,229 | **2,376,538** | 2,277,399 | **2,534,720** | 2,680,701 |
| **Summarized comprehensive income information** | | | | | | |
| Profit for the year | **₱283,194** | ₱810,948 | **₱4,133,938** | ₱3,803,229 | **₱1,883,558** | ₱2,468,943 |
| Total comprehensive income | **271,949** | 805,883 | **3,746,717** | 3,428,913 | **1,848,845** | 2,482,145 |
| **Summarized other financial information** | | | | | | |
| Profit attributable to non-controlling interests | **₱56,639** | ₱162,190 | **₱1,401,774** | ₱1,289,565 | **₱814,947** | ₱1,076,870 |
| Dividends paid to non-controlling interests | **—** | — | **714,687** | 1,628,509 | **952,742** | 555,622 |
| **Summarized cash flow information** | | | | | | |
| Operating | **₱57,912** | ₱59,558 | **₱7,042,638** | ₱9,044,012 | **₱1,790,658** | ₱2,779,002 |
| Investing | **(533,532)** | (413,262) | **(769,887)** | (62,051) | **(658,185)** | (1,107,726) |
| Financing | **(2,104,388)** | (1,878,686) | **(6,311,812)** | (9,867,586) | **(1,954,658)** | (732,901) |
| Net increase (decrease) in cash and cash equivalents | **(2,580,008)** | (2,232,390) | **(39,061)** | (885,625) | **(822,185)** | 938,375 |

## 3. Summary of Significant Accounting Policies

Basis of Preparation
The accompanying consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments and financial assets at FVTPL which are measured at fair value. The consolidated financial statements are presented in Philippine peso which is the Company's functional currency and all values are rounded to the nearest thousand except for earnings per share and exchange rates and as otherwise indicated.

The consolidated financial statements provide comparative information in respect of the previous periods.

Statement of Compliance
The consolidated financial statements are prepared in compliance with Philippine Financial Reporting Standards (PFRSs).

Basis of Consolidation
The consolidated financial statements comprise the financial statements of the Company, its subsidiaries controlled by the Company and a joint operation that is subject to joint control as of December 31 of each year. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a 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(s) with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

The Group re-assesses 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. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets, liabilities, equity, income, expenses, and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognized in profit or loss.

The financial statements of the subsidiaries are prepared for the same reporting year as the Company using consistent accounting policies.

Transactions with Non-controlling Interests
Non-controlling interests represent the portion of profit or loss and net assets in the subsidiaries not held by the Group and are presented separately in the consolidated statement of income and within equity in the consolidated balance sheet, separately from the equity attributable to equity holders of the parent. Transactions with non-controlling interests are accounted for as equity transactions. On acquisitions of non-controlling interests, the difference between the consideration and the book value of the share of the net assets acquired is reflected as being a transaction between owners and recognized directly in equity. Gain or loss on disposals of non-controlling interest is also recognized directly in equity.

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of new standards effective as of January 1, 2020. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective, except for the amendments to PFRS 16, *Leases*.

Except as otherwise indicated, adoption of the following new and amended standards and interpretations did not have any significant impact on the consolidated financial statements:

- Amendments to PFRS 3, *Business Combination, Definition of a Business*

  The amendments to PFRS 3 clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs. These amendments do not have an impact on the consolidated financial statements but will be applied to future business combinations of the Group.

- Amendments to Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*

  The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence 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 that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

- Amendments to PFRS 7, *Financial Instruments: Disclosures* and PFRS 9, *Financial Instruments, Interest Rate Benchmark Reform*

The amendments to PFRS 9 provide a number of reliefs, which apply to all hedging relationships that are directly affected by the interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument.

The Group adopted the amendments starting January 1, 2020 and availed the reliefs covered by the amendments. The table below indicates the nominal amount and weighted average maturity of derivatives in hedging relations that will be affected by interbank offered rate (IBOR) reform as financial instruments transition to risk-free interest rates (RFRs), analyzed by interest rate basis. The derivative hedging instruments provide a close approximation to the extent of the risk exposure the Group manages through hedging relationships.

| Interest rate swaps | Nominal Amount | Average maturity (years) |
|---|---|---|
| USD LIBOR (3 months) | ₱21.7 billion | 3.56 |
| USD LIBOR (6 months) | ₱429.8 million | 1.32 |

The Group's treasury function is managing the Group's LIBOR transition plan. The greatest change will be amendments to the contractual terms of the LIBOR-referenced floating-rate debt and the associated swap and the corresponding update of the hedge designation. However, the changed reference rate may also affect other systems, processes, risk and valuation models, as well as having tax and accounting implications.

The Group has applied the following reliefs that were introduced by the amendments:

- When considering the 'highly probable' requirement, the Group has assumed that the LIBOR interest rate on which the Group's hedged debt is based does not change as a result of IBOR reform;
- In assessing whether the hedge is expected to be highly effective on a forward-looking basis the Group has assumed that the LIBOR interest rate on which the cash flows of the hedged debt and the interest rate swap that hedges it are based is not altered by the IBOR reform; and
- The Group has not recycled the cash flow hedge reserve relating to the period after the reforms are expected to take effect.

In calculating the change in fair value attributable to the hedged risk of floating-rate debt, the Group has made the following assumptions that reflect its current expectations:

- The floating-rate debt will move to RFRs during 2022 and the spread will be similar to the spread included in the interest rate swap used as the hedging instrument;
- No other changes to the terms of the floating-rate debt are anticipated; and

- The Group has incorporated the uncertainty over when the floating-rate debt will move to RFR, the resulting adjustment to the spread, and the other aspects of the reform that have not yet been finalised by adding an additional spread to the discount rate used in the calculation.

- Conceptual Framework for Financial Reporting issued on March 29, 2018

  The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the standard-setters in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards.

  The revised Conceptual Framework includes new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts.

- Amendments to PFRS 16, *COVID-19-related Rent Concessions*

  The amendments provide relief to lessees from applying the PFRS 16 requirement on lease modifications to rent concessions arising as a direct consequence of the COVID-19 pandemic. A lessee may elect not to assess whether a rent concession from a lessor is a lease modification if it meets all of the following criteria:

  - The rent concession is a direct consequence of COVID-19;
  - The change in lease payments results in a revised lease consideration that is substantially the same as, or less than, the lease consideration immediately preceding the change;
  - Any reduction in lease payments affects only payments originally due on or before June 30, 2021; and
  - There is no substantive change to other terms and conditions of the lease.

  A lessee that applies this practical expedient will account for any change in lease payments resulting from the COVID-19 related rent concession in the same way it would account for a change that is not a lease modification, i.e., as a variable lease payment.

  The amendments are effective for annual reporting periods beginning on or after June 1, 2020. Early adoption is permitted. The Group adopted the amendments beginning January 1, 2020.

New Standards and Interpretation Issued and Effective after December 31, 2020

The Group will adopt the standards enumerated below when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended PFRSs, PAS and Philippine Interpretations to have significant impact on the consolidated financial statements.

*Effective beginning on or after January 1, 2021*

- Amendments to PFRS 9, PFRS 7, PFRS 4, *Insurance Contracts*, and PFRS 16, *Interest Rate Benchmark Reform - Phase 2*

  The amendments provide the following temporary reliefs which address the financial reporting effects when an IBOR is replaced with an alternative nearly RFR:

  - Practical expedient for changes in the basis for determining the contractual cash flows as a result of IBOR reform
  - Relief from discontinuing hedging relationships
  - Relief from the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component

  The Group shall also disclose information about:

  - The about the nature and extent of risks to which the entity is exposed arising from financial instruments subject to IBOR reform, and how the entity manages those risks; and
  - Their progress in completing the transition to alternative benchmark rates, and how the entity is managing that transition

  The amendments are effective for annual reporting periods beginning on or after January 1, 2021 and apply retrospectively, however, the Group is not required to restate prior periods.

*Effective beginning on or after January 1, 2022*

- Amendments to PFRS 3, *Reference to the Conceptual Framework*

  The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The amendments added an exception to the recognition principle of PFRS 3, Business Combinations to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of PAS 37, Provisions, Contingent Liabilities and Contingent Assets or Philippine-IFRIC 21, Levies, if incurred separately. At the same time, the amendments add a new paragraph to PFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

  The amendments are applied prospectively.

- Amendments to PAS 16, *Property, Plant and Equipment: Proceeds before Intended Use*

  The amendments prohibit entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.

  The amendment must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

- Amendments to PAS 37, *Onerous Contracts - Costs of Fulfilling a Contract*

  The amendment specifies which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

  The Company will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

- *Annual Improvements to PFRSs* 2018-2020 Cycle

  - Amendments to PFRS 1, *First-time Adoption of PFRS* - Subsidiary as a first-time adopter

    The amendment permits a subsidiary that elects to apply paragraph D16(a) of PFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to PFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of PFRS 1.

    The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted.

  - Amendments to PFRS 9, *Financial Instruments - Fees in the '10 per cent' test for derecognition of financial liabilities*

    The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. The Company will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

- PAS 41, *Agriculture - Taxation in fair value measurements*

  The amendment removes the requirement in paragraph 22 of PAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of PAS 41.

  An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting period beginning on or after January 1, 2022 with earlier adoption permitted.

*Effective beginning on or after January 1, 2023*

- PFRS 17, *Insurance Contracts*

  PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

  The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

  - A specific adaptation for contracts with direct participation features (the variable fee approach)
  - A simplified approach (the premium allocation approach) mainly for short-duration contracts

  PFRS 17 is effective for reporting periods beginning on or after January 1, 2023, with comparative figures required. Early application is permitted.

- Amendments to PAS 1: *Classification of Liabilities as Current or Non-current*

  The amendments clarify paragraphs 69 to 76 of PAS 1, *Presentation of Financial Statements*, to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

  - What is meant by a right to defer settlement
  - That a right to defer must exist at the end of the reporting period
  - That classification is unaffected by the likelihood that an entity will exercise its deferral right

- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are applied retrospectively. The Company is currently assessing the impact the amendments will have on current practice.

*Deferred effectivity*

- Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

  The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

  On January 13, 2016, the Financial Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board (IASB) completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

**Summary of Significant Accounting Policies**

<u>Business Combination and Goodwill</u>
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree pertaining to instruments that represent present ownership interests and entitle the holders to a proportionate share of the net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interest are measured at fair value unless another measurement basis is required by PFRS. Acquisition-related costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability that is within the scope of PFRS 9 will be recognized either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized as "bargain purchase gain" in profit or loss.

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

Where goodwill forms part of a cash-generating unit 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.

*Impairment of goodwill*
Following initial recognition, goodwill is measured 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 value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

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.

*Common control business combination*
Business combination of entities under common control is accounted for similar to pooling of interest method, which is scoped out of PFRS 3. Under the pooling of interest method, any excess of acquisition cost over the net asset value of the acquired entity is recorded in equity.

<u>Current versus Noncurrent Classification</u>
The Group presents assets and liabilities in the consolidated balance sheet based on current/noncurrent classification. An asset as current when it is:

- Expected to be realized or intended to be sold or consumed in normal operating cycle
- Held primarily for the purpose of trading

- Expected to be realized within twelve months after the reporting period or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for a least twelve months after reporting period

All other assets are classified as noncurrent.

A liability is current when:

- It is expected to be settled in normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period or
- There is no unconditional right to defer settlement of the liability for at least twelve months after the reporting period

All other liabilities are classified as noncurrent.
Deferred income tax assets and liabilities are classified as non-current assets and liabilities.

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

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

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

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

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

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

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

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

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

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

Investments in Associates and Joint Ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The Group's investments in its associates and joint ventures are accounted for using the equity method.

Under the equity method, the investment in an associate or a joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The consolidated statement of income reflects the Group's share of the results of operations of the associate or joint venture. Any change in other comprehensive income of those investees is presented as part of the Group's other comprehensive income. In addition, when there has been a change recognized directly in the equity of the associate or joint venture, the Group recognizes its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the Group's share in the profit or loss of an associate and a joint venture is shown on the face of the consolidated statement of income outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint venture.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in its associate or joint venture. At each balance sheet date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and recognizes the loss in the consolidated statement of income.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

Interest in Joint Operations

A joint arrangement is classified as a joint operation if the parties with joint control have rights to the assets and obligations for the liabilities of the arrangement. For interest in joint operations, the Group recognizes:

- assets, including its share of any assets held jointly;
- liabilities, including its share of any liabilities incurred jointly;
- revenue from the sale of its share of the output arising from the joint operation;
- share of the revenue from the sale of the output by the joint operation; and
- expenses, including its share of any expenses incurred jointly.

The accounting and measurement for each of these items is in accordance with the applicable PFRS.

Foreign Currency Translation

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the consolidated statement of income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currency of its subsidiaries: GMEC, Therma Dinginin Group, and LHC, and its associate: STEAG State Power, Inc. (STEAG), is the United States (US) Dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Group (the Philippine peso) at the rate of exchange ruling at the balance sheet date and their statement of income and statement of comprehensive income are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken directly to other comprehensive income as cumulative translation adjustments. Upon disposal of the subsidiary and associate, the cumulative translation adjustment recognized in other comprehensive income relating to that disposed entity is recognized in the consolidated statement of income.

Cash and Cash Equivalents
Cash and cash equivalents in the consolidated balance sheet consist of cash on hand and with banks, and short-term, highly liquid investments that are readily convertible to known amounts of cash and subject to insignificant risk of changes in value. They are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Inventories
Inventories are valued at the lower of cost and net realizable value (NRV). Cost is determined on weighted average method. NRV is the current replacement cost. An allowance for inventory obsolescence is provided for slow-moving, defective or damaged goods based on analyses and physical inspection.

Financial Instruments - Classification and Measurement

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

- financial assets measured at amortized cost
- financial assets measured at fair value through profit or loss
- financial assets measured at fair value through other comprehensive income, where cumulative gains or losses previously recognized are reclassified to profit or loss
- financial assets measured at fair value through other comprehensive income, where cumulative gains or losses previously recognized are not reclassified to profit or loss

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

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

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

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

*Financial assets at amortized cost*
A financial asset is measured at amortized cost if (i) it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding. These financial assets are initially recognized at fair value plus directly attributable transaction costs and subsequently measured at amortized cost using the EIR method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in 'Interest income' in the consolidated statement of income and is calculated by applying the EIR to the gross carrying amount of the financial asset, except for (i) purchased or originated credit-impaired financial assets and (ii) financial assets that have subsequently become credit-impaired, where, in both cases, the EIR is applied to the amortized cost of the financial asset. Losses arising from impairment are recognized in 'Provision for credit and impairment losses' in the consolidated statement of income.

The Group's debt financial assets as of December 31, 2020 and 2019 consist of cash in banks, including restricted cash, cash equivalents, and trade and other receivables and the Power Sector Assets and Liabilities Management Corporation (PSALM) deferred adjustment - net of current portion included in "Other noncurrent assets" in the consolidated balance sheet. The Group assessed that the contractual cash flows of its debt financial assets are SPPI and are expected to be held to collect all contractual cash flows until their maturity. As a result, the Group concluded these debt financial assets to be measured at amortized cost.

*Financial assets at FVOCI*
A financial asset is measured at FVOCI if (i) it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and (ii) its contractual terms give rise on specified dates to cash flows that are SPPI on the principal amount outstanding. These financial assets are initially recognized at fair value plus directly attributable transaction costs and subsequently measured at fair value. Gains and losses arising from changes in fair value are included in other comprehensive income within a separate component of equity. Impairment losses or reversals, interest income and foreign exchange gains and losses are recognized in profit and loss until the financial asset is derecognized. Upon derecognition, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. This reflects the gain or loss that would have been recognized in profit or loss upon derecognition if the financial asset had been measured at amortized cost. Impairment is measured based on the expected credit loss (ECL) model.

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

Dividends are recognized in profit or loss only when:

- the Group's right to receive payment of the dividend is established
- it is probable that the economic benefits associated with the dividend will flow to the Group; and
- the amount of the dividend can be measured reliably.

The Group does not have any financial asset at FVOCI as of December 31, 2020 and 2019.

*Financial assets at FVTPL*
Financial assets at FVTPL are measured as at unless these are measured at amortized cost or at FVOCI. Included in this classification are equity investments held for trading and debt instruments with contractual terms that do not represent solely payments of principal and interest. Financial assets held at FVTPL are initially recognized at fair value, with transaction costs recognized in the statement of income as incurred.

Additionally, even if the asset meets the amortized cost or the FVOCI criteria, the Group may choose at initial recognition to designate the financial asset at FVTPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency (an accounting mismatch) that would otherwise arise from measuring financial assets on a different basis.

Trading gains or losses are calculated based on the results arising from trading activities of the Group, including all gains and losses from changes in fair value for financial assets and financial liabilities at FVTPL, and the gains or losses from disposal of financial investments.

The Group's investments in quoted equity securities and in unquoted equity shares are measured at FVTPL as of December 31, 2020 and 2019.

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

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

A financial liability may be designated at fair value through profit or loss if it eliminates or significantly reduces a measurement or recognition inconsistency (an accounting mismatch) or:

- if a host contract contains one or more embedded derivatives; or
- if a group of financial liabilities or financial assets and liabilities is managed and its performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

Where a financial liability is designated at fair value through profit or loss, the movement in fair value attributable to changes in the Group's own credit quality is calculated by determining the changes in credit spreads above observable market interest rates and is presented separately in other comprehensive income.

The Group's financial liabilities measured at amortized cost (which were initially recognized at fair value, net of directly attributable transaction costs) as of December 31, 2020 and 2019 include trade and other payables (excluding taxes and fees, output value-added tax (VAT) and unearned revenue), customers' deposits, short-term loans, lease liabilities, long-term obligation on power distribution system, long-term debts and other noncurrent liabilities (see Note 32).

*Reclassifications of financial instruments*
The Group reclassifies its financial assets when, and only when, there is a change in the business model for managing the financial assets. Reclassifications shall be applied prospectively by the Group and any previously recognized gains, losses or interest shall not be restated. The Group does not reclassify its financial liabilities.

The Group does not reclassify its financial assets when:

- A financial asset that was previously a designated and effective hedging instrument in a cash flow hedge or net investment hedge no longer qualifies as such;
- A financial asset becomes a designated and effective hedging instrument in a cash flow hedge or net investment hedge; and
- There is a change in measurement on credit exposures measured at fair value through profit or loss.

Derivative financial instruments
*Initial recognition and subsequent measurement*
Derivative financial instruments, including embedded derivatives, are initially recognized at fair value on the date in which a derivative transaction is entered into or bifurcated, and are subsequently remeasured at FVTPL, unless designated as effective hedge. Changes in fair value of derivative instruments not accounted as hedges are recognized immediately in the consolidated statement of income. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The Group assesses whether embedded derivatives are required to be separated from host contracts when the Group first becomes party to the contract. An embedded derivative is separated from the host financial or non-financial contract and accounted for as a separate derivative if all of the following conditions are met:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the hybrid or combined instrument is not recognized as at FVTPL.

Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Embedded derivatives that are bifurcated from the host contracts are accounted for either as financial assets or financial liabilities at FVTPL. The Group uses derivative financial instruments, such as foreign currency forward, interest rate swap (IRS) and commodity swap contracts to hedge its foreign currency risks, interest rate risks and commodity price risks, respectively.

For the purpose of hedge accounting, the Group's hedges are classified as cash flow hedges. Hedges are classified as cash flow hedge when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment.

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, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is 'an economic relationship' between the hedged item and the hedging instrument.
- The effect of credit risk does not 'dominate the value changes' that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Company actually hedges and the quantity of the hedging instrument that the Company actually uses to hedge that quantity of hedged item.

The Group's hedges that meet all the qualifying criteria for hedge accounting are accounted for, as described below:

*Cash flow hedge*
The effective portion of the gain or loss on the hedging instrument is recognized in the cumulative translation adjustment, while any ineffective portion is recognized immediately in the consolidated statement of income. The cumulative translation adjustment is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

The Group uses foreign currency forward contracts as hedges of its exposure to foreign currency risk in forecast transactions, IRS contracts to manage its floating interest rate exposure on its loans and commodity swap contracts for its exposure to volatility in the commodity prices. The ineffective portion relating to these contracts are recognized in other operating income or expenses as realized gain or loss on derivative instruments.

The Group designated all of the foreign currency forward, IRS and commodity swap contracts as hedging instrument. The amounts accumulated in other comprehensive income are accounted for, depending on the nature of the underlying hedged transaction. If the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is removed from the separate component of equity and included in the initial cost or other carrying amount of the hedged asset or liability. This is not a reclassification adjustment and will not be recognized in other comprehensive income for the period. This also applies where the hedged forecast transaction of a non-financial asset or non-financial liability subsequently becomes a firm commitment for which fair value hedge accounting is applied.

For any other cash flow hedges, the amount accumulated in other comprehensive income is reclassified to the consolidated statement of income as a reclassification adjustment in the same period or periods during which the hedged cash flows affect profit or loss.

If cash flow hedge accounting is discontinued, the amount that has been accumulated in other comprehensive must remain in other comprehensive income if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to profit or loss as a reclassification adjustment. After discontinuation, once the hedged cash flow occurs, any amount remaining in other comprehensive must be accounted for depending on the nature of the underlying transaction as described above.

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, and only when:

- the rights to receive cash flows from the asset expires;
- 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 retains the contractual rights to receive the cash flows of a financial asset but assumes a contractual obligation to pay those cash flows to one or more entities, the Group treats the transaction as a transfer of a financial asset if the Group:

- has no obligation to pay amounts to the eventual recipients unless it collects equivalent amounts from the original asset;

- is prohibited by the terms of the transfer contract from selling or pledging the original asset other than as security to the eventual recipients for the obligation to pay them cash flows; and
- has an obligation to remit any cash flows it collects on behalf of the eventual recipients without material delay.

In transactions where the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset and it retains control over the financial asset, the financial asset is recognized to the extent of the Group's continuing involvement in the financial asset. The extent of the Group's continuing involvement in the transferred asset is the extent to which it is exposed to changes in the value of the transferred asset. When the Group's continuing involvement takes the form of guaranteeing the transferred asset, the extent of the Group's continuing involvement is the lower of (i) the amount of the asset and (ii) the maximum amount of the consideration received that the Group could be required to repay ('the guarantee amount'). When the Group's continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase. However, in the case of a written put option on an asset that is measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price. When the Group's continuing involvement takes the form of a cash- settled option or similar provision on the transferred asset, the extent of the Group's continuing involvement is measured in the same way as that which results from non-cash settled options.

*Modification of contractual cash flows*
When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset, the Group recalculates the gross carrying amount of the financial asset as the present value of the renegotiated or modified contractual cash flows discounted at the original EIR (or credit-adjusted EIR for purchased or originated credit-impaired financial assets) and recognizes a modification gain or loss in the consolidated statement of income.

When the modification of a financial asset results in the derecognition of the existing financial asset and the subsequent recognition of the modified financial asset, the modified asset is considered a 'new' financial asset. Accordingly, the date of the modification shall be treated as the date of initial recognition of that financial asset when applying the impairment requirements to the modified financial asset.

*Financial liabilities*
A financial liability (or a part of a financial liability) is derecognized when the obligation under the liability is discharged, cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability or a part of it are substantially modified, such an exchange or modification is treated as a derecognition of the original financial liability and the recognition of a new financial liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of income.

<u>Impairment of Financial Assets</u>
The Group recognizes ECL for the following financial assets that are not measured at FVTPL:

- debt instruments that are measured at amortized cost and FVOCI;
- loan commitments; and
- financial guarantee contracts.

No ECL is recognized on equity investments.

ECLs are measured in a way that reflects the following:

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

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

*Stage 1: 12-month ECL*
For credit exposures where there have not been significant increases in credit risk since initial recognition and that are not credit-impaired upon origination, the portion of lifetime ECLs that represent the ECLs that result from default events that are possible within the 12-months after the balance sheet date are recognized.

*Stage 2: Lifetime ECL - not credit-impaired*
For credit exposures where there have been significant increases in credit risk since initial recognition on an individual or collective basis but are not credit-impaired, lifetime ECLs representing the ECLs that result from all possible default events over the expected life of the financial asset are recognized.

*Stage 3: Lifetime ECL - credit-impaired*
Financial assets are credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of those financial assets have occurred. For these credit exposures, lifetime ECLs are recognized and interest revenue is calculated by applying the credit-adjusted EIR to the amortized cost of the financial asset.

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

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

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

*Determining the stage for impairment*
At each balance sheet date, the Company assesses whether there has been a significant increase in credit risk for financial assets since initial recognition by comparing the risk of default occurring over

the expected life between the balance sheet date and the date of initial recognition. The Group considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and forward-looking analysis.

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

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

Financial Guarantee Contracts and Loan Commitments

Financial guarantees are contracts issued by the Group that require it to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantees are initially recognized in the consolidated financial statements at fair value. Subsequently, these are measured at the higher of:

- the amount of the loss allowance determined in accordance with the ECL model and
- the amount initially recognized less, when appropriate, the cumulative amount of income recognized in accordance with the principles of PFRS 15.

Loan commitments provided by the Group are measured as the amount of the loss allowance. The Group has not provided any commitment to provide loans that can be settled net in cash or by delivering or issuing another financial instrument or that are issued at below-market interest rates.

For loan commitments and financial guarantee contracts, the loss allowance is recognized as a provision. However, for financial instruments that include both a loan and an undrawn commitment (i.e. loan commitment) component where the Group cannot separately identify the expected credit losses on the loan commitment component from those on the loan component, the expected credit losses on the loan commitment should be recognized together with the loss allowance for the loan. To the extent that the combined expected credit losses exceed the gross carrying amount of the financial asset, the expected credit losses should be recognized as a provision.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated balance sheet 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 whereby the related assets and liabilities are presented gross in the consolidated balance sheet.

Classification of financial instruments between liability and equity
A financial instrument is classified as liability if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or
- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Group does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

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 or a component that is a financial liability, are reported as income or expense. Distributions to holders of financial instruments classified as equity are charged directly to equity net of any related income tax benefits.

The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

Property, Plant and Equipment
Except for land, property, plant and equipment are stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. The initial cost of property, plant and equipment comprises its purchase price, including import duties, if any, and nonrefundable taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Such cost includes the cost of replacing parts of such property, plant and equipment when that cost is incurred if the recognition criteria are met. Cost also include decommissioning liability relating to the decommissioning of power plant equipment, if any. Repairs and maintenance costs are recognized in the consolidated statement of income as incurred.

Land is stated at cost less any accumulated impairment in value.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

| Category | Estimated Useful Life (in years) |
|---|---|
| Buildings, warehouses and improvements | 10-50 |
| Power plant equipment | 2-50 |
| Transmission, distribution and substation equipment | 12-40 |
| Transportation equipment | 5-10 |
| Office furniture, fixtures and equipment | 2-20 |
| Electrical equipment | 5-25 |
| Meters and laboratory equipment | 25 |
| Steam field assets | 20-25 |
| Tools and others | 2-20 |

Leasehold improvements are amortized over the shorter of the lease terms and the lives of the improvements.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable.

Fully depreciated assets are retained in the accounts until these are no longer in use. When assets are retired or otherwise disposed of, both the cost and related accumulated depreciation and amortization and any allowance for impairment losses are removed from the accounts, and any resulting gain or loss is credited or charged to current operations. An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of income in the year the asset is derecognized.

The assets' residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each financial year-end.

When each major inspection is performed, its cost is recognized in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied.

Construction in progress represents structures under construction and is stated at cost. This includes cost of construction and other direct costs. Borrowing costs that are directly attributable to the construction of property, plant and equipment are capitalized during the construction period.

Leases (prior to adoption of PFRS 16 in 2019)

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A reassessment is made after inception of the lease only if one of the following applies:

(a) there is a change in contractual terms, other than a renewal or extension of the arrangement;
(b) a renewal option is exercised, or extension granted, unless the term of the renewal or extension was initially included in the lease term;
(c) there is a change in the determination of whether fulfillment is dependent on a specific asset; or
(d) there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gives rise to the reassessment for scenarios (a), (c) or (d) above, and at the date of renewal or extension period for scenario (b).

*Finance lease*
Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Obligations arising from plant assets under finance lease agreement are classified in the consolidated balance sheet as lease liabilities.

Lease payments are apportioned between financing charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Financing charges are recognized in profit or loss.

Capitalized leased assets are depreciated over the estimated useful life of the assets when there is reasonable certainty that the Group will obtain ownership by the end of the lease term.

*Operating lease*
Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating lease. Operating lease payments are recognized as an expense in the consolidated statement of income on a straight-line basis over the lease term.

<u>Leases (upon adoption of PFRS 16 in 2019)</u>
The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

*Group as a lessee*
The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

*Right-of-use assets*
The Group recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

| Category | Number of years |
|---|---|
| Land | 10-50 |
| Building | 2-50 |
| Power plant | 20-25 |
| Equipment and others | 2-20 |

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. The right-of-use assets are also subject to impairment.

*Lease liabilities*
At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognized as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

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

*Short-term leases and leases of low-value assets*
The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

*Group as a lessor*
Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Service Concession Arrangements
Public-to-private service concession arrangements where: (a) the grantor controls or regulates what services the entities in 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, *Service Concession Arrangements*. Infrastructures used in a public-to-private service concession arrangement for its entire useful life (whole-of-life assets) are within the scope of this Interpretation if the conditions in (a) are met.

This interpretation applies to both: (a) infrastructure that the entities in 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 entity in the Group access for the purpose of the service arrangement.

Infrastructures within the scope of this Interpretation are not recognized as property, plant and equipment of the Group. Under the terms of contractual arrangements within the scope of this Interpretation, an entity acts as a service provider. An entity constructs or 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.

An entity recognizes and measures revenue in accordance with PFRS 15, for the services it performs. If an entity performs more than one service (i.e. construction or upgrade services and operation services) under a single contract or arrangement, consideration received or receivable shall be allocated by reference to the relative fair values of the services delivered, when the amounts are separately identifiable.

When an entity provides construction or upgrades services, the consideration received or receivable by the entity is recognized at its fair value. An entity accounts for revenue and costs relating to construction or upgrade services in accordance with PFRS 15. Revenue from construction contracts is recognized based on the percentage-of-completion method, measured by reference to the percentage of costs incurred to date to estimated total costs for each contract. The applicable entities account for revenue and costs relating to operation services in accordance with PFRS 15.

An entity 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. An entity recognizes an intangible asset to the extent that it receives a right (a license) to charge users of the public service.

When the applicable entities have 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 balance sheet date.

Borrowing cost attributable to the construction of the asset if the consideration received or receivable is an intangible asset, is capitalized during the construction phase. In all other cases, borrowing costs are expensed as incurred.

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of the acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the consolidated statement of income in the year in which the expenditure is incurred.

*Software and licenses*

Software and licenses are initially recognized at cost. Following initial recognition, the software and licenses are carried at cost less accumulated amortization and any accumulated impairment in value.

The software and licenses is amortized on a straight-line basis over its estimated useful economic life of three to five years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization commences when the software development costs is available for use. The amortization period and the amortization method for the software development costs are reviewed at each financial year-end. Changes in the estimated useful life is accounted for by changing the amortization period or method, as appropriate, and treating them as changes in accounting estimates. The amortization expense is recognized in the consolidated statement of income in the expense category consistent with the function of the software development costs.

*Service concession right*

The Group's intangible asset - service concession right pertains mainly to its right to charge users of the public service in connection with the service concession and related arrangements. This is recognized initially at the fair value which consists of the cost of construction services and the fair value of future fixed fee payments in exchange for the license or right. Following initial recognition, the intangible asset is carried at cost less accumulated amortization and any accumulated impairment losses.

The intangible asset - service concession right is amortized using the straight-line method over the estimated economic useful life, which is the service concession period, and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The estimated economic useful life is ranging from 18 to 25 years. The amortization period and the amortization method are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is 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 the consolidated statement of income in the expense category consistent with the function of the intangible asset.

*Franchise*
The Group's franchise pertains to VECO's franchise to distribute electricity within an area granted by the Philippine Legislature, acquired in the business combination in 2013. The franchise is initially recognized at its fair value at the date of acquisition. Following initial recognition, the franchise is carried at cost less accumulated amortization and any accumulated impairment losses. The Group's franchise is amortized using the straight-line method over the estimated economic useful life, and assessed for impairment whenever there is an indication that the franchise may be impaired. The estimated economic useful life of the franchise is 40 years. The amortization period and amortization method for franchise are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the franchise are accounted for by changing the amortization period or method, as appropriate, and treated as a change in accounting estimates. The amortization expense on franchise is recognized in the consolidated statement of income in the expense category consistent with its function.

*Intangible assets - customer contracts*
The Group's intangible assets - customer contracts pertain to contracts entered by subsidiaries relating to the provision of utility services to locators within an industrial zone.

These are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses.

The intangible assets - customer contracts are amortized using the straight-line method over the remaining life of the contract, and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization period and method are reviewed at least at each financial year end.

The amortization expense is recognized in the consolidated statement of income in the expense category consistent with the function of the intangible asset.

*Project development costs*
Project development costs include power plant projects in the development phase which meet the "identifiability" requirement under PAS 38, *Intangible Assets*, as they are separable and susceptible to individual sale and are carried at acquisition cost. These assets are transferred to "Property, plant and equipment" when construction of each power plant commences. During the period of development, the asset is tested for impairment annually.

Research and Development Expenditure
The Group's policy is to record research expenses in the consolidated statement of income in the period when they are incurred.

Development costs are recognized as an intangible asset on the consolidated balance sheet if the Group can identify them separately and show the technical viability of the asset, its intention and capacity to use or sell it, and how it will generate probable future economic benefits.

Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit. During the period of development, the asset is tested for impairment annually.

Impairment of Non-financial Assets

*Property, plant and equipment, intangible assets, investment and advances and other current and noncurrent assets excluding restricted cash, PSALM deferred adjustment and Financial assets at FVTPL*

The Group assesses at each balance sheet date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognized in the consolidated statement of income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each balance sheet date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of income unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Decommissioning Liability

The decommissioning liability arose from the Group's obligation, under their contracts, to decommission, abandon and perform surface rehabilitation at the end of the useful lives of the steam field assets, or the end of the lease term, or upon abandonment of the plant. A corresponding asset is recognized as part of property, plant and equipment. Decommissioning costs are provided at the present value of expected costs to settle the obligation using estimated cash flows. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the decommissioning liability. The unwinding of the discount is expensed as incurred and recognized in the consolidated statement of income under "Interest expense" account. The estimated future costs of decommissioning are reviewed annually and adjusted prospectively.

Changes in the estimated future costs or in the discount rate applied are added or deducted from the cost of property, plant and equipment. The amount deducted from the cost of property, plant and equipment, shall not exceed its carrying amount.

If the decrease in the liability exceeds the carrying amount of the property, plant and equipment, the excess shall be recognized immediately in the consolidated statement of income.

Capital Stock and Additional Paid-in Capital
Capital stock is measured at par value for all shares issued. When the Company issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued. Capital stock includes common stock and preferred stock.

When the shares are sold at premium, the difference between the proceeds and the par value is credited to the "Paid-in capital" account. When shares are issued for a consideration other than cash, the proceeds are measured by the fair value of the consideration received. In case the shares are issued to extinguish or settle the liability of the Company, the shares shall be measured either at the fair value of the shares issued or fair value of the liability settled, whichever is more reliably determinable.

Direct costs incurred related to equity issuance, such as underwriting, accounting and legal fees, printing costs and taxes are debited to the "Paid-in capital" account. If additional paid-in capital is not sufficient, the excess is charged against equity.

Retained Earnings
The amount included in retained earnings includes accumulated earnings of the Company and reduced by dividends on capital stock. Dividends on capital stock are recognized as a liability and deducted from equity when they are approved by the BOD. Dividends for the year that are approved after the balance sheet date are dealt with as an event after the balance sheet date. Retained earnings may also include effect of changes in accounting policy as may be required by the transition provisions of new and amended standards.

Revenue Recognition
Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as a principal or an agent.

The following specific recognition criteria must also be met before revenue is recognized:

*Sale of power*
For power generation and ancillary services where capacity and energy dispatched are separately identified, these two obligations are to be combined as one performance obligation since these are not distinct within the context of the contract as the buyer cannot benefit from the contracted capacity alone without the corresponding energy and the buyer cannot obtain energy without contracting a capacity. The combined performance obligation qualifies as a series of distinct goods or services that are substantially the same and have the same pattern of transfer.

Revenue from power generation and ancillary services is recognized in the period actual capacity is delivered. Revenue is recognized over time since the customer simultaneously receives and consumes the benefits as the seller supplies power.

In contracts with fixed capacity payments which are determined at contract inception, the fixed capacity payments for the entire contract period is determined at day 1 and is recognized over time. Specifically, on contracts where capacity payments are fixed but escalates throughout the contract period without any reference to market indices, the fixed escalation is recognized on a straight-line basis over the contract period.

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

Power distribution and retail supply also qualify as a series of distinct goods or services that are substantially the same and have the same pattern of transfer accounted for as one performance obligation. Revenue is recognized over time and based on amounts billed.

*Technical, management and other fees*
Technical, management and other fees are recognized when the related services are rendered.

*Interest income*
Interest is recognized as it accrues taking into account the effective interest method.

*Other income*
Revenue is recognized when non-utility operating income and surcharges are earned.

<u>Costs and Expenses</u>
Costs and expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. Expenses are recognized when incurred.

<u>Pension Benefits</u>
The Group has defined benefit pension plans which require contributions to be made to separately administered funds. The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

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

Defined benefit costs comprise the following:
- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

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

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

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

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

The Group's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

Borrowing Costs

Borrowing costs are capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset. To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization on that asset shall be determined as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings. To the extent that funds are borrowed generally, the amount of borrowing costs eligible for capitalization shall be determined by applying a capitalization rate to the expenditures on that asset. The capitalization rate shall be the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs capitalized during a period shall not exceed the amount of borrowing costs incurred during that period.

*Taxes*

*Current income tax*

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

Current income tax relating to items recognized directly in equity is recognized in the consolidated statement of comprehensive income and not in the consolidated statement of income.

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

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

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries,
- associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward benefits of unused tax credits and unused tax losses can be utilized except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred income tax asset to be recovered.

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

Income tax relating to items recognized directly in other comprehensive income is also recognized in other comprehensive income and not in the consolidated statement of income.

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

VAT
Revenues, expenses, and assets are recognized net of the amount of VAT, if applicable.

For its VAT-registered activities, when VAT from sales of goods and/or services (output VAT) exceeds VAT passed on from purchases of goods or services (input VAT), the excess is recognized as payable in the consolidated balance sheet. When VAT passed on from purchases of goods or services (input VAT) exceeds VAT from sales of goods and/or services (output VAT), the excess is recognized as an asset in the consolidated balance sheet up to the extent of the recoverable amount.

For its non-VAT registered activities, the amount of VAT passed on from its purchases of goods or service is recognized as part of the cost of goods/asset acquired or as part of the expense item, as applicable.

Input VAT, which is presented as part of "Other current assets" and/or "Other noncurrent assets" in the consolidated balance sheet, is recognized as an asset and will be used to offset the Group's current output VAT liabilities and/or applied for claim for tax credit certificates. Input VAT is stated at its estimated NRV.

Provisions
Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statement of income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a borrowing cost.

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

Events After the Reporting Period
Post year-end events that provide additional information about the Group's financial position at balance sheet date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed when material.

Earnings Per Common Share
Basic earnings per common share are computed by dividing consolidated net income for the year attributable to the equity holders of the Company by the weighted average number of common shares issued and outstanding during the year, after giving retroactive effect for any stock dividends declared and stock rights exercised during the year.

Diluted earnings per share amounts are calculated by dividing the consolidated net income for the year attributable to the equity holders of the parent by the weighted average number of common shares outstanding during the year plus the weighted average number of common shares that would be issued for outstanding common stock equivalents. The Group does not have dilutive potential common shares.

Operating Segments
For management purposes, the Group is organized into two major operating segments (power generation and power distribution) according to the nature of the services provided, with each segment representing a significant business segment. The Group's identified operating segments are consistent with the segments reported to the BOD which is the Group's Chief Operating Decision Maker (CODM). Financial information on the operating segment is presented in Note 30.

## 4. Significant Accounting Judgments, Estimates and Assumptions

The consolidated financial statements prepared in accordance with PFRSs require management to make judgment, estimates and assumptions that affect amount reported in the financial statements and related notes. The judgment, estimates and assumptions used in the financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the consolidated financial statements. Actual results could differ from such estimates. Judgments, estimates and assumptions are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under circumstances. The following items are those matters which the Group assesses to have significant risk arising from judgements and estimation uncertainties:

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

*Determining functional currency*
Based on the economic substance of the underlying circumstances relevant to the companies in the Group, the functional currency of the companies in the Group has been determined to be the Philippine Peso except for certain subsidiaries and an associate whose functional currency is the US Dollar. The Philippine Peso is the currency of the primary economic environment in which companies in the Group operates and it is the currency that mainly influences the sale of power and services and the costs of power and of providing the services. The functional currency of the Group's subsidiaries and associates is the Philippine Peso except for GMEC, Therma Dinginin Group, and LHC (subsidiaries), and STEAG (associate) whose functional currency is the US Dollar.

*Service concession arrangements - Companies in the Group as Operators*
Based on management's judgment, the provisions of Philippine Interpretation IFRIC 12 apply to SEZ's Distribution Management Service Agreement (DMSA) with Subic Bay Metropolitan Authority (SBMA); MEZ's Built-Operate-Transfer agreement with Mactan Cebu International Airport Authority (MCIAA) and LHC's Power Purchase Agreement (PPA) with the National Power Corporation (NPC). SEZ, MEZ and LHC's service concession agreements were accounted for under the intangible asset model.

The Company's associate, STEAG, has also determined that the provisions of Philippine Interpretation IFRIC 12 apply to its PPA with NPC. STEAG's service concession agreement was accounted for under the financial asset model. Refer to the accounting policy on service concession arrangements for the discussion of intangible asset and financial asset models.

*Determining fair value of customers' deposits*
In applying PFRS 9 on transformer and lines and poles deposits, the Group has made a judgment that the timing and related amounts of future cash flows relating to such deposits cannot be reasonably and reliably estimated for purposes of establishing their fair values using alternative valuation techniques since the expected timing of customers' refund or claim for these deposits cannot be reasonably estimated. These customers' deposits, which are therefore stated at cost, amounted to ₱6.80 billion and ₱6.52 billion as of December 31, 2020 and 2019, respectively (see Note 17).

*Determining whether Independent Power Producer (IPP) Administration Agreement Contains a Lease*
In accounting for its IPP Administration Agreement with PSALM, the Group's management has made a judgment that the IPP Administration Agreement of TLI is an arrangement that contains a lease. The Group's management has made a judgment that TLI has substantially acquired all the risks and rewards incidental to ownership of the power plant principally by virtue of its right to control the capacity of power plant and its right to receive the transfer of the power plant at the end of the IPP Administration Agreement for no consideration. Accordingly, the Group accounted for the agreement as a lease and recognized the power plant and lease liability at the present value of the agreed monthly payments to PSALM (see Note 34).

The power plant is depreciated over its estimated useful life, as there is reasonable certainty that the Group will obtain ownership by the end of the lease term. As of December 31, 2020 and 2019, the carrying value of the power plant amounted to ₱32.48 billion and ₱33.58 billion, respectively (see Notes 11 and 34). The carrying value of the lease liability related to this contract amounted to ₱37.15 billion and ₱42.07 billion as of December 31, 2020 and 2019, respectively.

*Nonconsolidation of Manila-Oslo Renewable Enterprise, Inc. (MORE) and its investees, AA Thermal, Inc. (AA Thermal) and GNPower Dinginin Ltd. Co. (GNPD)*
The Group has 83.33% interest in MORE which has a 60% ownership interest in SN Aboitiz Power-Magat, Inc. (SNAP M), SN Aboitiz Power-Benguet, Inc. (SNAP B), SN Aboitiz Power-RES, Inc. (SNAP RES), and SN Aboitiz Power-Generation, Inc.

The Group has 70% and 60% interest in GNPD and AA Thermal, respectively.

The Group does not consolidate MORE, AA Thermal and GNPD since it does not have the ability to direct the relevant activities which most significantly affect the returns of MORE and its investees, AA Thermal and GNPD. This is a result of partnership and shareholders' agreements which, among others, stipulate the management and operation of MORE, AA Thermal and GNPD. Management of MORE, AA Thermal and GNPD are vested in their respective BOD or "Management Committee" and the affirmative vote of the other shareholder or partners is required for the approval of certain company actions which include financial and operating undertakings (see Note 9).

*Determining a joint operation*
The Group has 50% interest in Pagbilao Energy Corporation (PEC). The Group assessed that the joint arrangement is a joint operation as the financial and operating activities of the operation are jointly controlled by the participating shareholders and are primarily designed for the provision of output to the shareholders.

*Classification of financial instruments*
The Group exercises judgment in classifying a financial instrument, or its component parts, on initial recognition as either a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definition of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the consolidated balance sheets.

*Contractual cash flows assessment*
For each financial asset, the Group assesses the contractual terms to identify whether the instrument is consistent with the concept of SPPI.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortization of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Group applies judgment and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

*Evaluation of business model in managing financial instruments*
The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed; and
- The expected frequency, value and timing of sales are also important aspects of the Group's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

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

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

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

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

Power distribution and retail supply also qualify as a series of distinct goods or services which is accounted for as one performance obligation since the delivery of energy every month are distinct services which are recognized over time and have the same measure of progress.

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

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

*Identifying methods for measuring progress of revenue recognized over time*
The Group determines the appropriate method of measuring progress which is either through the use of input or output methods. Input method recognizes revenue on the basis of the entity's

efforts or inputs to the satisfaction of a performance obligation while output method recognizes revenue on the basis of direct measurements of the value to the customer of the goods or services transferred to date.

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

For power generation and ancillary services:

a. For the variable energy payment, actual kilowatt hours consumed which are billed on a monthly basis.
b. For fixed capacity payments, the Group allocates the transaction price on a straight-line basis over the contract term. The allocated fixed payments are also billed on a monthly basis.

For power distribution and retail supply, the Group uses the actual kilowatt hours consumed, which are also billed on a monthly basis.

*Determining method to estimate variable consideration and assessing the constraint*
The Group includes some or all the amounts of variable consideration estimated but only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. The Group considers both the likelihood and magnitude of the revenue reversal in evaluating the extent of variable consideration the Group will subject to constraint. Factors such as i) highly susceptibility to factors outside the Group's influence, ii) timing of resolution of the uncertainty, and iii) having a large number and broad range of possible considerations amount are considered.

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

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

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

Estimates and assumptions
The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

*Estimating allowance for impairment losses on investments and advances*
Investments and advances are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. There were no impairment indicators in 2020 and 2019 based on management's assessment. The carrying amounts of the investments in and advances to associates and joint ventures amounted to ₱61.83 billion and ₱60.88 billion as of December 31, 2020 and 2019, respectively. The allowance for impairment losses amounted to ₱568.13 million as of December 31, 2020 and 2019 (see Note 9).

*Impairment of goodwill*
The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill as of December 31, 2020 and 2019 amounted to ₱38.81 billion and ₱40.88 billion, respectively (see Note 12). Goodwill impairment recognized in 2018 amounted to ₱45.93 million (see Note 27). No impairment of goodwill was recognized in 2020 and 2019.

*Estimating useful lives of property, plant and equipment*
The Group estimates the useful lives of property, plant and equipment based on the period over which assets are expected to be available for use. The estimated useful lives of property, plant and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, the estimation of the useful lives of property, plant and equipment is based on collective assessment of internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in the factors and circumstances mentioned above. As of December 31, 2020 and 2019, the net book values of property, plant and equipment, excluding land and construction in progress, amounted to ₱198.88 billion and ₱204.07 billion, respectively (see Note 11).

*Estimating residual value of property, plant and equipment*
The residual value of the Group's property, plant and equipment is estimated based on the amount that would be obtained from disposal of the asset, after deducting estimated costs of disposal, if the asset is already of the age and in the condition expected at the end of its useful life. Such estimation is based on the prevailing price of property, plant and equipment of similar age and condition. The estimated residual value of each asset is reviewed periodically and updated if expectations differ from previous estimates due to changes in the prevailing price of a property, plant and equipment of similar age and condition. As of December 31, 2020 and 2019, the aggregate net book values of property, plant and equipment, excluding land and construction in progress, amounted to ₱198.88 billion and ₱204.07 billion, respectively (see Note 11).

*Estimating useful lives of intangible asset - franchise*
The Group estimates the useful life of VECO distribution franchise based on the period over which the asset is estimated to be available for use over 40 years, which consist of the 15 years remaining contract period from the date of business combination and an expected probable renewal covering another 25 years. As of December 31, 2020 and 2019, the carrying value of the franchise amounted to ₱2.49 billion and ₱2.57 billion, respectively (see Note 12).

*Estimating useful lives of intangible asset - service concession rights*
The Group estimates the useful lives of intangible asset arising from service concessions based on the period over which the asset is expected to be available for use which is 18 to 25 years. The Group has not included any renewal period on the basis of uncertainty, as of balance sheet date, of the probability of securing renewal contracts at the end of the original contract term. As of December 31, 2020 and 2019, the aggregate net book values of intangible asset - service concession rights amounted to ₱2.01 billion and ₱2.41 billion, respectively (see Note 12).

*Assessing impairment of non-financial assets*
The Group assesses whether there are any indicators of impairment for non-financial assets at each balance sheet date. These non-financial assets (property, plant and equipment, intangible assets (excluding goodwill), and other current and noncurrent assets (excluding restricted cash, PSALM deferred adjustment and financial asset at FVTPL)) are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

Determining the recoverable amount of non-financial assets, which requires the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the Group to make estimates and assumptions that can materially affect its consolidated financial statements. Future events could cause the Group to conclude that the property, plant and equipment, intangible assets (excluding goodwill), and other current and noncurrent assets (excluding restricted cash, PSALM deferred adjustment and financial asset at FVTPL) are impaired. Any resulting impairment loss could have a material adverse impact on the consolidated balance sheets and consolidated statements of income.

As of December 31, 2020 and 2019, the aggregate net book values of these assets amounted to ₱222.24 billion and ₱228.7 billion, respectively (see Notes 8, 11, 12 and 13). Impairment losses recognized on these non-financial assets in 2020, 2019 and 2018 amounted to ₱157.78 million, ₱9.9 million and ₱740.3 million, respectively (see Notes 11, 12 and 13).

*Measurement of expected credit losses*
ECLs are derived from unbiased and probability-weighted estimates of expected loss, and are measured as follows:

- *Financial assets that are not credit-impaired at the balance sheet date:* as the present value of all cash shortfalls over the expected life of the financial asset discounted by the effective interest rate. The cash shortfall is the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive.
- *Financial assets that are credit-impaired at the balance sheet date:* as the difference between the gross carrying amount and the present value of estimated future cash flows discounted by the effective interest rate.

- *Financial guarantee contracts:* as the expected payments to reimburse the holder less any amounts that the Group expects to recover.

The Group leverages existing risk management indicators (e.g. internal credit risk classification and restructuring triggers), credit risk rating changes and reasonable and supportable information which allows the Group to identify whether the credit risk of financial assets has significantly increased.

*Inputs, assumptions and estimation techniques*
The ECL is measured on either a 12-month or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD), defined as follows:

- *Probability of default*
  The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months, or over the remaining life of the obligation. PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures. The 12-months and lifetime PD represent the expected point-in-time probability of a default over the next 12 months and remaining lifetime of the financial instrument, respectively, based on conditions existing at the balance sheet date and future economic conditions that affect credit risk.

- *Loss given default*
  Loss Given Default represents the Group's expectation of the extent of loss on a defaulted exposure, taking into account the mitigating effect of collateral, its expected value when realized and the time value of money. LGD varies by type of counterparty, type of seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of EAD.

- *Exposure at default*
  EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months or over the remaining lifetime.

The ECL is determined by projecting the PD, LGD, and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the balance sheet date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The lifetime PD is developed by applying a maturity profile to the current 12-month PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis. The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by customer segment.

The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default. LGDs are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGD's are influenced by collection strategies including contracted debt sales and price.

The assumptions underlying the ECL calculation, such as how the maturity profile of the PDs change, are monitored and reviewed on a quarterly basis.

*Simplified approach for trade receivables*
The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for various customer segments that have similar loss patterns (i.e., by geography, customer segment and coverage by letters of credit).

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

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

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

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

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

The macro-economic variables include the following key indicators for the Philippines: unemployment rates, inflation rates, gross domestic product growth and net personal income growth.

Predicted relationship between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analyzing historical data over the past 5 years. The methodologies and assumptions including any forecasts of future economic conditions are reviewed regularly.

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

An increase in the Group's allowance for expected credit losses of trade and other receivables will increase the Group's recorded expenses and decrease current assets. As of December 31, 2020 and 2019, allowance for expected credit losses amounted to ₱2.28 billion and ₱1.97 billion, respectively. Trade and other receivables, net of allowance for ECL, amounted to ₱22.02 billion and ₱21.75 billion as of December 31, 2020 and 2019, respectively (see Note 6).

*Estimating allowance for inventory obsolescence*
The Group estimates the allowance for inventory obsolescence based on the age of inventories. The amounts and timing of recorded expenses for any period would differ if different judgments or different estimates are made. An increase in allowance for inventory obsolescence would increase recorded expenses and decrease current assets. As of December 31, 2020 and 2019, allowance for inventory obsolescence amounted to ₱102.8 million and ₱88.2 million, respectively. The carrying amount of the inventories amounted to ₱6.31 billion and ₱6.63 billion as of December 31, 2020 and 2019, respectively (see Note 7).

*Estimating the incremental borrowing rate (IBR)*
The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its IBR to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates. The carrying amount of the lease liabilities amounted to ₱39.26 billion and ₱44.79 billion as of December 31, 2020 and 2019, respectively (see Note 34).

*Estimating decommissioning liability*
Under the Geothermal Resource Service Contract (GRSC), the Group has a legal obligation to decommission, abandon and perform surface rehabilitation on its steam field asset at the end of its useful life. The Group also has a legal obligation under its land lease agreements to decommission the power plants at the end of its lease term. The Group recognizes the present value of the obligation to decommission the plant, abandon and perform surface rehabilitation of the steam field asset and capitalizes the present value of these costs as part of the balance of the related property, plant and equipment, which are being depreciated and amortized on a straight-line basis over the useful life of the related asset.

These costs are accrued based on in-house estimates, which incorporates estimates of the amount of obligations and interest rates, if appropriate. Assumptions used to compute the provision are reviewed and updated annually. Each year, the provision is increased to reflect the accretion of discount and to accrue an estimate for the effects of inflation, with charges being recognized as accretion expense, included under "Interest expense" in the consolidated statements of income.

Changes in the decommissioning liability that result from a change in the current best estimate of cash flow required to settle the obligation or a change in the discount rate are added to (or deducted from) the amount recognized as the related asset and the periodic unwinding of the discount on the liability is recognized in the consolidated statements of income as it occurs.

While the Group has made its best estimate in establishing the decommissioning provision, because of potential changes in technology as well as safety and environmental requirements, plus the actual time scale to complete decommissioning activities, the ultimate provision requirements could either increase or decrease significantly from the Group's current estimates.

The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances.

Decommissioning liability amounted to ₱5.01 billion and ₱3.57 billion as of December 31, 2020 and 2019, respectively, (see Note 18).

*Recognition of deferred income tax assets*
The Group reviews the carrying amounts of deferred income tax assets at each balance sheet date and reduces deferred income tax assets to the extent that it is no longer probable that sufficient income will be available to allow all or part of the deferred income tax assets to be utilized. The Group recognize deferred income taxes based on enacted or substantially enacted tax rates for renewable of 10% and for non-renewable of 30%. The Group has deferred income tax assets amounting to ₱3.07 billion and ₱4.36 billion as of December 31, 2020 and 2019, respectively.

Details of the Group's unused net operating loss carryover (NOLCO) and excess minimum corporate income tax (MCIT) when no deferred income tax assets are recognized are disclosed in Note 28.

*Pension benefits*
The cost of defined benefit pension plans, as well as the present value of the pension obligation, are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each balance sheet date.

In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

The mortality rate is based on publicly available mortality tables for the specific country and is modified accordingly with estimates of mortality improvements. Future salary increases and pension increases are based on expected future inflation rates for the specific country.

Further details about the assumptions used are provided in Note 26.

Net benefit expense amounted to ₱231.0 million in 2020, ₱182.3 million in 2019, and ₱195.7 million in 2018. The net pension assets as of December 31, 2020 and 2019 amounted to ₱50.4 million and ₱68.2 million, respectively. Net pension liabilities as of December 31, 2020 and 2019 amounted to ₱294.1 million and ₱426.0 million, respectively.

*Fair value of financial instruments*
Where the fair value of financial assets and financial liabilities recorded in the consolidated balance sheet cannot be derived from active markets, their fair value is determined using valuation techniques which include the discounted cash flow model and other generally accepted market valuation model. The inputs for these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. The fair values of the Group's financial instruments are presented under Note 33.

*Legal contingencies*
The estimate of probable costs for the resolution of possible claims has been developed in consultation with outside counsels handling the Group's defense in these matters and is based upon an analysis of potential results. No provision for probable losses arising from legal contingencies was recognized in the consolidated financial statements for the years ended December 31, 2020, 2019 and 2018.

## 5. Cash and Cash Equivalents

| | 2020 | 2019 |
|---|---|---|
| Cash on hand and in banks | **₱14,790,197** | ₱14,177,919 |
| Short-term deposits | **23,909,348** | 23,256,010 |
| | **₱38,699,545** | ₱37,433,929 |

Cash in banks earn interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods depending on the immediate cash requirements of the Group and earn interest at the respective short-term deposits rates. Interest income earned from cash and cash equivalents amounted to ₱602.9 million in 2020, ₱1.3 billion in 2019, and ₱880.1 million in 2018.

## 6. Trade and Other Receivables

| | 2020 | 2019 |
|---|---|---|
| Trade receivables - net of allowance for expected credit losses of ₱2.28 billion and ₱1.97 billion in 2020 and 2019, respectively (Note 31 and 32) | **₱15,450,006** | ₱16,420,952 |
| Others | | |
| Dividends receivable (Note 9) | **1,498,000** | 1,199,068 |
| Advances to contractors | **226,123** | 63,339 |
| Non-trade receivable | **3,766,426** | 2,972,536 |
| Interest receivable | **33,893** | 48,666 |
| PSALM deferred adjustment (Note 39k) | **1,042,861** | 1,042,861 |
| | **₱22,017,309** | ₱21,747,422 |

Trade and other receivables are non-interest bearing and are generally on 10 - 30 days' term.

For terms and conditions relating to related party receivables, refer to Note 31.

Advances to contractors refer to non-interest bearing advance payments made for project mobilization which are offset against progress billings to be made by the contractors.

Non-trade receivable relates mostly to claims from insurance against the property damage and business interruption insurance policies of TSI, and receivable of GMEC from National Grid Corporation of the Philippines (NGCP) related to the sale of transmission assets in 2019 and advances to partners in GMEC.

The rollforward analysis of allowance for expected credit losses as of December 31, 2020 and 2019, which pertains to trade receivables, is presented below:

| | 2020 | 2019 |
|---|---|---|
| January 1 | **₱1,973,520** | ₱1,749,991 |
| Provision (see Note 23) | **719,193** | 87,086 |
| Write-off | **(121,618)** | (89,496) |
| Effect of changes in foreign exchange rate | **(294,722)** | 225,939 |
| December 31 | **₱2,276,373** | ₱1,973,520 |

## 7. Inventories at cost

| | 2020 | 2019 |
|---|---|---|
| Plant spare parts and supplies | **₱3,154,218** | ₱2,507,832 |
| Fuel and lube oil | **1,635,333** | 2,514,447 |
| Transmission and distribution supplies | **1,469,095** | 1,492,222 |
| Other parts and supplies | **49,554** | 117,528 |
| | **₱6,308,200** | ₱6,632,029 |

Inventories are carried at lower of cost and NRV as of December 31, 2020 and 2019.

The cost of inventories recognized as part of cost of generated power in the consolidated statements of income amounted to ₱19.65 billion in 2020, ₱29.39 billion in 2019, and ₱29.42 billion in 2018 (see Note 22). The cost of inventories recognized as part of operations and maintenance in the consolidated statements of income amounted to ₱305.8 million in 2020, ₱353.7 million in 2019, and ₱286.7 million in 2018 (see Note 24). Write-down on inventories to arrive at NRV amounted to ₱102.8 million and ₱88.2 million in 2020 and 2019, respectively.

## 8. Other Current Assets

| | 2020 | 2019 |
|---|---|---|
| Restricted cash (Note 16) | **₱5,324,213** | ₱4,449,716 |
| Input VAT | **1,972,706** | 2,049,496 |
| Prepaid tax | **1,352,645** | 1,854,792 |
| Advances to NGCP | **1,167,296** | 1,727,028 |
| Prepaid expenses | **561,739** | 610,426 |
| Others | **101,049** | 391,947 |
| | **₱10,479,648** | ₱11,083,405 |

Restricted cash represents proceeds from sale of power under the control of trustees of TVI and TSI's lenders as per loan agreement (see Note 16). The asset will be used to pay the current portion of loans payable, interest payments and operating costs in the following period.

Advances to NGCP pertain to TVI's cost of construction and installation of substation and transmission facilities which is subject for reimbursement after completion of the project. As of December 31, 2020, the substation is 100.0% completed.

In 2020, TVI reclassified portion of its advances to NGCP to "Other noncurrent assets" based on its assessment of the expected timing of collection of these assets (see Note 13).

Prepaid expenses mainly include prepayments for insurance.

## 9. Investments and Advances

| | 2020 | 2019 |
|---|---|---|
| Acquisition cost: | | |
| Balances at beginning of the year | **₱58,144,997** | ₱30,559,245 |
| Additions | **2,332,591** | 27,591,092 |
| Redemptions | **(6,939)** | (5,340) |
| Balances at end of year | **60,470,649** | 58,144,997 |
| Accumulated equity in net earnings: | | |
| Balances at beginning of the year | **3,345,164** | 3,867,849 |
| Transition adjustment | **—** | (18,691) |
| Share in net earnings | **2,675,136** | 3,813,962 |
| Dividends received or receivable | **(3,537,858)** | (4,317,956) |
| Balances at end of year | **2,482,442** | 3,345,164 |
| Share in net unrealized valuation gains on FVOCI investment of an associate | **98,602** | 101,727 |
| Share in actuarial gain (loss) on defined benefit plans of associates and joint | **8,748** | (14,299) |
| Share in cumulative translation adjustments of associates and joint ventures | **(684,042)** | (153,485) |
| | **(576,692)** | (66,057) |
| | **62,376,399** | 61,424,104 |
| Less allowance for impairment losses | **568,125** | 568,125 |
| Investments at equity | **61,808,274** | 60,855,979 |
| Advances | **20,527** | 22,562 |
| | **₱61,828,801** | ₱60,878,541 |

As of December 31, 2020 and 2019, the undistributed earnings of the associates and joint ventures included in the Group's retained earnings amounting to ₱2.48 billion and ₱3.35 billion, respectively, are not available for distribution to the stockholders unless declared by the investees (see Note 19).

2020

In 2020, the Group converted the advances to Hijos de F. Escaño, Inc. (Hijos) to equity in the form of common and redeemable preferred shares amounting to ₱15.4 million.

In 2020, AEV Aviation, Inc. (AAI) redeemed 6,939 RPS held by the Company for ₱6.9 million.

In 2020, the Group, through TPI and AA Thermal made capital contributions to GNPD amounting to US$48.25 million (₱2.32 billion).

2019

In 2019, the Group, through TPI and AA Thermal made capital contributions to GNPD amounting to US$81.45 million (₱4.21 billion).

In 2019, AAI redeemed 5,340 RPS held by the Company for ₱5.34 million.

Acquisition of AA Thermal
On May 2, 2019, the Company completed its acquisition of a 49% voting stake and a 60% economic stake in AA Thermal, AC Energy's thermal platform in the Philippines. The transaction is valued at $572.9 million (₱29.79 billion).

AA Thermal has interests in GMEC, the owner and operator of an operating 2x316 MW coal plant in Mariveles, Bataan, and in GNPD, the developer and owner of a 2x668 MW supercritical coal plant project in Mariveles, Bataan, which is currently under construction.

The completion of the transaction increases the Company's economic interests in GMEC, and GNPD to 78.3%, and 75.0%, respectively.

2018
In 2018, the Group, through TPI, made capital contributions to GNPD amounting to US$47.0 million (₱2.50 billion).

In 2018, AEV Aviation, Inc. (AAI) redeemed 80,216 RPS held by the Company for ₱80.2 million.

The Group's associates and joint ventures and the corresponding equity ownership are as follows:

| | | Percentage of Ownership | | |
|---|---|---|---|---|
| | Nature of Business | **2020** | 2019 | 2018 |
| MORE[1] | Holding company | **83.33** | 83.33 | 83.33 |
| GNPD[1, 2] | Power generation | **70.00** | 72.50 | 45.00 |
| AA Thermal[3] | Holding company | **60.00** | 60.00 | — |
| Hijos | Holding company | **46.73** | 46.73 | 46.73 |
| Mazzaraty Energy Corporation (MEC) | Retail electricity supplier | **44.87** | 44.87 | 44.87 |
| San Fernando Electric Light & Power Co., Inc. (SFELAPCO) | Power distribution | **43.78** | 43.78 | 43.78 |
| Pampanga Energy Ventures, Inc. (PEVI) | Holding company | **42.84** | 42.84 | 42.84 |
| La Filipina Electrika, Inc. (LFEI) * | Power generation | **40.00** | 40.00 | 40.00 |
| STEAG | Power generation | **34.00** | 34.00 | 34.00 |
| AAI | Service | **26.69** | 26.69 | 26.69 |
| Cebu Energy Development Corporation (CEDC) | Power generation | **26.40** | 26.40 | 26.40 |
| Redondo Peninsula Energy, Inc. (RPEI)* | Power generation | **25.00** | 25.00 | 25.00 |
| Southern Philippines Power Corporation (SPPC) | Power generation | **20.00** | 20.00 | 20.00 |
| Western Mindanao Power Corporation (WMPC) | Power generation | **20.00** | 20.00 | 20.00 |

[1] *Joint ventures.*
[2] *GNPD change in ownership based on the Partnership Agreement and in 2019 due to AA Thermal acquisition*
[3] *Economic interest.*
* *No commercial operations as of December 31,2020.*

The principal place of business and country of incorporation of the Group's associates and joint ventures are in the Philippines.

All ownership percentages presented in the table above are direct ownership of the Group except for GNPD and SFELAPCO. As of December 31, 2020, AA Thermal has an indirect ownership in GNPD of 50% while the Group's direct ownership in GNPD is 40% resulting to the Group's effective ownership in GNPD of 70%. PEVI has direct ownership in SFELAPCO of 54.83% while the Group's direct ownership in SFELAPCO is 20.29% resulting to the Group's effective ownership in SFELAPCO of 43.78%.

The carrying values of investments, which are accounted for under the equity method are as follows:

| | 2020 | 2019 |
|---|---|---|
| AA Thermal | **₱24,146,045** | ₱24,084,947 |
| GNPD | **17,713,271** | 17,172,530 |
| MORE | **10,653,803** | 10,180,552 |
| STEAG | **3,855,162** | 4,032,405 |
| CEDC | **3,409,799** | 3,447,491 |
| RPEI | **522,347** | 525,769 |
| PEVI | **532,796** | 508,895 |
| SFELAPCO | **395,698** | 372,917 |
| Hijos | **213,524** | 176,037 |
| WMPC | **168,244** | 142,577 |
| SPPC | **53,246** | 61,497 |
| Others | **144,339** | 150,362 |
| | **₱61,808,274** | ₱60,855,979 |

Following is the summarized financial information of significant associates and joint ventures:

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| MORE: | | | |
| Total current assets | **₱1,046,825** | ₱681,925 | ₱141,293 |
| Total noncurrent assets | **12,724,102** | 12,222,826 | 12,196,002 |
| Total current liabilities | **(961,848)** | (610,443) | (54,462) |
| Total noncurrent liabilities | **(24,516)** | (75,721) | – |
| Equity | **₱12,784,563** | ₱12,218,587 | ₱12,282,833 |
| Gross revenue | **₱178,636** | ₱198,636 | ₱180,236 |
| Operating profit | **3,194,516** | 3,750,522 | 4,133,911 |
| Net income | **3,193,335** | 3,732,874 | 4,125,996 |
| Other comprehensive income (loss) | **22,889** | (152,630) | 96,116 |
| Group's share in net income | **₱2,658,476** | ₱3,110,204 | ₱3,439,589 |
| Additional information: | | | |
| Cash and cash equivalents | **₱36,165** | ₱34,480 | ₱31,873 |
| Current financial liabilities | **9,890** | 11,745 | 54,462 |
| Noncurrent financial liabilities | **13,785** | 43,821 | – |
| Depreciation and amortization | **20,124** | 18,163 | 7,347 |
| Interest income | **500** | 1,175 | 808 |
| Interest expense | **(2,132)** | (4,272) | – |
| Income tax expense | **4,836** | 14,373 | 9,043 |

(Forward)

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| WMPC: | | | |
| Total current assets | ₱786,831 | ₱643,983 | ₱717,162 |
| Total noncurrent assets | 338,568 | 348,174 | 454,108 |
| Total current liabilities | (203,776) | (193,157) | (551,781) |
| Total noncurrent liabilities | (80,403) | (83,804) | (74,341) |
| Equity | ₱841,220 | ₱715,196 | ₱545,148 |
| Gross revenue | ₱1,390,204 | ₱1,157,772 | ₱1,393,417 |
| Operating profit | 427,771 | 280,417 | 13,006 |
| Net income | 348,795 | 195,693 | 20,521 |
| Other comprehensive loss | — | — | — |
| Group's share in net income | ₱69,667 | ₱36,053 | ₱4,104 |
| SPPC: | | | |
| Total current assets | ₱149,970 | ₱148,228 | ₱182,303 |
| Total noncurrent assets | 222,642 | 265,422 | 311,472 |
| Total current liabilities | (51,339) | (39,137) | (36,361) |
| Total noncurrent liabilities | (55,041) | (76,324) | (58,491) |
| Equity | ₱266,232 | ₱298,189 | ₱398,923 |
| Gross revenue | ₱12,857 | ₱— | ₱160,831 |
| Operating profit | (56,722) | (88,013) | (19,307) |
| Net income (loss) | (48,136) | (77,295) | (23,407) |
| Other comprehensive income | — | — | — |
| Group's share in net income | (₱8,250) | (₱20,359) | (₱4,681) |
| SFELAPCO*: | | | |
| Total current assets | ₱1,112,909 | ₱1,135,431 | ₱1,104,307 |
| Total noncurrent assets | 2,825,295 | 2,691,104 | 2,567,663 |
| Total current liabilities | (831,991) | (868,787) | (763,966) |
| Total noncurrent liabilities | (826,003) | (784,368) | (699,175) |
| Equity | ₱2,280,210 | ₱2,173,380 | ₱2,208,829 |
| Gross revenue | ₱4,318,340 | ₱4,448,624 | ₱4,088,124 |
| Operating profit | 573,989 | 479,553 | 408,160 |
| Net income | 437,566 | 342,199 | 302,677 |
| Other comprehensive income (loss) | 8,203 | (51,500) | (63,679) |
| Group's share in net income | ₱198,142 | ₱164,080 | ₱168,307 |
| STEAG: | | | |
| Total current assets | ₱5,053,099 | ₱3,107,046 | ₱3,459,931 |
| Total noncurrent assets | 9,000,415 | 9,967,406 | 10,477,098 |
| Total current liabilities | (1,605,648) | (1,379,138) | (1,672,896) |
| Total noncurrent liabilities | (4,205,178) | (2,840,129) | (3,262,770) |
| Equity | ₱8,242,688 | ₱8,855,185 | ₱9,001,363 |
| Gross revenue | ₱3,941,673 | ₱4,812,414 | ₱4,468,016 |
| Operating profit | 1,504,642 | 1,250,028 | 1,115,567 |
| Net income | 1,022,111 | 1,150,501 | 687,186 |
| Other comprehensive losses | (42,194) | (29,106) | (37,173) |
| Group's share in net income | ₱210,781 | ₱249,432 | ₱87,508 |

**Amounts are based on appraised values which are adjusted to historical amounts upon equity take-up of the Group. Using cost method in accounting for property, plant and equipment, net income amounted to ₱449.2 million, ₱374.8 million and ₱952.8 million in 2020, 2019, and 2018, respectively, for SFELAPCO.*

(Forward)

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| CEDC: | | | |
| Total current assets | ₱4,611,404 | ₱5,199,140 | ₱4,986,619 |
| Total noncurrent assets | 11,851,774 | 12,842,201 | 13,371,586 |
| Total current liabilities | (7,751,429) | (2,496,096) | (2,158,754) |
| Total noncurrent liabilities | (1,008,946) | (7,672,244) | (8,943,522) |
| Equity | ₱7,702,803 | ₱7,873,001 | ₱7,255,929 |
| Gross revenue | ₱7,718,729 | ₱8,578,452 | ₱9,728,163 |
| Operating profit | 2,726,815 | 3,017,831 | 3,300,164 |
| Net income | 1,576,645 | 2,317,071 | 1,880,853 |
| Other comprehensive income | (17,256) | 29,483 | 13,277 |
| Group's share in net income | ₱710,307 | ₱1,002,882 | ₱817,576 |
| AA Thermal | | | |
| Total current assets | ₱491,206 | ₱75,243 | ₱— |
| Total noncurrent assets | 15,998,648 | 14,827,626 | — |
| Total current liabilities | (134) | (7,762) | — |
| Total noncurrent liabilities | — | — | — |
| Equity | ₱16,489,720 | ₱14,895,107 | ₱— |
| Gross revenue | ₱— | ₱— | ₱— |
| Operating profit | — | — | — |
| Net income | — | — | — |
| Other comprehensive income | — | — | — |
| Group's share in net loss | (₱6,937) | ₱— | ₱— |
| GNPD | | | |
| Total current assets | ₱3,949,591 | ₱1,612,549 | ₱1,705,863 |
| Total noncurrent assets | 71,095,383 | 67,043,356 | 40,707,048 |
| Total current liabilities | (2,542,327) | (5,623,202) | (3,342,924) |
| Total noncurrent liabilities | (56,958,752) | (48,514,482) | (29,473,440) |
| Equity | ₱15,543,895 | ₱14,518,221 | ₱9,596,547 |
| Gross revenue | ₱1,725,867 | ₱— | ₱— |
| Operating loss | (752,254) | (1,161,098) | (352,858) |
| Net loss | (1,642,379) | (1,160,004) | (68,174) |
| Other comprehensive income | 1,514 | — | — |
| Group's share in net loss | (₱683,376) | (₱726,682) | (₱15,435) |
| Additional information: | | | |
| Cash and cash equivalents | ₱272,868 | ₱1,093,991 | ₱911,642 |
| Current financial liabilities | 1,213,841 | 2,033,297 | 3,246,671 |
| Noncurrent financial liabilities | 2,146,158 | 48,514,482 | 29,473,440 |
| Depreciation and amortization | 8,051 | 61,005 | 41,169 |
| Interest income | 3,702 | 590 | 487 |
| Interest expense | (24,494) | (63,928) | (28,073) |
| Income tax expense | 807,066 | 395,945 | 158,506 |
| Others**: | | | |
| Total current assets | ₱380,749 | ₱403,979 | ₱453,445 |
| Total noncurrent assets | 2,759,869 | 2,831,067 | 2,842,300 |
| Total current liabilities | (34,193) | (31,272) | (62,706) |
| Total noncurrent liabilities | (166,040) | (111,875) | (110,557) |
| Gross revenue | ₱125,908 | ₱150,059 | ₱160,695 |
| Net income (loss) | (18,021) | (8,856) | (727,830) |

***The financial information of insignificant associates and joint ventures is indicated under "Others".*

## 10. Joint Operation

| Name of Joint Operation | Nature of Business | Percentage of Ownership 2020 | 2019 |
|---|---|---|---|
| PEC | Power generation | **50.00** | 50.00 |

**PEC's principal place of business and country of incorporation is the Philippines.*

On May 15, 2014, the Group entered into a shareholders' agreement with TPEC Holdings Corporation (TPEC) for the development, construction and operation of the 400 MW Pagbilao Unit III in Pagbilao, Quezon through PEC. TPI and TPEC both agreed to provide their respective capital contributions and subscribe to common shares such that each stockholder owns 50% of the issued and outstanding shares of stock of PEC.

The financial and operating activities of the operation are jointly controlled by the participating shareholders and are primarily designed for the provision of output to the shareholders.

The Group's share of assets, liabilities, revenue, expenses and cash flows of joint operations are included in the consolidated financial statements on a line-by-line basis.

## 11. Property, Plant and Equipment

### December 31, 2020

| | Land | Buildings, warehouses and improvements | Power plant equipment and steam field assets (Note 18) | Transmission, distribution and substation equipment | Transportation equipment | Office furniture fixtures and equipment | Leasehold improvements | Electrical equipment | Meters and laboratory equipment | Tools and others | Construction in progress | ROU assets (Note 34) | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Cost: | | | | | | | | | | | | | |
| Balances at beginning of year | ₱1,785,250 | ₱37,218,378 | ₱141,948,261 | ₱21,295,812 | ₱1,626,721 | ₱1,174,643 | ₱2,793,542 | ₱7,788,861 | ₱2,265,372 | ₱1,228,993 | ₱6,311,485 | ₱37,864,618 | ₱263,301,886 |
| Additions (see Notes 14 and 18) | 7,623 | 347,179 | 416,501 | — | 73,029 | 64,357 | 63,377 | 141,066 | — | 30,782 | 4,284,816 | 152,491 | 5581,221 |
| Disposals | | — | (98,178) | — | (99,989) | (9,283) | (11,966) | (15,663) | — | (30,173) | — | | (245,252) |
| Reclassifications and Others | (41,683) | 1,165,829 | (3,941,317) | 1,706,296 | 3,711,786 | 115,429 | 105,292 | 262,657 | 117,646 | 3,437,650 | (5,131,649) | (4,922) | 1,503,014 |
| Balances at end of year | 1,751,190 | 38,731,336 | 138,325,267 | 23,002,108 | 5,311,547 | 1,345,146 | 2,950,245 | 8,176,921 | 2,383,018 | 4,667,252 | 5,464,652 | 38,012,187 | 270,140,869 |
| Accumulated Depreciation and Amortization: | | | | | | | | | | | | | |
| Balances at beginning of year | — | 4,977,159 | 37,089,849 | 5,738,598 | 956,744 | 870,505 | 681,804 | 3,281,314 | 177,562 | 620,939 | — | 1,211,506 | 50,645,980 |
| Depreciation and amortization | — | 1,362,949 | 5,923,510 | 672,817 | 146,320 | 117,016 | 127,317 | 382,866 | 104,033 | 342,349 | | 1,319,059 | 10,498,236 |
| Disposals | — | — | (24,237) | (23) | (88,045) | (7,968) | (11,966) | (13,860) | — | (2,066) | | | (148,174) |
| Reclassifications and Others | — | 18,286 | 2,648,300 | — | 662 | 12,963 | 20,530 | 3,206 | — | (259,378) | | 984 | 2,445,461 |
| Balances at end of year | — | 6,358,394 | 40,637,430 | 6,411,392 | 1,055,681 | 992,516 | 817,685 | 3,653,417 | 281,595 | 701,844 | — | 2,531,549 | 63,441,503 |
| Accumulated Impairment: | | | | | | | | | | | | | |
| Balances at beginning of year | — | — | 486,280 | — | 2,088 | 792 | 251 | — | — | — | 2,645,029 | — | 3,134,4 |
| Impairment | — | — | 113,683 | — | — | — | — | — | — | — | — | | 113,683 |
| Balances at end of year | — | — | 599,963 | — | 2,088 | 792 | 251 | — | — | — | 2,645,029 | — | 3,248,123 |
| Net book values | ₱1,751,190 | ₱32,372,942 | ₱97,087,874 | ₱16,590,716 | ₱4,253,778 | ₱351,838 | ₱2,132,309 | ₱4,523,504 | ₱2,101,423 | ₱3,985,408 | ₱2,819,623 | ₱35,480,638 | ₱203,451,243 |

## December 31, 2019

| | Land | Buildings, warehouses and improvements | Power plant equipment and steam field assets (Note 18) | Transmission, distribution and substation equipment | Transportation equipment | Office furniture, fixtures and equipment | Leasehold improvements | Electrical equipment | Meters and laboratory equipment | Tools and others | Construction in progress | ROU assets (Note 34) | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Cost: | | | | | | | | | | | | | |
| Balances at beginning of year | ₱1,541,756 | ₱21,356,246 | ₱133,773,646 | ₱19,458,140 | ₱1,570,004 | ₱1,052,237 | ₱2,774,370 | ₱5,685,213 | ₱1,832,174 | ₱1,335,213 | ₱37,835,549 | ₱37,840,369 | ₱266,114,977 |
| Additions (see Notes 14 and 38) | 186,097 | 240,684 | 1,032,129 | — | 198,729 | 136,388 | 5,994 | 12,589 | — | 32,465 | 7,830,741 | 24,249 | 9,700,066 |
| Disposals | | (3,849) | (413,571) | (29,432) | (119,132) | (27,537) | — | (400) | — | (1,511) | (7,363) | | (597,745) |
| Reclassifications and others | 57,397 | 15,625,247 | 7,556,007 | 1,867,104 | (22,980) | 13,555 | 13,178 | 2,091,459 | 373,198 | (137,174) | (39,352,442) | — | (11,915,411) |
| Balances at end of year | 1,785,250 | 37,218,328 | 141,948,261 | 21,295,812 | 1,626,721 | 1,174,643 | 2,793,542 | 7,788,861 | 2,205,372 | 1,228,993 | 6,311,485 | 37,864,618 | 263,301,886 |
| Accumulated Depreciation and Amortization: | | | | | | | | | | | | | |
| Balances at beginning of year | — | 4,489,697 | 37,371,844 | 5,227,736 | 948,524 | 847,003 | 595,409 | 2,482,478 | 78,758 | 657,930 | — | — | 52,689,469 |
| Depreciation and amortization | — | 749,417 | 5,970,481 | 598,259 | 168,397 | 123,588 | 131,678 | 778,804 | 93,374 | 80,343 | — | 1,273,073 | 9,417,914 |
| Disposals | | (3,849) | (70,556) | (29,432) | (95,904) | (27,346) | | (400) | — | (2,072) | — | — | (229,559) |
| Reclassifications and others | — | (258,106) | (11,181,920) | (58,465) | (24,273) | (72,830) | (45,288) | 520,432 | 5,430 | (115,262) | — | (11,567) | (11,241,844) |
| Balances at end of year | | 4,977,159 | 32,089,849 | 5,738,558 | 996,744 | 870,505 | 681,804 | 3,281,314 | 177,562 | 620,939 | — | 1,261,506 | 50,645,980 |
| Accumulated impairment | — | — | 486,280 | — | 2,088 | 792 | 251 | — | — | — | 2,545,029 | — | 3,034,440 |
| Net book values | ₱1,785,250 | ₱32,241,169 | ₱109,372,132 | ₱15,557,214 | ₱627,889 | ₱303,346 | ₱2,111,487 | ₱4,507,547 | ₱2,087,810 | ₱608,054 | ₱3,866,456 | ₱36,653,112 | ₱209,521,466 |

In 2020 and 2019, the Group has determined that an impairment test has to be performed on certain segments of its property, plant and equipment amounting to ₱41.6 billion and ₱3.6 billion, respectively. In performing an impairment test calculation, the Group determined the recoverable amount of the relevant property, plant and equipment through value in use (VIU). VIU is derived based on financial budgets prepared by senior management covering the project's entire life. Pre-tax discount rate of 7.12% to 8.79% in 2020 and 9.83% in 2019 was used.

The calculation of value in use of these property, plant and equipment are most sensitive to the following assumptions:

- Discount rate - Discount rate reflects the management's estimate of risks applicable to these projects. The benchmark used by the management to assess operating performance and to evaluate future investment proposals. In determining appropriate discount rates, consideration has been given to various market information, including, but not limited to, government bond yield, bank lending rates and market risk premium.

- Material price inflation - Estimates are obtained from published indices from which the materials are sourced, as well as data relating to specific commodities. Forecast figures are used if data is publicly available, otherwise past actual material price movements are used as an indicator of future price movement.

- Growth rate - The long-term rate used to extrapolate future cash flows excludes expansions and potential improvements in the future. Management also recognized the possibility of new entrants, which may have significant impact on existing growth rate assumptions. Management, however, believes that new entrants will not have a significant adverse impact on the forecasts included in the financial budget.

Management have reflected future economic uncertainty in the risk-adjusted cash flows, giving a more accurate representation of the risks specific to the projects, taking into account the impact of COVID-19.

The impairment test calculation has not resulted to any recognition of an impairment loss in 2020 and 2019.

In 2020, impairment loss amounting to ₱113.7 million has been recognized in specific equipment that was determined to be damaged.

In 2020 and 2019, power plant equipment and steam field assets increased by ₱1.2 billion and decreased by ₱321.9 million, respectively, due to the change in accounting estimate and because of an additional obligation originating in 2020 (see Note 18).

In 2020 and 2019, additions to "Construction in progress" include capitalized borrowing costs, net of interest income earned from short-term deposits amounted to nil and ₱890 million, respectively (see Note 16). The rate used to determine the amount of borrowing costs eligible for capitalization ranged from 5.7% to 9.4% which are the effective interest rate of the specific borrowings in 2019.

Property, plant and equipment with carrying amounts of ₱111 billion and ₱124 billion as of December 31, 2020 and 2019, respectively, are used to secure the Group's long-term debts (see Note 16).

Fully depreciated property and equipment with gross carrying amount of ₱6.57 billion and ₱5.91 billion as of December 31, 2020 and 2019, respectively, are still in use.

In 2019, the Group completed the sale of its transmission assets. These assets have been previously recognized as property held for sale carried at its recoverable amount of ₱675.8 million (see Note 27).

## 12. Intangible Assets

| | **2020** | 2019 |
|---|---|---|
| Goodwill | **₱38,812,852** | ₱40,876,082 |
| Service concession rights | **2,007,375** | 2,406,320 |
| Franchise | **2,494,811** | 2,571,772 |
| Project development costs | **702,671** | 622,491 |
| Software and licenses | **261,677** | 235,836 |
| | **₱44,279,386** | ₱46,712,501 |

The table below shows the rollforward of intangible assets:

## December 31, 2020

| | Goodwill | Service concession rights | Franchise | Project development costs | Customer contracts | Software and licenses | Total |
|---|---|---|---|---|---|---|---|
| Cost: | | | | | | | |
| Balances at beginning of year | ₱40,876,082 | ₱5,456,916 | ₱3,078,431 | ₱622,491 | ₱60,068 | ₱468,123 | ₱50,562,111 |
| Additions during the year | — | 39,957 | — | 87,420 | — | 70,653 | 198,030 |
| Impairment | — | — | — | (7,240) | — | — | (7,240) |
| Exchange differences | (2,063,230) | (85,547) | — | — | — | — | (2,148,777) |
| Balances at end of year | 38,812,852 | 5,411,326 | 3,078,431 | 702,671 | 60,068 | 538,776 | 48,604,124 |
| Accumulated amortization: | | | | | | | |
| Balances at beginning of year | — | 3,050,596 | 506,659 | — | 60,068 | 232,287 | 3,849,610 |
| Amortization | — | 353,355 | 76,961 | — | — | 44,812 | 475,128 |
| Balances at end of year | — | 3,403,951 | 583,620 | — | 60,068 | 277,099 | 4,324,738 |
| Net book values | ₱38,812,852 | ₱2,007,375 | ₱2,494,811 | ₱702,671 | ₱— | ₱261,677 | ₱44,279,386 |

## December 31, 2019

| | Goodwill | Service concession rights | Franchise | Project development costs | Customer contracts | Software and licenses | Total |
|---|---|---|---|---|---|---|---|
| Cost: | | | | | | | |
| Balances at beginning of year | ₱40,224,411 | ₱5,478,607 | ₱3,078,431 | ₱388,468 | ₱60,068 | ₱307,338 | ₱49,537,323 |
| Additions during the year | — | 60,625 | — | 234,023 | — | 160,785 | 455,433 |
| Exchange differences | 651,671 | (82,316) | — | — | — | — | 569,355 |
| Balances at end of year | 40,876,082 | 5,456,916 | 3,078,431 | 622,491 | 60,068 | 468,123 | 50,562,111 |
| Accumulated amortization: | | | | | | | |
| Balances at beginning of year | — | 2,688,997 | 429,699 | — | 51,486 | 201,647 | 3,371,829 |
| Amortization | — | 361,599 | 76,960 | — | 8,582 | 30,640 | 477,781 |
| Balances at end of year | — | 3,050,596 | 506,659 | — | 60,068 | 232,287 | 3,849,610 |
| Net book values | ₱40,876,082 | ₱2,406,320 | ₱2,571,772 | ₱622,491 | ₱— | ₱235,836 | ₱46,712,501 |

Impairment Testing of Goodwill

Goodwill acquired through business combinations have been attributed to the following CGUs:

| | 2020 | 2019 |
|---|---|---|
| GMEC | **₱37,933,567** | ₱39,996,797 |
| LEZ | **467,586** | 467,586 |
| HI | **220,228** | 220,228 |
| BEZ | **191,471** | 191,471 |
| | **₱38,812,852** | ₱40,876,082 |

The recoverable amounts of these CGUs have been determined based on a value-in-use calculation using cash flow projections based on financial budgets approved by senior management covering a five-year period.

Key assumptions used in value-in-use calculation for December 31, 2020 and 2019
The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill.

*Discount rates and growth rates*
The discount rates applied to cash flow projections are from 7.12% to 8.79% in 2020 and 9.87% to 11.81% in 2019, and cash flows beyond the five-year period are extrapolated using a zero percent growth rate.

*Revenue assumptions*
Revenue assumptions are based on the expected electricity to be sold. Revenue growth rates used for the next five (5) years are as follows:

| | **2020** | | | | 2019 | | | |
|---|---|---|---|---|---|---|---|---|
| | **LEZ** | **BEZ** | **GMEC** | **HI** | LEZ | BEZ | GMEC | HI |
| Year 1 | **4%** | **6%** | **8%** | **17%** | 10% | 4% | 0% | -6% |
| Year 2 | **10%** | **2%** | **0%** | **-2%** | 0% | -6% | 2% | 16% |
| Year 3 | **7%** | **1%** | **10%** | **3%** | 4% | 1% | 7% | 15% |
| Year 4 | **11%** | **2%** | **4%** | **0%** | 4% | -3% | 3% | 12% |
| Year 5 | **10%** | **3%** | **0%** | **20%** | 4% | 10% | 10% | 5% |

*Materials price inflation*
In 2020, the assumption used to determine the value assigned to the materials price inflation is 2.50% in 2021, and settles at 3.00% for the next 4 years until 2025. The starting point of 2021 is consistent with external information sources.

In 2019, the assumption used to determine the value assigned to the materials price inflation is 3.30% in 2020, decreases to 3.20% in 2021 and settles at 3.00% for the next 3 years until 2024. The starting point of 2020 is consistent with external information sources.

*Foreign exchange rates*
In 2020, the assumption used to determine foreign exchange rate is a weakening Philippine peso which starts at a rate of ₱50.00 to a dollar in 2021 and depreciates annually at an average of 0.88% until 2025. In 2019, the assumption used to determine foreign exchange rate is weakening Philippine peso which starts at a rate of ₱54.70 to a dollar in 2020 and depreciates annually at an average of 2.67% until 2024.

Management has reflected future economic uncertainty in the risk-adjusted cash flows, giving a more accurate representation of the risks specific to the Group, taking into consideration the impact of COVID-19. To reflect ongoing uncertainty, the likelihood that actual performance will differ from these assumptions has been estimated at a CGU level with reference to external market forecasts and the CGU's current performance.

Based on the impairment testing, no impairment of goodwill was recognized in 2020 and 2019. In 2018, an impairment loss on goodwill amounting to ₱45.9 million on the investment in BEZ was recognized.

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

Service Concession Rights

Service concession arrangements entered into by the Group are as follows:

a. On November 24, 1996, LHC entered into a PPA with NPC, its sole customer, for the construction and operation of a 70-megawatt hydroelectric power generating facility (the Power Station) in Bakun River in Benguet and Ilocos Sur Provinces on a build-operate-transfer scheme. Under the PPA, LHC shall deliver to NPC all electricity generated over a cooperation period of 25 years until February 5, 2026.

   On the Transfer Date, as defined in the PPA, LHC shall transfer to NPC, free from any lien or encumbrance, all its rights, title and interest in and to the Power Station and all such data as operating manuals, operation summaries/transfer notes, design drawings and other information as may reasonably be required by NPC to enable it to operate the Power Station.

   Since NPC controls the ownership of any significant residual interest of the Power Station at the end of the PPA, the PPA is accounted for under the intangible asset model as LHC has the right to charge users for the public service under the service concession arrangement.

   The Power Station is treated as intangible asset and is amortized over a period of 25 years, which is the service concession period, in accordance with Philippine Interpretation IFRIC 12. The intangible asset with a carrying value of ₱1.27 billion and ₱1.62 billion as of December 31, 2020 and 2019, respectively, was used as collateral to secure LHC's long-term debt (see Note 16).

b. On May 15, 2003, the SBMA, AEV and DLP entered into a DMSA for the privatization of the SBMA Power Distribution System (PDS) on a rehabilitate-operate-and-transfer arrangement; and to develop, construct, lease, lease out, operate and maintain property, structures and machineries in the Subic Bay Freeport Zone (SBFZ).

   Under the terms of the DMSA, SEZ was created to undertake the rehabilitation, operation and maintenance of the PDS (the Project), including the provision of electric power service to the customers within the Subic Bay Freeport Secured Areas of the SBFZ as well as the collection of the relevant fees from them for its services and the payment by SBMA of the service fees throughout the service period pursuant to the terms of the DMSA. The DMSA shall be effective for 25-year period commencing on the turnover date.

   For and in consideration of the services and expenditures of SEZ for it to undertake the rehabilitation, operation, management and maintenance of the Project, it shall be paid by the SBMA the service fees in such amount equivalent to all the earnings of the Project, provided, however, that SEZ shall remit the amount of ₱40.0 million to the SBMA at the start of every 12-month period throughout the service period regardless of the total amount of all earnings of the Project. The said remittances may be reduced by the outstanding power receivables from SBMA, including streetlights power consumption and maintenance, for the immediately preceding year.

   Since SBMA controls ownership of the equipment at the end of the agreement, the PDS are treated as intangible assets and are amortized over a period of 25 years up to year 2028, in accordance with Philippine Interpretation IFRIC 12.

   The carrying value of the intangible asset arising from the service concession arrangement amounted to ₱655.8 million and ₱700.3 million as of December 31, 2020 and 2019, respectively.

c. The transmission and distribution equipment of MEZ are located within Mactan Export Processing Zone (MEPZ) II. Since MCIAA controls ownership of the equipment at the end of the agreement, the equipment is treated as intangible assets and are amortized over a period of 21 years up to year 2028, in accordance with Philippine Interpretation IFRIC 12.

   The carrying amount of the intangible asset arising from the service concession arrangement amounted to ₱77.6 million and ₱84.5 million as of December 31, 2020 and 2019, respectively.

<u>Customer Contracts</u>

Customer contracts pertain to agreements between LEZ and the locators within Lima Technology Center relating to the provision of utility services to the locators. These contracts are treated as intangible assets and are amortized over a period of 5.25 years since 2014.

The amortization of intangible assets is included in "Depreciation and amortization" under "Operating Expenses" in the consolidated statements of income.

## 13. Other Noncurrent Assets

| | 2020 | 2019 |
|---|---|---|
| Restricted cash | **₱—** | ₱4,672,031 |
| Input VAT and tax credit receivable, net of impairment loss of ₱44.1 million in 2020 and ₱9.9 million in 2019 (see Note 27) | **2,993,466** | 4,434,349 |
| PSALM deferred adjustment - net of current portion (see Notes 6 and 39k) | **1,097,365** | 2,140,219 |
| Advances to NGCP - net of current portion | **920,682** | — |
| Advances to contractors and projects | **893,827** | 553,280 |
| Refundable deposits | **313,751** | 326,850 |
| Financial assets at FVTPL | **3,906** | 3,906 |
| Investment properties | **248,129** | 132,300 |
| Prepaid expenses | **251,576** | — |
| Prepaid taxes | **2,321,582** | 879,439 |
| Others | **227,272** | 380,844 |
| | **₱9,271,556** | ₱13,523,218 |

In 2020, TVI and the contractors have executed a settlement agreement finalizing the resolution of the dispute under their Engineering, Procurement and Construction agreement whereby the contractors shall pay liquidating damages amounting to ₱611.0 million. Accordingly, performance securities drawn by TVI on June 11, 20 19 that were previously recognized as restricted cash, have been remitted to the contractors (see Note 27).

## 14. Trade and Other Payables

| | 2020 | 2019 |
|---|---|---|
| Trade payables (see Note 32) | **₱9,266,804** | ₱10,885,721 |
| Output VAT | **3,370,163** | 3,022,048 |
| Amounts due to contractors and other third parties | **397,707** | 1,159,984 |
| PSALM deferred adjustment (see Note 39k) | **1,042,861** | 1,042,861 |
| Accrued expenses: | | |
| Interest | **2,134,625** | 2,350,811 |
| Materials and supplies cost | **66,087** | 470,588 |
| Taxes and fees | **896,429** | 1,246,863 |
| Claims conversion costs | **105,627** | 102,808 |
| Insurance | **21,464** | 18,437 |
| Dividends payable | **235,538** | 94,976 |
| Unearned revenues | **37,337** | 37,425 |
| Customers' deposit | **23,378** | 19,360 |
| Non-trade | **329,490** | 1,270,946 |
| Others | **444,288** | 653,292 |
| | **₱18,371,798** | ₱22,376,120 |

Trade payables are non-interest bearing and generally on 30-day terms.

Accrued taxes and fees represent accrual of real property tax, transfer tax and other fees.

Amounts due to contractors and other third parties include liabilities arising from the power plant construction (see Note 11).

Others include withholding taxes and other accrued expenses and are generally payable within 12 months from the balance sheet date.

## 15. Short-term Loans

| | Interest Rate | 2020 | 2019 |
|---|---|---|---|
| Peso loans - financial institutions - unsecured | 2% - 4.92% in 2020<br>2.68% - 4.95% in 2019 | **₱11,717,000** | ₱9,727,800 |
| Temporary advances (see Note 31) | Non-interest bearing | **26,413** | 607,620 |
| | | **₱11,743,413** | ₱10,335,420 |

The bank loans are unsecured short-term notes payable obtained from local banks. These loans are covered by the respective borrower's existing credit lines with the banks and are not subject to any significant covenants and warranties.

Interest expense on short-term loans amounted to ₱827.7 million in 2020, ₱797.6 million in 2019, and ₱374.6 million in 2018 (see Note 32).

## 16. Long-term Debts

| | 2020 Interest Rate | 2019 Interest Rate | 2020 | 2019 |
|---|---|---|---|---|
| Company: | | | | |
| Bonds due 2021 | 5.21% | 5.21% | **₱6,600,000** | ₱6,600,000 |
| Bonds due 2022 | 3.13% | — | **9,000,000** | — |
| Bonds due 2024 | 7.51% | 7.51% | **7,700,000** | 7,700,000 |
| Bonds due 2025 | 3.94% to 8.51% | 8.51% | **3,050,000** | 2,500,000 |
| Bonds due 2026 | 5.28% | 5.28% | **7,250,000** | 7,250,000 |
| Bonds due 2026 | 6.10% | 6.10% | **3,400,000** | 3,400,000 |
| Bonds due 2027 | 5.34% | 5.34% | **3,000,000** | 3,000,000 |
| Financial institutions - unsecured | 5.28% | 5.28% | **4,950,000** | 5,000,000 |
| Financial institutions - unsecured | LIBOR + 1.20% | LIBOR + 1.20% | **14,406,900** | 15,190,500 |

(Forward)

| | 2020 Interest Rate | 2019 Interest Rate | 2020 | 2019 |
|---|---|---|---|---|
| Subsidiaries: | | | | |
| GMEC | | | | |
| Financial institutions - unsecured | LIBOR + 1.7% - 4.85% | LIBOR + 1.7% - 4.85% | **₱33,711,803** | ₱37,247,830 |
| TVI | | | | |
| Financial institutions - secured | 5.56% to 9.00% | 5.56% to 9.00% | **29,418,667** | 31,520,000 |
| AESI | | | | |
| Financial institutions - secured | 4.87% | – | **600,000** | – |
| TSI | | | | |
| Financial institutions - secured | 5.26% | 5.05% - 5.70% | **18,729,025** | 20,039,365 |
| APRI | | | | |
| Financial institutions - secured | 4.48% - 5.20% | 4.48% - 5.20% | **6,873,920** | 8,124,160 |
| Hedcor Bukidnon | | | | |
| Financial institutions - secured | 4.00% - 5.34% | 4.75% - 7.36% | **9,315,000** | 9,416,666 |
| TPVI | | | | |
| Financial institutions - unsecured | 3.32%-5.06% | 5.06%-5.25% | **1,500,000** | 1,300,000 |
| Hedcor Sibulan | | | | |
| Fixed rate corporate notes - unsecured | 4.63% - 5.42% | 4.05% - 5.42% | **3,702,401** | 3,801,400 |
| HI | | | | |
| Financial institution - secured | 7.41% | 7.41% | **423,000** | 423,000 |
| Financial institution - secured | 7.87% | 7.87% | **1,207,000** | 1,327,000 |
| VECO | | | | |
| Financial institution - unsecured | 4.73% - 4.81% | 4.59% - 4.81% | **579,000** | 776,000 |
| LHC | | | | |
| Financial institutions - secured | 2.25% to 4.81% | 3.94% - 4.81% | **271,330** | 564,580 |
| DLP | | | | |
| Financial institution - unsecured | 4.73% to 4.92% | 4.59% - 4.81% | **434,250** | 582,000 |
| AI | | | | |
| AEV - unsecured (see Note 31) | 3.50% | 4.60% - 6.25% | **300,000** | 300,000 |
| SEZ | | | | |
| Financial institution - unsecured | 5.00% | 5.00% | **56,500** | 113,000 |
| CLP | | | | |
| Financial institution - unsecured | 4.73% to 4.92% | 4.59% - 4.81% | **86,850** | 116,400 |
| Joint operation (see Note 10): | | | | |
| Financial institutions - secured | 5.50% - 8.31% | 5.50% - 8.31% | **12,251,259** | 13,380,097 |
| | | | **178,816,905** | 179,671,998 |
| Less deferred financing costs | | | **1,495,573** | 1,700,376 |
| | | | **177,321,332** | 177,971,622 |
| Less current portion - net of deferred financing costs | | | **17,254,213** | 10,386,311 |
| | | | **₱160,067,119** | ₱167,585,311 |

**London Interbank Offered Rate (LIBOR)*

Interest expense and other financing costs on long-term debt amounted to ₱9.98 billion in 2020, ₱8.65 billion in 2019, and ₱6.86 billion in 2018 (see Note 32).

Company

In September 2014, the Company issued a total of ₱10.00 billion bonds, broken down into a ₱6.60 billion 7-year bond due 2021 at an annual fixed rate equivalent to 5.21% and a ₱3.40 billion 12-year bond due 2026 at an annual fixed rate equivalent to 6.10%. The bonds have been rated PRS Aaa by PhilRatings.

In July 2017, the Company issued a ₱3.00 billion 10-year bond due 2027 at an annual fixed rate equivalent to 5.34%. The bonds have been rated PRS Aaa by PhilRatings.

In October 2018, the Company issued a total of ₱10.20 billion bonds, broken down into a ₱7.70 billion 5.25-year bond due 2024 at an annual fixed rate equivalent to 7.51% and a ₱2.50 billion 7-year bond due 2025 at an annual fixed rate equivalent to 8.51%. The bonds have been rated PRS Aaa by PhilRatings.

In October 2019, the Company issued ₱7.25 billion 7-year bond due 2026 at a fixed rate of 5.28% The bonds have been rated PRS Aaa by PhilRatings.

In July 2020, the Company issued the fourth and last tranche of its ₱30.00 billion debt securities program amounting to ₱9.55 billion, broken down into a ₱9.00 billion 2-year bond due 2022 at an annual fixed rate equivalent to 3.13% and a ₱550.00 million 5-year bond due 2025 at an annual fixed rate equivalent to 3.94%. The bonds have been rated PRS Aaa by PhilRatings.

The principal amount of the bonds shall be payable on a lump sum basis on the respective maturity date at its face value. These bonds may be redeemed in advance by the Company based on stipulated early redemption option dates and on agreed early redemption price.

In April 2019, the Company executed and availed a US$300,000,000 syndicated bridge loan facility loan agreement with DBS Bank Ltd., Mizuho Bank, Ltd., MUFG Bank, Ltd., and Standard Chartered Bank as lead arrangers and bookrunners to finance the AA Thermal, Inc. acquisition. The loan bears a floating interest based on credit spread over applicable LIBOR plus 1.2% margin. The loan will mature on the 5th anniversary of the first utilization date.

In November 2019, the Company obtain a ₱5.0 billion 7-year long term loan from the BDO Unibank, Inc. at a fixed rate of 5.28% p.a.

GMEC

On August 29, 2017, GMEC entered into a Notes Facility Agreement (NFA) with local banks with BDO Capital and Investment Corporation as Lead Arranger, with the maximum principal amount of $800.0 million, the proceeds of which will be used to refinance GMEC's existing loan obligation and for other general corporate purposes.

On September 29, 2017, $600.0 million was drawn from the NFA, out of which $462.4 million was used to prepay the outstanding loans. In February 2018, the remaining principal amount of $200.0 million was drawn from the NFA.

GMEC also has an existing facility agreement with BDO to finance the GMEC's working capital requirements.

Loans payable consist of the following dollar denominated loans:

| | 2020 | 2019 | Interest Rate Per Annum | Payment Schedule |
|---|---|---|---|---|
| *NFA* | | | | |
| Fixed Rate Loan | $420,818 | $448,164 | (i) Fixed rates of 2.5514% and 3.4049% plus 1.45% margin for the first seven-year period and (ii) Fixed Rate Loan Benchmark plus 1.45% margin for the subsequent five-year period | 24 semi-annual payments starting from the first Interest Payment Date |
| LIBOR Loan | 251,175 | 267,450 | Six-month LIBOR plus 1.70% margin | 24 semi-annual payments starting from the first Interest Payment Date |
| *Working Capital* | | | | |
| BDO | 30,000 | 20,000 | LIBOR plus 1.7% applicable margin | Payable within three months |
| Total borrowings | 701,993 | 735,614 | | |
| Less unamortized portion of deferred financing costs | 4,151 | 4,017 | | |
| | 697,842 | 731,597 | | |
| Less current portion | 67,984 | 63,583 | | |
| Loans payable - net of current portion | $629,858 | $668,014 | | |

TVI

On June 18, 2015, TVI entered into an omnibus agreement with local banks for a project loan facility with an aggregate principal amount of ₱31.97 billion. As of December 31, 2020 and 2019, ₱31.52 billion has been drawn from the loan facility.

The loan is available in two tranches, as follows:

- Tranche A, in the amount of ₱25.60 billion, with interest rate fixed for the first eight years and will be repriced and fixed for another seven years.
- Tranche B, in the amount of ₱5.90 billion, with a fixed interest rate for fifteen years.

70% of the principal amount of the loan is payable in 20 equal semi-annual installments, with the remaining 30% payable in full on the final maturity date. TVI may prepay the loan in part or in full beginning on the end of the fourth year from the initial advance or on the project completion date, whichever is earlier. Any prepayment shall be subject to a certain percentage of prepayment penalty on the principal to be prepaid.

The loan is secured by a mortgage of all its assets with carrying amount of ₱44.85 billion as of December 31, 2020, and a pledge of TVI's shares of stock held by its shareholders.

AESI

On April 8, 2020, AESI entered into a loan agreement with BPI with a principal amount of ₱600.0 million, which was fully drawn in 2020. The term of the loan is 10 years and interest is fixed at 4.87% for 5 years subject to reset 2 days prior to the 5th anniversary. The loan is payable in equal, semi-annual amortizations of at least one percent (1%) of the loan amount per annum, with balloon payment at maturity date.

TSI
On October 14, 2013, TSI entered into an omnibus agreement with local banks for a project loan facility with an aggregate principal amount of ₱24.00 billion, which was fully drawn in 2014.

On October 28, 2015, TSI entered into an additional loan agreement with principal amount of ₱1.68 billion, which was fully drawn in 2016.

The loan is secured by a mortgage of all its assets with carrying amount of ₱29.73 billion as of December 31, 2020, and a pledge of TSI's shares of stock held by the Company and TPI.

Interest rate is fixed for the first seven years and will be repriced and fixed for another five years.

Fifty percent of the principal amount of the loan is payable at semi-annual installments within 12 years with a two-year grace period, with the remaining 50% payable in full on the final maturity date.

TSI may prepay the loan in part or in full beginning on the end of the third year from the initial advance or on the project completion date, whichever is earlier. Any prepayment shall be subject to a certain percentage of prepayment penalty on the principal to be prepaid.

APRI
On February 29, 2016, APRI entered into an omnibus agreement with BPI, Asian Development Bank (ADB) and Credit Guarantee and Investment Facility (CGIF). This has been certified to have met the requirements of the Climate Bond Standard. The loan proceeds were used for return of equity to shareholders and to fund necessary operating and capital expenditures.

The loan is available in two tranches, as follows:
a. The Notes Facility Agreement, in the amount of ₱10.7 billion, with interest rate already fixed for ten years. 41.6% of the principal amount is payable in ten equal semi-annual installments and the balance payable in another ten semi-annual installments
b. The ADB Facility Agreement, in the amount of ₱1.8 billion, with interest rate fixed for five years and principal repayments made in ten equal semi-annual installments.

The loan is secured by mortgage of its assets with carrying amount of ₱24.98 billion as of December 31, 2020, and pledge of APRI's shares of stock held by shareholders and assignment of Project Agreements and Project Accounts.

Hedcor Bukidnon
On September 22, 2015, Hedcor Bukidnon entered into an omnibus agreement with local banks for a project loan facility with an aggregate principal amount of up to ₱10.00 billion. As of December 31, 2019, ₱9.33 billion has been drawn from the loan facility based on the agreed schedule.

The term of the loan is 15 years, and the first principal repayment will take place 42 months after the financial close, or six months after project completion. Principal repayments shall be made in equal semi-annual installments, with a balloon payment not to exceed 30% of the loan amount. Interest rate on the loan is computed at the time of each drawdown, as designated under the agreement.

On April 3, 2020, Hedcor Bukidnon entered into a loan agreement with BPI, up to the maximum principal amount of ₱225.00 million which was fully drawn in 2020, for the construction of the Transformer Facility and other general corporate purposes.

The term of the loan is 8 years and the loan shall be paid as follows: (i) payment of an aggregate amount equivalent to 70% of the total principal amount of the loans, by equal semi-annual amortizations beginning on the seventh interest payment date up to and including the maturity date; and (ii) payment of the amount equivalent to 30% of the total principal amount of the loans, on the maturity date.

On September 29, 2020, Hedcor Bukidnon entered into an omnibus agreement for a loan facility in the principal amount of ₱9.09 billion which was fully drawn in 2020 to refinance the project loan availed in 2015.

The term of the loan is 10 years and the loan shall be paid as follows: (i) payment of an aggregate amount equivalent to 70% of the total original amount of the Loan, by equal semi-annual amortizations beginning on the first interest payment date up to and including the Maturity Date; and (ii) payment of the amount equivalent to 30% of the total original amount of the loan, on the maturity date.

TPVI

On December 23, 2019, TPVI entered into a Loan Agreement with the Philippine National Bank (PNB) for an aggregate amount of ₱1.5 billion available in two drawdowns. The loan proceeds will be utilized, among others, in funding necessary operating and capital expenditures. Drawdowns were made on December 26, 2019 and April 27, 2020 for ₱1.3 billion and ₱200 million respectively. The loan is payable for 15 years, with a grace period of 3 years. The mode of repayment is sculpted with balloon payment of 70%.

TPVI will pay PNB a fixed interest rate for the first 8 years, with the rate being expected to go up to 5.25% for the rest of the term due to: (1) continued inflation, and; (2) liquidity tightness due to funds held and additional borrowings by the Bureau of Treasury. The interest is payable semi-annually, every 30th of June and 31st of December.

Hedcor Sibulan

On November 17, 2016, Hedcor Sibulan entered into an NFA with various institutions with Metrobank - Trust Banking Group as the Notes Facility Agent, for a loan facility with an aggregate principal amount of up to ₱4.10 billion to return equity to shareholders, and for other general corporate purposes.

The unsecured notes were issued in ten tranches with interest payable semi-annually at annual fixed rates and with principal maturity as follows:

| Tranche | Maturity Date | Principal Amount |
|---|---|---|
| 1 | Fifteen months from issue date | ₱96.8 million |
| 2 | Two (2) years from issue date | ₱96.8 million |
| 3 | Three (3) years from issue date | ₱84.0 million |
| 4 | Four (4) years from issue date | ₱84.0 million |
| 5 | Five (5) years from issue date | ₱284.0 million |
| 6 (Series A&B) | Six (6) years from issue date | ₱388.4 million |
| 7 (Series A&B) | Seven (7) years from issue date | ₱445.8 million |
| 8 | Eight (8) years from issue date | ₱451.4 million |
| 9 | Nine (9) years from issue date | ₱508.1 million |
| 10 (Series A&B) | Ten (10) years from issue date | ₱1,560.7 million |

Prior to maturity date, Hedcor Sibulan may redeem in whole or in part the relevant outstanding notes on any interest payment date plus a one percent prepayment penalty.

HI

On August 6, 2013, HI availed of a ten-year ₱900 million loan from a local bank. This loan is subject to a semi-annual principal payment with fixed annual interest rate for the first 5 years. For the remaining five years, interest rate will be repriced and fixed on the fifth anniversary from the drawdown date. The debt is secured by a pledge of HI's shares of stock held by ARI.

On December 14, 2018, HI entered into a Notes Facility Agreement with a local bank to borrow ₱1.39 billion, which will mature on August 31, 2033, to finance the rehabilitation and/or expansion of the Bineng hydropower plant, refinance its short-term loans and for other general corporate purposes. This loan is subject to a semi-annual principal payment with annual interest fixed at 7.87% for the first 5 years. For the next five years, interest rate will be repriced and fixed one banking day prior to August 31, 2023. For the remaining five years, interest rate will be repriced and fixed one banking day prior to August 31, 2028. The debt is secured by a continuing suretyship from ARI.

VECO

On December 20, 2013, VECO availed of a ₱2.00 billion loan from the NFA it signed on December 17, 2013 with Land Bank of the Philippines (LBP). The unsecured notes were issued in ten tranches of ₱200 million with interest payable semi-annually at annual fixed rates and principal amortized as follows:

| Tranche | Maturity Date | Principal Repayment Amount |
|---|---|---|
| A, B | December 20, 2014 and 2015 | ₱200M balloon payment on maturity date |
| C | December 20, 2016 | ₱1M each on first 2 years; 198M on maturity date |
| D | December 20, 2017 | ₱1M each on first 3 years; 197M on maturity date |
| E | December 20, 2018 | ₱1M each on first 4 years; 196M on maturity date |
| F | December 20, 2019 | ₱1M each on first 5 years; 195M on maturity date |
| G | December 20, 2020 | ₱1M each on first 6 years; 194M on maturity date |
| H | December 20, 2021 | ₱1M each on first 7 years; 193M on maturity date |
| I | December 20, 2022 | ₱1M each on first 8 years; 192M on maturity date |
| J | December 20, 2023 | ₱1M each on first 9 years; 191M on maturity date |

Prior to maturity date, VECO may redeem in whole or in part the relevant outstanding notes on any interest payment date without premium or penalty. If it redeems the notes on a date other than an interest payment date, then a certain percentage of prepayment penalty on the principal amount to be prepaid shall be imposed.

LHC
On April 24, 2012, LHC entered into an omnibus agreement with Philippine National Bank and Banco De Oro to borrow US$43.1 million with maturity on April 26, 2022 and payable in 20 semi-annual installments. Interest is repriced and paid semi-annually. Annual interest rate ranges from 2.250% to 4.8125% in 2020 and range from 3.9375% to 4.8125% in 2019.

Intangible asset arising from service concession arrangement with carrying value of ₱1.27 billion as of December 31, 2020, was used as collateral to secure LHC's long-term debt (see Note 12).

DLP
On December 20, 2013, DLP availed of a ₱1.50 billion loan from the NFA it signed on December 17, 2013 with LBP. The unsecured notes were issued in ten tranches of ₱150 million with interest payable semi-annually at annual fixed rates and principal amortized as follows:

| Tranche | Maturity Date | Principal Repayment Amount |
|---|---|---|
| A, B | December 20, 2014 and 2015 | ₱150M balloon payment on maturity date |
| C | December 20, 2016 | ₱0.75M each on first 2 years; 148.5M on maturity date |
| D | December 20, 2017 | ₱0.75M each on first 3 years; 147.8M on maturity date |
| E | December 20, 2018 | ₱0.75M each on first 4 years; 147M on maturity date |
| F | December 20, 2019 | ₱0.75M each on first 5 years; 146.2M on maturity date |
| G | December 20, 2020 | ₱0.75M each on first 6 years; 145.5M on maturity date |
| H | December 20, 2021 | ₱0.75M each on first 7 years; 144.8M on maturity date |
| I | December 20, 2022 | ₱0.75M each on first 8 years; 144M on maturity date |
| J | December 20, 2023 | ₱0.75M each on first 9 years; 143.2M on maturity date |

Prior to maturity date, DLP may redeem in whole or in part the relevant outstanding notes on any interest payment date without premium or penalty. If it redeems the notes on a date other than an interest payment date, then a certain percentage of prepayment penalty on the principal amount to be prepaid shall be imposed.

SEZ
On July 7, 2011, SEZ issued ₱565.0 million worth of fixed rate notes to Metropolitan Bank and Trust Company. Interest on the notes is subject to quarterly payment at 5% annual fixed interest rate. Principal is payable annually over 10 years at an equal amortization of ₱56.5 million.

CLP
On December 20, 2013, CLP availed of a ₱300 million loan from the NFA it signed on December 17, 2013 with LBP. The unsecured notes were issued in ten tranches of ₱30.0 million with interest payable semi-annually at annual fixed rates and principal amortized as follows:

| Tranche | Maturity Date | Principal Repayment Amount |
|---|---|---|
| A, B | December 20, 2014 and 2015 | ₱150M balloon payment on maturity date |
| C | December 20, 2016 | ₱0.75M each on first 2 years; 148.5M on maturity date |
| D | December 20, 2017 | ₱0.75M each on first 3 years; 147.8M on maturity date |
| E | December 20, 2018 | ₱0.75M each on first 4 years; 147M on maturity date |
| F | December 20, 2019 | ₱0.75M each on first 5 years; 146.2M on maturity date |
| G | December 20, 2020 | ₱0.75M each on first 6 years; 145.5M on maturity date |
| H | December 20, 2021 | ₱0.75M each on first 7 years; 144.8M on maturity date |
| I | December 20, 2022 | ₱0.75M each on first 8 years; 144M on maturity date |
| J | December 20, 2023 | ₱0.75M each on first 9 years; 143.2M on maturity date |

Prior to maturity date, CLP may redeem in whole or in part the relevant outstanding notes on any interest payment date without premium or penalty. If it redeems the notes on a date other than an interest payment date, then a certain percentage of prepayment penalty on the principal amount to be prepaid shall be imposed.

Long-term debt of Joint Operation (see Note 10)
This pertains to TPI's share of the outstanding project debt of its joint operation.

In May 2014, PEC entered into an omnibus agreement with various local banks for a loan facility in the aggregate principal amount of up to ₱33.31 billion with maturity period of 15 years.

The loan facility is subject to a semi-annual interest payment with annual fixed interest ranging from 5.50% - 8.31%. The loans may be voluntarily prepaid in full or in part commencing on and from the third year of the date of initial drawdown with a prepayment penalty.

The loans are secured by a mortgage of substantially all its assets with carrying amount of ₱36.40 billion as of December 31, 2020, and a pledge of the shares of stock held by the joint operators.

Loan covenants
The loan agreements on long-term debt of the Group provide for certain restrictions with respect to, among others, mergers or consolidations or other material changes in their ownership, corporate set-up or management, investment and guaranties, incurrence of additional debt, disposition of mortgage of assets, payment of dividends, and maintenance of financial ratios at certain levels.

These restrictions and requirements were complied with by the Group as of December 31, 2020 and 2019.

## 17. Customers' Deposits

| | 2020 | 2019 |
|---|---|---|
| Lines and poles | **₱1,187,053** | ₱1,149,552 |
| Transformers | **1,085,294** | 1,077,175 |
| Bill and load | **4,526,498** | 4,294,742 |
| | **₱6,798,845** | ₱6,521,469 |

Transformers and lines and poles deposits are obtained from certain customers principally as cash bond for their proper maintenance and care of the said facilities while under their exclusive use and responsibility.

Effective April 1, 2010, the Amended Distribution Services and Open Access Rules (Amended DSOAR), increased the refund rate from 25% to 75% of the gross distribution revenue generated from the extension lines and facilities until such amounts are fully refunded.

Bill deposit serves to guarantee payment of bills by a customer which is estimated to equal one month's consumption or bill of the customer.

Both the Magna Carta and Distribution Services and Open Access Rules (DSOAR) also provide that residential and non-residential customers, respectively, must pay a bill deposit to guarantee payment of bills equivalent to their estimated monthly billing. The amount of deposit shall be adjusted after one year to approximate the actual average monthly bills. A customer who has paid his electric bills on or before due date for three consecutive years, may apply for the full refund of the bill deposit, together with the accrued interests, prior to the termination of his service; otherwise, bill deposits and accrued interests shall be refunded within one month from termination of service, provided all bills have been paid.

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

Interest expense on customers' deposits amounted to ₱4.0 million in 2020, ₱4.4 million in 2019, ₱2.1 million in 2018 (see Note 32).

The Group classified customers' deposit under noncurrent liabilities due to the expected long-term nature of these deposits. The portion of customers' deposit to be refunded within the next 12 months amounted to ₱23.4 million and ₱19.4 million as of December 31, 2020 and 2019, respectively, and are presented as part of "Trade and other payables" (see Note 14).

## 18. Decommissioning Liability

Decommissioning Liability includes the estimated costs to decommission, abandon and perform surface rehabilitation on the steam field assets at the end of their useful lives, and the best estimate of the expenditure required to settle the obligation to decommission power plant at the end of its lease term (see Note 11).

| | 2020 | 2019 |
|---|---|---|
| Balances at beginning of year | **₱3,567,492** | ₱3,678,810 |
| Change in accounting estimate (see Note 11) | **1,158,166** | (321,948) |
| Additions (see Note 11) | **158,184** | — |
| Accretion of decommissioning liability (see Note 32) | **124,191** | 210,630 |
| Balances at end of year | **₱5,008,033** | ₱3,567,492 |

The actual dismantling and removal cost could vary substantially from the above estimate because of new regulatory requirements, changes in technology, increased cost of labor, materials, and equipment or actual time required to complete all dismantling and removal activities. Adjustment, if any, to the estimated amount will be recognized prospectively as they become known and reliably estimable.

## 19. Equity

a. Paid-in Capital (number of shares in disclosed figures)

| | 2020 | 2019 |
|---|---|---|
| **Capital Stock** | | |
| Authorized - ₱1 par value | | |
| Common shares - 16,000,000,000 shares | | |
| Preferred shares - 1,000,000,000 shares | | |
| Issued | | |
| Common shares - 7,358,604,307 shares | **₱7,358,604** | ₱7,358,604 |
| **Additional Paid-in Capital** | **12,588,894** | 12,588,894 |
| | **₱19,947,498** | ₱19,947,498 |

On May 25, 2007, the Company listed with the PSE its 7,187,664,000 common shares with a par value of ₱1.00 to cover the initial public offering (IPO) of 1,787,664,000 common shares at an issue price of ₱5.80 per share. On March 17, 2008, the Company listed an additional 170,940,307 common shares, which it issued pursuant to a share swap agreement at the IPO price of ₱5.80 per share. The total proceeds from the issuance of new shares amounted to ₱10.37 billion. The Company incurred transaction costs incidental to the initial public offering amounting to ₱412.4 million, which is charged against "Additional paid-in capital" in the consolidated balance sheets.

As of December 31, 2020, 2019 and 2018, the Company has 598, 631 and 629 shareholders, respectively.

Preferred shares are non-voting, non-participating, non-convertible, redeemable, cumulative, and may be issued from time to time by the BOD in one or more series. The BOD is authorized to issue from time to time before issuance thereof, the number of shares in each series, and all the designations, relative rights, preferences, privileges and limitations of the shares of each series. Preferred shares redeemed by the Company may be reissued. Holders thereof are entitled to receive dividends payable out of the unrestricted retained earnings of the Company at a rate based on the offer price that is either fixed or floating from the date of the issuance to final redemption. In either case, the rate of dividend, whether fixed or floating, shall be referenced, or be a discount or premium, to market-determined benchmark as the BOD may determine at the time of issuance with due notice to the SEC.

In the event of any liquidation or dissolution or winding up of the Company, the holders of the preferred stock shall be entitled to be paid in full the offer price of their shares before any payment in liquidation is made upon the common stock.

There are no preferred shares issued and outstanding as of December 31, 2020 and 2019.

b. Retained Earnings

As of December 31, 2020 and 2019, the Company has an appropriated retained earnings amounting to ₱33.66 billion with regard to the development and construction of power plants. The BOD has approved the appropriation of ₱11.90 billion, ₱13.16 billion and ₱20.90 billion on March 7, 2019, November 24, 2016 and November 27, 2014, respectively. On March 7, 2019, the BOD also approved the reversal of ₱12.30 billion retained earnings appropriation that was set up in 2014.

On March 8, 2018, the BOD approved the declaration of regular cash dividends of ₱1.39 a share (₱10.23 billion) to all stockholders of record as of March 22, 2018. These dividends were paid on April 12, 2018.

On March 7, 2019, the BOD approved the declaration of regular cash dividends of ₱1.47 a share (₱10.82 billion) to all stockholders of record as of March 21, 2019. These dividends were paid on April 5, 2019.

On March 6, 2020, the BOD approved the declaration of regular cash dividends of ₱1.18 a share (₱8.68 billion) to all stockholders of record as of March 20, 2020. These dividends were paid on April 3, 2020.

On March 5, 2021, the BOD approved the reversal of a total of ₱13.60 billion appropriation of retained earnings.

To comply with the requirements of Section 43 of the Corporation Code, on March 5, 2021, the BOD approved the declaration of regular cash dividends of ₱0.85 a share (₱6.25 billion) to all stockholders of record as of March 19, 2021. The cash dividends are payable on March 31, 2021

c. The balance of retained earnings includes the accumulated equity in net earnings of subsidiaries, associates and joint arrangement amounting to ₱65.96 billion and ₱57.57 billion as of December 31, 2020 and 2019, respectively. Such amounts are not available for distribution until such time that the Company receives the dividends from the respective subsidiaries, associates and joint arrangement (see Note 9).

## 20. Sale of Power

Sale from Distribution of Power

1. The Uniform Rate Filing Requirements on the rate unbundling released by the Energy Regulatory Commission (ERC) on October 30, 2001, specified that the billing for sale and distribution of power and electricity will have the following components: Generation Charge, Transmission Charge, System Loss Charge, Distribution Charge, Supply Charge, Metering Charge, the Currency Exchange Rate Adjustment and Interclass and Lifeline Subsidies. National and local franchise taxes, the Power Act Reduction (for residential customers) and the Universal Charge are also separately indicated in the customer's billing statements.

2. Pursuant to Section 43(f) of Republic Act (R.A.) No. 9136, otherwise known as the Electric Power Industry Reform Act of 2001 (EPIRA), and Rule 15, section 5(a) of its Implementing Rules and Regulations (IRR), the ERC promulgated the Distribution Wheeling Rates Guidelines on December 10, 2004. These were subsequently updated and released on July 26, 2006 as the Rules for Setting Distribution Wheeling Rates (RDWR) for Privately Owned Utilities entering Performance Based Regulation (PBR).

   Details of the PBR regulatory period and the date of implementation of the approved rates are as follows:

| | CLP | DLP | VECO | SEZ |
|---|---|---|---|---|
| Current regulatory period | April 1, 2009 to March 31, 2013 | July 1, 2010 to June 30, 2014 | July 1, 2010 to June 30, 2014 | October 1, 2011 to September 30, 2015 |
| Date of implementation of approved distribution supply and metering | May 1, 2009 | August 1, 2010 | August 1, 2010 | November 26, 2011 |

   The reset process for the Third Regulatory Period to adjust the previously approved distribution supply and metering charges were deferred due to the changes on PBR rules.

   Through ERC Resolution No. 25 Series of 2016 dated July 12, 2016, the ERC adopted the Resolution Modifying the RDWR. Based on this Resolution, the Fourth Regulatory Period shall be as follows:

   (i) CLP: April 1, 2017 to March 31, 2021
   (ii) DLP and VECO: July 1, 2018 to June 30, 2022
   (iii) SEZ: October 1, 2019 to September 30, 2023

   The reset process for the Fourth Regulatory Period has not started for all private DUs as the above-mentioned ERC rules have not been published, which is a condition for their effectivity.

   Total sale from distribution of power amounted to ₱41.87 billion, ₱46.12 billion, and ₱44.88 billion in 2020, 2019 and 2018, respectively.

Sale from Generation of Power and Retail Electricity

a. Energy Trading through the Philippine Wholesale Electricity Spot Market (WESM)
Certain subsidiaries are trading participants and direct members under the generator sector of the WESM. These companies are allowed to access the WESM Market Management System through its Market Participant Interface (MPI). The MPI is the facility that allows the trading participants to submit and cancel bids and offers, and to view market results and reports. Under its price determination methodology as approved by the ERC, locational marginal price method is used in computing prices for energy bought and sold in the market on a per node, per hour basis. In the case of bilateral power supply contracts, however, the involved trading participants settle directly with their contracting parties.

Total sale of power to WESM amounted to ₱6.37 billion in 2020 and 2019 and ₱6.77 billion in 2018.

b. Power Supply Agreements
   i. *Power Supply Contracts assumed under Asset Purchase Agreement (APA) and IPP Administration Agreement*
   Revenue recognition for customers under the power supply contracts assumed under the APA and IPP Administration Agreements are billed based on the contract price which is calculated based on the pricing structure approved by the ERC. Rates are calculated based on the time-of-use pricing schedule with corresponding adjustments using the GRAM and the ICERA.

   ii. *Power Purchase/Supply Agreement and Energy Supply Agreement (PPA/PSA and ESA)*
   Certain subsidiaries have negotiated contracts with NPC, Private Distribution Utilities, Electric Cooperatives and Commercial and Industrial Consumers referred to as PPA/PSA or ESA. These contracts provide a tariff that allows these companies to charge for capacity fees, fixed operating fees and energy fees.

   iii. Feed-in-Tariff (FIT)

   Certain subsidiaries were issued a FIT Certificate of Compliance from the ERC which entitles them to avail the FIT rate. These subsidiaries also signed agreements with the National Transmission Corporation (NTC), the FIT administrator. These agreements enumerate the rights and obligations under the FIT rules and FIT-All guidelines, in respect to the full payment of the actual energy generation of the generator, at a price equivalent to the applicable FIT rate, for the entire duration of its FIT eligibility period.

Total sale of power under power supply agreements amounted to ₱42.64 billion, ₱46.78 billion, and ₱54.24 billion in 2020, 2019, and 2018, respectively.

c. Retail Electricity Supply Agreements (see Note 39i)
Certain subsidiaries have negotiated contracts with contestable customers. These contracts provide supply and delivery of electricity where capacity fees, fixed operating fees and energy fees are at fixed price/kwh or time of use.

Total sale of power under retail electricity supply agreements amounted to ₱16.48 billion, ₱22.81 billion, and ₱24.22 billion in 2020, 2019 and 2018, respectively.

## 21. Purchased Power

Distribution
The Group's distribution utilities entered into contracts with NPC/PSALM and generation companies for the purchase of electricity, and into Transmission Service Agreements with NGCP for the transmission of electricity.

To avail of opportunities in the competitive electricity market, some of the Group's distribution utilities registered as direct participants of the WESM.

Total power purchases amounted to ₱19.98 billion, ₱21.81 billion, and ₱23.59 billion in 2020, 2019, 2018, respectively.

Generation
Purchased power takes place during periods when power generated from power plants are not sufficient to meet customers' required power as stated in the power supply contracts. Insufficient supply of generated energy results from the shutdowns due to scheduled maintenance or an emergency situation. The Group purchases power from WESM to ensure uninterrupted supply of power and meet the requirements in the power supply contracts.

The Group entered into Replacement Power Contracts with certain related parties (see Note 31). Under these contracts, the Group supplies power to counterparties when additional power is needed. Correspondingly, when faced with energy shortfalls, the Group purchases power from counterparties.

Total purchased power amounted to ₱7.71 billion, ₱7.60 billion, ₱4.87 billion in 2020, 2019 and 2018, respectively.

Retail Electricity Supply
AESI pays PSALM monthly generation payments using the formula specified in the IPP Administration Agreement. In October 2019, a compromise agreement with PSALM was effected, which includes the termination of supply and ₱125.0 million payment of AESI as termination fee.

The Group also purchases from WESM in order to supply its contestable customers.
Total purchased power amounted to ₱3.72 billion, ₱6.43 billion, ₱7.55 billion in 2020, 2019 and 2018, respectively.

## 22. Cost of Generated Power

| | **2020** | 2019 | 2018 |
|---|---|---|---|
| Fuel costs (see Note 7) | **₱19,650,746** | ₱29,394,773 | ₱29,423,013 |
| Steam supply costs (see Note 35a) | **2,974,611** | 5,008,607 | 5,227,807 |
| Energy fees | **565,676** | 694,696 | 646,317 |
| Ancillary charges | **225,916** | 360,095 | 355,260 |
| Wheeling expenses | **44,909** | 68,535 | 21,821 |
| | **₱23,461,858** | ₱35,526,706 | ₱35,674,218 |

## 23. General and Administrative

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| Personnel costs (see Note 25) | **₱3,078,045** | ₱2,641,365 | ₱2,647,636 |
| Taxes and licenses | **1,270,078** | 1,680,928 | 1,496,779 |
| Outside services (see Note 31) | **1,110,416** | 1,031,326 | 1,132,345 |
| Professional fees (see Note 31) | **832,866** | 814,149 | 608,107 |
| Provision for expected credit losses of trade receivables (see Note 6) | **719,193** | 87,086 | 235,818 |
| Repairs and maintenance | **282,432** | 306,316 | 420,524 |
| Corporate social responsibility (CSR) (see Note 39) | **231,208** | 299,595 | 308,918 |
| Insurance | **215,833** | 205,998 | 209,590 |
| Information technology and communication | **189,720** | 181,746 | 108,332 |
| Transportation and travel (see Note 31) | **141,427** | 206,861 | 230,658 |
| Rent (see Notes 31 and 34) | **72,463** | 44,916 | 224,758 |
| Advertisements | **42,294** | 33,798 | 41,768 |
| Training | **36,292** | 156,027 | 70,080 |
| Entertainment, amusement and recreation | **34,143** | 40,916 | 39,689 |
| Guard services | **18,577** | 25,570 | 2,960 |
| Market service and administrative fees | **3,397** | — | 30,818 |
| Freight and handling | **3,130** | 4,264 | 2,343 |
| Gasoline and oil | **452** | 1,020 | 1,631 |
| Supervision and regulatory fees | **—** | 584 | 797 |
| Others | **381,407** | 392,901 | 374,961 |
| | **₱8,663,373** | ₱8,155,366 | ₱8,188,512 |

"Others" include host community-related expenses, provision for probable losses, claims conversion costs and utilities expenses.

## 24. Operations and Maintenance

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| Repairs and maintenance | **₱2,208,522** | ₱2,076,988 | ₱1,659,288 |
| Taxes and licenses | **1,818,853** | 1,167,990 | 861,626 |
| Personnel costs (see Note 25) | **1,633,451** | 1,586,624 | 1,781,283 |
| Outside services | **1,479,641** | 1,276,255 | 974,425 |
| Insurance | **1,439,804** | 787,983 | 752,425 |
| Materials and supplies (see Note 7) | **287,717** | 275,814 | 201,903 |
| Transportation and travel | **73,479** | 104,858 | 37,444 |
| Rent (see Note 34) | **29,338** | 11,980 | 171,989 |
| Fuel and lube oil (see Note 7) | **18,111** | 77,880 | 84,806 |
| | **₱8,988,916** | ₱7,366,372 | ₱6,525,189 |

## 25. Personnel Costs

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| Salaries and wages | **₱3,969,607** | ₱3,105,859 | ₱3,798,218 |
| Employee benefits (see Note 26) | **741,889** | 1,122,130 | 630,701 |
| | **₱4,711,496** | ₱4,227,989 | ₱4,428,919 |

## 26. Pension Benefit Plans

Under the existing regulatory framework, RA 7641, otherwise known as *The Retirement Pay Law*, requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity. It further states that the employees' retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.

The Company and its subsidiaries have funded, non-contributory, defined retirement benefit plans ("Plan") covering all regular and full-time employees and requiring contributions to be made to separately administered funds. The retirement benefit fund ("Fund") of each subsidiary is in the form of a trust being maintained and managed by AEV, under the supervision of the Board of Trustees (BOT) of the Plan. The BOT, whose members are also corporate officers, is responsible for the investment of the Fund assets. Taking into account the Plan's objectives, benefit obligations and risk capacity, the BOT periodically defines the investment strategy in the form of a long-term target structure.

The following tables summarize the components of net benefit expense recognized in the consolidated statements of income and the funded status and amounts recognized in the consolidated balance sheets for the respective plans.

*Net benefit expense* (recognized as part of personnel costs under operations and maintenance and general and administrative expenses):

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| Current service cost | **₱194,202** | ₱179,269 | ₱189,906 |
| Net interest cost | **18,731** | 5,012 | 15,379 |
| Past service cost | **18,026** | (1,975) | (9,564) |
| | **₱230,959** | ₱182,306 | ₱195,721 |

*Remeasurement effects to be recognized in other comprehensive income:*

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| Actuarial gain (losses) due to: | | | |
| Changes in financial assumptions | **(₱235,343)** | (₱145,431) | ₱61,493 |
| Changes in demographic assumptions | **99,079** | 31,693 | 34,416 |
| Return on assets excluding amount included in net interest cost | **(278,058)** | (18,050) | (96,856) |
| Experience adjustments | **(50,244)** | (82,122) | 15,705 |
| | **(₱464,566)** | (₱213,910) | ₱14,758 |

*Net pension assets*

| | 2020 | 2019 |
|---|---|---|
| Fair value of plan assets | **₱128,558** | ₱342,117 |
| Present value of the defined benefit obligation | **(78,148)** | (273,908) |
| | **₱50,410** | ₱68,209 |

*Net pension liabilities*

| | 2020 | 2019 |
|---|---|---|
| Present value of the defined benefit obligation | **₱2,550,134** | ₱2,138,190 |
| Fair value of plan assets | **(2,256,048)** | (1,712,143) |
| | **₱294,086** | ₱426,047 |

Changes in the present value of the defined benefit obligation are as follows:

| | 2020 | 2019 |
|---|---|---|
| At January 1 | ₱2,412,098 | ₱2,177,176 |
| Net benefit expense: | | |
| Current service cost | 194,202 | 179,269 |
| Net interest cost | 118,744 | 129,804 |
| Past service cost | 18,026 | (1,975) |
| | 330,972 | 307,098 |
| Benefits paid from retirement fund | (204,157) | (271,204) |
| Benefits paid from operating funds | (95,233) | — |
| Foreign exchange translation differences | (2,028) | — |
| Transfers and others | 122 | 3,168 |
| Remeasurements in other comprehensive income: | | |
| Actuarial losses (gains) due to: | | |
| Experience adjustments | 50,244 | 82,122 |
| Changes in demographic assumptions | (99,079) | (31,693) |
| Changes in financial assumptions | 235,343 | 145,431 |
| | 186,508 | 195,860 |
| At December 31 | ₱2,628,282 | ₱2,412,098 |

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

| | 2020 | 2019 |
|---|---|---|
| At January 1 | ₱2,054,260 | ₱2,059,296 |
| Contribution by employer | 712,423 | 156,252 |
| Interest income included in net interest cost | 100,013 | 124,792 |
| Fund transfer from affiliates | 122 | 3,174 |
| Foreign exchange translation differences | 3 | — |
| Return on assets excluding amount included in net interest cost | (278,058) | (18,050) |
| Benefits paid | (204,157) | (271,204) |
| At December 31 | ₱2,384,606 | ₱2,054,260 |

Changes in net pension liability recognized in the consolidated balance sheets are as follows:

| | 2020 | 2019 |
|---|---|---|
| At January 1 | ₱357,838 | ₱117,880 |
| Retirement expense during the year | 230,959 | 182,306 |
| Transfers and others | — | (6) |
| Benefits paid from operating funds | (95,233) | — |
| Contribution to retirement fund | (712,423) | (156,252) |
| Actuarial loss recognized during the year | 464,566 | 213,910 |
| Foreign exchange translation differences | (2,031) | — |
| At December 31 | ₱243,676 | ₱357,838 |

The fair value of plan assets by each class as at the end of the reporting period are as follows:

| | 2020 | 2019 |
|---|---|---|
| Cash and fixed-income investments | ₱— | ₱473,840 |
| Financial assets at FVOCI | 1,096,076 | 715,814 |
| Financial assets at amortized cost | 1,116,973 | 394,522 |
| Financial assets at FVTPL | 58,342 | — |
| Equity instruments: | | |
| Financial Institution | 28,268 | 31,551 |
| Power | 97,085 | 145,155 |
| Holding | 140,144 | 147,253 |
| Others | (152,282) | 146,125 |
| | 2,384,606 | 1,580,420 |
| Fair value of plan assets | ₱2,384,606 | ₱2,054,260 |

All equity instruments held have quoted prices in active market. The remaining plan assets do not have quoted market prices in active market.

The plan assets are diverse and do not have any concentration risk.

The BOT reviews the performance of the plans on a regular basis. It assesses whether the retirement plans will achieve investment returns which, together with contributions, will be sufficient to pay retirement benefits as they fall due. The Group also reviews the solvency position of the different member companies on an annual basis and estimates, through the actuary, the expected contribution to the Retirement plan in the subsequent year.

The principal assumptions used in determining pension benefit obligations for the Group's plans are shown below:

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| Discount rates | 2.75%-4.87% | 4.36%-6.0% | 4.87%-8.18% |
| Salary increase rates | 6.00% | 6.00% | 7.00% |

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of December 31, 2020, assuming if all other assumptions were held constant:

| | Increase (decrease) in basis points | Effect on defined benefit obligation |
|---|---|---|
| Discount rates | 100 | (₱124,887) |
| | (100) | 144,856 |
| Future salary increases | 100 | 148,583 |
| | (100) | (130,835) |

The Group's defined benefit pension plans are funded by the Company and its subsidiaries.

The Group expects to contribute ₱177.1 million to the defined benefit plans in 2021. The average durations of the defined benefit obligation as of December 31, 2020 and 2019 are 7.16 to 22.90 years and 7.0 to 22.02 years, respectively.

## 27. Other Income (Expense) - Net

| | **2020** | 2019 | 2018 |
|---|---|---|---|
| Net foreign exchange gain (loss) | **₱754,108** | ₱1,130,743 | (₱2,055,085) |
| Surcharges | **447,703** | 536,856 | 508,492 |
| Non-utility operating income | **142,013** | 170,640 | 142,363 |
| Unrealized fair valuation gains on investment property | **115,829** | 126,842 | — |
| Rental income | **31,586** | 67,854 | 42,290 |
| Write off of project costs and other assets | — | (31,431) | (50,922) |
| Losses on disposal of property, plant and equipment | **(88,227)** | (304,631) | (292,799) |
| Reversal of impairment (losses) recovery on property, plant and equipment, goodwill and other assets | **(7,240)** | 245,489 | (847,619) |
| Others - net | **3,532,791** | 1,541,025 | 1,260,969 |
| | **₱4,928,563** | ₱3,483,387 | (₱1,292,311) |

Included in "Net foreign exchange gain (loss)" are the net gains and losses relating to currency forward transactions (see Note 33).

Reversal of (impairment) losses on property, plant and equipment, goodwill and other assets includes:

- The income from the 2019 recovery of a certain Aseagas asset previously impaired in 2017 amounting to ₱245.5 million.

- This includes the ₱486.5 million net book value of the Bajada Power Plant which was fully impaired when it ceased operations in 2018 and the loss of ₱282.3 million from recognizing the recoverable amount of transmission assets which were classified as property held for sale.

"Others" include insurance claims from plant outages of TSI of ₱1.8 billion and liquidating damages from contractor due to the delay of the completion of TVI's power plant of ₱611.0 million in 2020, reversal of APRI and TLI's liability to PSALM pertaining to GRAM/ICERA collection of ₱924.0 million in 2019 and income arising from the proceeds from claims of liquidating damages from contractor due to the delay of the completion of PEC's power plant amounting to ₱340.7 million in 2018. "Others" also include non-recurring items like sale of scrap and sludge oil, and reversal of provisions.

## 28. Income Tax

The provision for income tax account consists of:

| | **2020** | 2019 | 2018 |
|---|---|---|---|
| Current: | | | |
| Corporate income tax | **₱4,622,913** | ₱3,460,636 | ₱3,713,410 |
| Final tax | **101,856** | 221,149 | 143,714 |
| | **4,724,769** | 3,681,785 | 3,857,124 |
| Deferred | **1,337,143** | (466,287) | (931,501) |
| | **₱6,061,912** | ₱3,215,498 | ₱2,925,623 |

A reconciliation between the statutory income tax rate and the Group's effective income tax rates follows:

| | **2020** | 2019 | 2018 |
|---|---|---|---|
| Statutory income tax rate | **30.00%** | 30.00% | 30.00% |
| Tax effects of: | | | |
| Unrecognized deferred income tax | **16.03%** | 3.53% | 1.97% |
| Nondeductible interest expense | **11.53%** | 6.43% | 5.77% |
| Nondeductible depreciation expense | **3.12%** | 1.42% | 1.18% |
| Deductible lease payments | **(23.85%)** | (11.53%) | (9.57%) |
| Nontaxable equity in net earnings of associates | **(3.84%)** | (4.89%) | (4.61%) |
| Income under income tax holiday | **(1.98%)** | (7.41%) | (11.90%) |
| Interest income subjected to final tax at lower rates - net | **(0.73%)** | (1.57%) | (0.89%) |
| Others | **(1.24%)** | (2.23%) | (1.63%) |
| | **29.04%** | 13.75% | 10.32% |

Deferred income taxes of the companies in the Group that are in deferred income tax assets and liabilities position consist of the following at December 31:

| | 2020 | 2019 |
|---|---|---|
| Net deferred income tax assets: | | |
| Allowances for impairment and probable losses | **₱378,315** | ₱329,278 |
| Net income from commissioning | **1,483,220** | 1,536,161 |
| Difference between the carrying amount of nonmonetary assets and related tax base | **(724,052)** | (1,299,507) |
| Unrealized foreign exchange loss (gain) | **(383,227)** | 372,732 |
| Net operating loss carryover (NOLCO) | **197,296** | 1,298,227 |
| Pension asset (liability): | | |
| Unamortized contributions for past service | **70,685** | 34,923 |
| Recognized in other comprehensive income | **47,182** | 20,662 |
| Recognized in statements of income | **29,319** | 25,609 |
| Unamortized streetlight donations capitalized | **—** | (685) |
| Unamortized customs duties and taxes capitalized | **(53,161)** | (47,626) |
| Net provision for rehabilitation and restoration costs | **624,875** | 427,114 |
| Others | **(131,432)** | 89,422 |
| Net deferred income tax assets | **₱1,539,020** | ₱2,786,310 |

| | 2020 | 2019 |
|---|---|---|
| Net deferred income tax liabilities: | | |
| Unamortized franchise | **₱744,193** | ₱771,532 |
| Fair value adjustments of property, plant and equipment | **135,615** | 137,740 |
| Unrealized foreign exchange gains | **24,739** | 2,749 |
| Unamortized customs duties and taxes capitalized | **5,348** | 5,618 |
| Pension asset (liability): | | |
| Recognized in other comprehensive income | **(106,231)** | 147,884 |
| Recognized in statements of income | **76,320** | (168,678) |
| Unamortized past service cost | **(31,039)** | (35,972) |
| Allowances for impairment and probable losses | **(71,006)** | (22,934) |
| Others | **(32,725)** | 10,532 |
| Net deferred income tax liabilities | **₱745,214** | ₱848,471 |

In computing for deferred income tax assets and liabilities, the rates used were 30% and 10%, which are the rates expected to apply to taxable income in the years in which the deferred income tax assets and liabilities are expected to be recovered or settled and considering the tax rate for renewable energy (RE) developers as allowed by the Renewable Energy Act of 2008 (see Note 39j).

No deferred income tax assets were recognized on the Group's NOLCO and MCIT amounting to ₱18.5 billion and ₱61.5 million, respectively, as of December 31, 2020 and ₱7.8 billion and ₱67.7 million, respectively, as of December 31, 2019, since management expects that it will not generate sufficient taxable income and income tax payable in the future that will be available to allow all of the deferred income tax assets to be utilized.

There are no income tax consequences to the Group attaching to the payment of dividends to its shareholders.

## 29. Earnings Per Common Share

Earnings per common share amounts were computed as follows:

| | **2020** | 2019 | 2018 |
|---|---|---|---|
| a. Net income attributable to equity holders of the parent | **₱12,577,676** | ₱17,322,677 | ₱21,707,603 |
| b. Weighted average number of common shares issued and outstanding | **7,358,604,307** | 7,358,604,307 | 7,358,604,307 |
| Earnings per common share (a/b) | **₱1.71** | ₱2.35 | ₱2.95 |

There are no dilutive potential common shares for the years ended December 31, 2020, 2019 and 2018.

## 30. Operating Segment Information

Operating segments are components of the Group that engage in business activities from which they may earn revenues and incur expenses, whose operating results are regularly reviewed by the Group's CODM to make decisions about how resources are to be allocated to the segment and assess their performances, and for which discrete financial information is available.

For purposes of management reporting, the Group's operating businesses are organized and managed separately according to services provided, with each segment representing a strategic business segment. The Group's identified operating segments, which are consistent with the segments reported to the BOD, which is the Group's CODM, are as follows:

- "Power Generation" segment, which is engaged in the generation and supply of power to various customers under power supply contracts, ancillary service procurement agreements and for trading in WESM;
- "Power Distribution" segment, which is engaged in the distribution and sale of electricity to the end-users; and
- "Parent Company and Others", which includes the operations of the Company, retail electricity sales to various off takers that are considered to be eligible contestable customers (see Note 39i) and electricity related services of the Group such as installation of electrical equipment.

Set out below is the disaggregation of the Group's revenue from contracts with customers:

2020

| | Power Generation | Power Distribution | Parent and Others | Total |
|---|---|---|---|---|
| Revenue from power supply contracts | ₱42,639,028 | — | — | ₱42,639,028 |
| Revenue from distribution services | — | 41,872,331 | — | 41,872,331 |
| Revenue from retail electricity sales | — | — | 16,476,713 | 16,476,713 |
| Revenue from non-power supply contracts | 9,111,632 | — | — | 9,111,632 |
| Revenue from technical and management services | — | — | 276,945 | 276,945 |
| | ₱51,750,660 | ₱41,872,331 | ₱16,753,658 | ₱110,376,649 |

2019

| | Power Generation | Power Distribution | Parent and Others | Total |
|---|---|---|---|---|
| Revenue from power supply contracts | ₱46,783,955 | ₱— | ₱— | ₱46,783,955 |
| Revenue from distribution services | — | 46,120,403 | — | 46,120,403 |
| Revenue from retail electricity sales | — | — | 22,805,450 | 22,805,450 |
| Revenue from non-power supply contracts | 9,111,632 | — | — | 9,111,632 |
| Revenue from technical and management services | — | — | 813,717 | 813,717 |
| | ₱55,895,587 | ₱46,120,403 | ₱23,619,167 | ₱125,635,157 |

2018

| | Power Generation | Power Distribution | Parent and Others | Total |
|---|---|---|---|---|
| Revenue from power supply contracts | ₱54,237,387 | ₱— | ₱— | ₱54,237,387 |
| Revenue from distribution services | — | 44,880,546 | — | 44,880,546 |
| Revenue from retail electricity sales | — | — | 24,216,767 | 24,216,767 |
| Revenue from non-power supply contracts | 7,617,298 | — | — | 7,617,298 |
| Revenue from technical and management services | — | — | 620,086 | 620,086 |
| | ₱61,854,685 | ₱44,880,546 | ₱24,836,853 | ₱131,572,084 |

The revenue from contracts with customers is consistent with the revenue with external customers presented in Segment information.

The Group has only one geographical segment as all of its assets are located in the Philippines. The Group operates and derives principally all of its revenue from domestic operations. Thus, geographical business information is not required.

Management monitors the operating results of its segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment revenue and segment expenses are measured in accordance with PFRS. The presentation and classification of segment revenue and segment expenses are consistent with the consolidated statements of income. Interest expense and financing charges, depreciation and amortization expense and income taxes are managed on a per segment basis.

The Group has inter-segment revenues in the form of management fees as well as inter-segment sales of electricity which are eliminated in consolidation. The transfers are accounted for at competitive market prices on an arm's-length transaction basis.

Segment assets do not include deferred income tax assets, pension asset and other noncurrent assets. Segment liabilities do not include deferred income tax liabilities, income tax payable and pension liability. Capital expenditures consist of additions of property, plant and equipment and intangible asset - service concession rights. Adjustments as shown below include items not presented as part of segment assets and liabilities.

Revenue is recognized to the extent that it is probable that economic benefits will flow to the Group, and that the revenue can be reliably measured. Sale of power to Manila Electric Company (MERALCO) accounted for 10%, 22%, and 22% of the power generation revenues of the Group in 2020, 2019, and 2018 respectively.

Financial information on the operations of the various business segments are summarized as follows:

**2020**

| | Power Generation | Power Distribution | Parent Company/ Others | Eliminations and adjustments | Consolidated |
|---|---|---|---|---|---|
| REVENUE | | | | | |
| External | ₱51,750,660 | ₱41,872,331 | ₱16,753,658 | ₱— | ₱110,376,649 |
| Inter-segment | 22,896,433 | 1,118,499 | 1,031,354 | (25,046,286) | — |
| Total Revenue | ₱74,647,093 | ₱42,990,830 | ₱17,785,012 | (₱25,046,286) | ₱110,376,649 |
| Segment Results | ₱21,444,970 | ₱4,946,100 | ₱488,817 | ₱— | ₱26,879,887 |
| Unallocated corporate income - net | 3,486,054 | 841,667 | 600,842 | — | 4,928,563 |
| INCOME FROM OPERATIONS | 24,931,024 | 5,787,767 | 1,089,659 | — | 31,808,450 |
| Interest expense and other financing costs | (10,536,420) | (693,525) | (3,023,583) | — | (14,253,528) |
| Interest income | 397,880 | 48,408 | 206,788 | — | 653,076 |
| Share in net earnings of associates and joint ventures | 2,454,530 | 198,142 | 15,066,479 | (15,044,015) | 2,675,136 |
| Provision for income tax | (4,413,334) | (1,397,825) | (250,753) | — | (6,061,912) |
| NET INCOME | ₱12,833,680 | ₱3,942,967 | ₱13,088,590 | (₱15,044,015) | ₱14,821,222 |
| OTHER INFORMATION | | | | | |
| Investments | ₱60,520,910 | ₱928,495 | ₱170,100,955 | (₱169,742,086) | ₱61,808,274 |
| Capital Expenditures | ₱2,821,303 | ₱2,628,493 | ₱20,706 | ₱— | ₱5,470,502 |
| Segment Assets | ₱287,225,921 | ₱33,915,449 | ₱207,799,057 | (₱131,015,309) | ₱397,925,118 |
| Segment Liabilities | ₱173,334,124 | ₱27,599,412 | ₱75,498,129 | (₱13,091,620) | ₱263,340,045 |
| Depreciation and Amortization | ₱9,684,189 | ₱1,098,103 | ₱46,054 | ₱145,018 | ₱10,973,364 |

2019

| | Power Generation | Power Distribution | Parent Company/ Others | Eliminations and Adjustments | Consolidated |
|---|---|---|---|---|---|
| REVENUE | | | | | |
| External | ₱55,895,587 | ₱46,120,403 | ₱23,619,167 | ₱— | ₱125,635,157 |
| Inter-segment | 28,483,698 | 1,327,759 | 2,911,436 | (32,722,893) | — |
| Total Revenue | ₱84,379,285 | ₱47,448,162 | ₱26,530,603 | (₱32,722,893) | ₱125,635,157 |
| Segment Results | ₱21,830,533 | ₱5,885,145 | ₱1,140,196 | ₱— | ₱28,855,874 |
| Unallocated corporate income - net | 2,406,999 | 956,784 | 119,604 | — | 3,483,387 |
| INCOME FROM OPERATIONS | 24,237,532 | 6,841,929 | 1,259,800 | — | 32,339,261 |
| Interest expense and other financing costs | (10,957,821) | (507,019) | (2,582,806) | — | (14,047,646) |
| Interest income | 943,542 | 41,972 | 306,189 | — | 1,291,703 |
| Share in net earnings of associates and joint ventures | 3,648,999 | 164,080 | 19,003,726 | (19,002,843) | 3,813,962 |
| Provision for income tax | (1,230,697) | (1,742,500) | (242,301) | — | (3,215,498) |
| NET INCOME | ₱16,641,555 | ₱4,798,462 | ₱17,744,608 | (₱19,002,843) | ₱20,181,782 |
| OTHER INFORMATION | | | | | |
| Investments | ₱59,646,763 | ₱881,812 | ₱161,528,818 | (₱161,201,414) | ₱60,855,979 |
| Capital Expenditures | ₱6,237,592 | ₱3,319,554 | ₱31,393 | ₱— | ₱9,588,539 |
| Segment Assets | ₱298,890,572 | ₱33,688,098 | ₱191,993,277 | (₱114,102,590) | ₱410,469,357 |
| Segment Liabilities | ₱190,812,375 | ₱27,267,433 | ₱71,179,680 | (₱12,433,142) | ₱276,826,346 |
| Depreciation and Amortization | ₱8,694,303 | ₱1,010,396 | ₱37,397 | ₱153,599 | ₱9,895,695 |

2018

| | Power Generation | Power Distribution | Parent Company/ Others | Eliminations and Adjustments | Consolidated |
|---|---|---|---|---|---|
| REVENUE | | | | | |
| External | ₱61,854,685 | ₱44,880,546 | ₱24,836,853 | ₱— | ₱131,572,084 |
| Inter-segment | 23,725,675 | 1,518,792 | 3,041,129 | (28,285,596) | — |
| Total Revenue | ₱85,580,360 | ₱46,399,338 | ₱27,877,982 | (₱28,285,596) | ₱131,572,084 |
| Segment Results | ₱27,643,753 | ₱6,039,597 | ₱2,813,332 | ₱— | ₱36,496,682 |
| Unallocated corporate income - net | (1,611,364) | 429,911 | (110,858) | — | (1,292,311) |
| INCOME FROM OPERATIONS | 26,032,389 | 6,469,508 | 2,702,474 | — | 35,204,371 |
| Interest expense and other financing costs | (10,178,990) | (370,814) | (1,532,354) | — | (12,082,158) |
| Interest income | 574,737 | 47,394 | 257,954 | — | 880,085 |
| Share in net earnings of associates and joint ventures | 4,152,912 | 168,307 | 22,444,396 | (22,408,790) | 4,356,825 |
| Provision for income tax | (459,775) | (1,681,315) | (784,533) | — | (2,925,623) |
| NET INCOME | ₱20,121,273 | ₱4,633,080 | ₱23,087,937 | (₱22,408,790) | ₱25,433,500 |
| OTHER INFORMATION | | | | | |
| Investments | ₱33,119,798 | ₱857,368 | ₱133,369,580 | (₱133,035,182) | ₱34,311,564 |
| Capital Expenditures | ₱5,973,352 | ₱2,642,276 | ₱15,155 | ₱— | ₱8,630,783 |
| Segment Assets | ₱280,845,233 | ₱32,008,694 | ₱170,041,730 | (₱93,233,481) | ₱389,662,176 |
| Segment Liabilities | ₱185,274,861 | ₱25,093,441 | ₱55,420,889 | (₱12,703,682) | ₱253,085,509 |
| Depreciation and Amortization | ₱7,511,495 | ₱988,911 | ₱24,537 | ₱156,460 | ₱8,681,403 |

## 31. Related Party Disclosures

Parties are considered to be related if one party has the ability to control, directly or indirectly, 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 common significant influence. Related parties may be individuals or corporate entities.

The sales to and purchases from related parties are made on terms equivalent to those that prevail in arm's length transactions.

The Group enters into transactions with its parent, associates, joint ventures and other related parties, principally consisting of the following:

a. The Company provides services to certain affiliates, associates and joint ventures such as technical and legal assistance for various projects and other services.

b. Energy fees are billed by the Group to related parties and the Group also purchased power from associates and joint ventures, arising from the following:

   - PPA/PSA or ESA (Note 20)
   - Replacement power contracts (Note 21)

c. AEV provides human resources, internal audit, legal, treasury and corporate finance services, among others, to the Group and shares with the member companies the business expertise of its highly qualified professionals. Transactions are priced based on agreed rates, and billed costs are always benchmarked to third party rates. Service level agreements are in place to ensure quality of service. This arrangement enables the Group to maximize efficiencies and realize cost synergies. These transactions result to professional and technical fees paid by the Group to AEV (see Note 23).

d. Aviation services are rendered by AAI, an associate, to the Group.

e. Lease of commercial office units by the Group from Cebu Praedia Development Corporation (CPDC) and Aboitizland, Inc. and subsidiaries. CPDC and Aboitizland, Inc. are subsidiaries of AEV.

f. Aboitiz Construction, Inc. (ACI), a wholly owned subsidiary of ACO, rendered its services to the Group for various construction projects.

g. LEZ entered into a Concession Agreement with Lima Land, Inc. (LLI) for which it is entitled to the exclusive right to distribute and supply electricity to LLI's locators.

h. Interest-bearing advances from AEV and subsidiaries availed by the Group. The annual interest rates are determined on arm's length basis.

i. Cash deposits with Union Bank of the Philippines (UBP) earn interest at prevailing market rates (see Note 5). UBP is an associate of AEV.

j. The Company obtained Standby Letter of Credit (SBLC) and is acting as surety for the benefit of certain associates and joint ventures in connection with loans and credit accommodations. The Company provided SBLC for STEAG, CEDC, and SNAP B in the amount of ₱900.0 million in 2020, ₱958.3 million in 2019 and ₱1.02 billion in 2018.

The above transactions are settled in cash.

The consolidated balance sheets and consolidated statements of income include the following significant account balances resulting from the above transactions with related parties:

a. Revenue - Technical, management and other fees

| | Revenue | | | Receivable | | | |
|---|---|---|---|---|---|---|---|
| | **2020** | 2019 | 2018 | **2020** | 2019 | Terms | Conditions |
| *AEV and subsidiaries* | | | | | | | |
| Apo Agua Infrastructura, Inc. | **₱13,587** | ₱24,545 | ₱— | **₱—** | ₱24,194 | 30-day; interest-free | Unsecured; noimpairment |
| Aboitiz InfraCapital, Inc. | **777** | 1,055 | — | **—** | 281 | 30-day; interest-free | Unsecured; noimpairment |
| *Associates and joint ventures* | | | | | | | |
| SFELAPCO | **108,838** | 105,760 | 132,623 | **—** | 57,440 | 30-day; interest-free | Unsecured; noimpairment |
| CEDC | **88,445** | 74,074 | 71,880 | **5,861** | 24,615 | 30-day; interest-free | Unsecured; noimpairment |
| GNPD | **39,884** | 41,768 | 42,360 | **3,112** | 3,441 | 30-day; interest-free | Unsecured; noimpairment |
| SNAP M | **6,696** | — | — | **—** | — | 30-day; interest-free | Unsecured; noimpairment |
| SNAP B | **6,696** | — | — | **—** | — | 30-day; interest-free | Unsecured; noimpairment |
| | **₱264,923** | ₱248,202 | ₱246,863 | **₱8,973** | ₱109,971 | | |

b. Revenue - Sale of power

| | Revenue | | | Receivable | | | |
|---|---|---|---|---|---|---|---|
| | **2020** | 2019 | 2018 | **2020** | 2019 | Terms | Conditions |
| *AEV and subsidiaries* | | | | | | | |
| Pilmico Foods Corporation | **₱140,741** | ₱203,398 | ₱166,121 | **₱10,637** | ₱19,850 | 30-day; interest-free | Unsecured; noimpairment |
| Lima Land, Inc. | **22,488** | 9,842 | 47,947 | **4,242** | 2,709 | 30-day; interest-free | Unsecured; noimpairment |
| Lima Water Corporation | **18,772** | — | 1,943 | **1,664** | — | 30-day; interest-free | Unsecured; noimpairment |
| Aboitizland, Inc. and subsidiaries | **14,202** | — | 14,588 | **1,335** | — | 30-day; interest-free | Unsecured; noimpairment |
| Cebu Industrial Park Developer's, Inc. | **2,640** | 2,540 | 2,640 | **—** | 156 | 30-day; interest-free | Unsecured; noimpairment |

(Forward)

| | Revenue | | | Receivable | | Terms | Conditions |
|---|---|---|---|---|---|---|---|
| | **2020** | 2019 | 2018 | **2020** | 2019 | | |
| *Associates and joint ventures* | | | | | | | |
| SFELAPCO | **₱2,351,358** | ₱2,655,153 | ₱2,290,390 | **₱171,663** | ₱227,478 | 30-day; interest-free | Unsecured; noimpairment |
| GNPD | **1,882,942** | 37,212 | — | **150,872** | — | 30-day; interest-free | Unsecured; noimpairment |
| MEC | **764,862** | 312,055 | — | **128,612** | 44,017 | 30-day; interest-free | Unsecured; noimpairment |
| SNAP M | **7,355** | 22,802 | 9,193 | — | — | 30-day; interest-free | Unsecured; noimpairment |
| SNAP RES | — | 28,983 | 19,442 | — | 1 | 30-day; interest-free | Unsecured; noimpairment |
| *Other related parties* | | | | | | | |
| Republic Cement & Building Materials, Inc. (an associate of AEV) | **1,509,512** | 1,295,957 | 1,341,456 | **33,028** | 52,320 | 30-day; interest-free | Unsecured; noimpairment |
| Tsuneishi Heavy Industries Cebu, Inc. (a joint venture of ACO and Tsuneishi Group) | **30,662** | 165,254 | 351,946 | — | 2 | 30-day; interest-free | Unsecured; noimpairment |
| Aboitiz Construction International, Inc. | — | — | 11,218 | — | — | 30-day; interest-free | Unsecured; noimpairment |
| | **₱6,745,534** | ₱4,733,196 | ₱4,256,884 | **₱502,053** | ₱346,533 | | |

c. Cost of purchased power

| | Purchases | | | Payable | | Terms | Condition |
|---|---|---|---|---|---|---|---|
| | **2020** | 2019 | 2018 | **2020** | 2019 | | |
| *Associates and joint ventures* | | | | | | | |
| CEDC | **₱3,955,490** | ₱3,619,999 | ₱4,196,052 | **₱330,478** | ₱339,494 | 30-day; interest-free | Unsecured |
| SNAP M | **94,730** | 109,142 | 110,432 | **7,745** | 8,012 | 30-day; interest-free | Unsecured |
| SFELAPCO | **30,002** | — | 14,287 | — | — | 30-day; interest free | Unsecured |
| | **₱4,080,222** | ₱3,729,141 | ₱4,320,771 | **₱338,223** | ₱347,506 | | |

d. Expenses

| | Nature | Purchases/Expenses 2020 | 2019 | 2018 | Payable 2020 | 2019 | Terms | Condition |
|---|---|---|---|---|---|---|---|---|
| *Ultimate Parent* | | | | | | | | |
| ACO | Professional fees | **₱1,415** | ₱1,663 | ₱9,105 | **₱723** | ₱1,309 | 30-day; interest- | Unsecured |
| *AEV and subsidiaries* | | | | | | | | |
| AEV | Professional and Technical fees | **526,488** | 591,310 | 487,770 | **6,228** | 91,168 | 30-day; interest-free | Unsecured |
| Lima Land, Inc. | Concession fees | **77,365** | 78,516 | 67,044 | **815** | 5,378 | 30-day; interest- | Unsecured |
| AAI | Aviation Services | **49,416** | 55,537 | 46,217 | **—** | 10,847 | 30-day; interest- | Unsecured |
| CPDC | Rental | **35,927** | 34,862 | 26,939 | **—** | — | 30-day; interest- | Unsecured |
| AEV | Rental | **411** | 2,213 | — | **—** | — | 30-day; interest- | Unsecured |
| Aboitizland, Inc. and subsidiaries | Rental | **306** | 280 | 258 | **—** | — | 30-day; interest-free | Unsecured |
| CPDC | Professional and Technical fees | **—** | 64 | — | **—** | — | | |
| | | **₱691,328** | ₱764,445 | ₱637,333 | **₱7,766** | ₱108,702 | | |

e. Capitalized construction and rehabilitation costs

| | Purchases 2020 | 2019 | 2018 | Payable 2020 | 2019 | Terms | Condition |
|---|---|---|---|---|---|---|---|
| *Other related party* | | | | | | | |
| ACI | **₱271,383** | ₱458,564 | ₱399,105 | **₱2,137** | ₱212,358 | 30-day; interest-free | Unsecured |

f. Temporary advances

| | Interest Expense 2020 | 2019 | 2018 | Payable 2020 | 2019 | Terms | Condition |
|---|---|---|---|---|---|---|---|
| *Parent* | | | | | | | |
| AEV | **₱301** | ₱17,919 | ₱22,390 | **₱26,413** | ₱607,620 | Promissory note; interest-bearing | Unsecured |

g. Cash deposits and placements with UBP

| | Interest Income | | | Outstanding Balance | | | |
|---|---|---|---|---|---|---|---|
| | **2020** | 2019 | 2018 | **2020** | 2019 | Terms | Condition |
| TPI and subsidiaries | **₱34,645** | ₱67,184 | ₱269,597 | **₱3,070,469** | ₱4,644,453 | 90 days or less; interest-bearing | No impairment |
| Company | **38,983** | 106,743 | 67,982 | **5,820,099** | 22,806 | 90 days or less; interest-bearing | No impairment |
| ARI and subsidiaries | **24,991** | 40,802 | 71,686 | **2,168,146** | 1,708,116 | 90 days or less; interest-bearing | No impairment |
| VECO | **17,630** | 10,144 | 2,304 | **338,969** | 988,027 | 90 days or less; interest-bearing | No impairment |
| DLP | **15,401** | 3,025 | 1,564 | **327,256** | 122,147 | 90 days or less; interest-bearing | No impairment |
| CPPC | **5,365** | 11,710 | 5,234 | **355,354** | 607,526 | 90 days or less; interest-bearing | No impairment |
| AESI | **4,569** | 15,026 | 9,556 | **1,200,315** | 856,115 | 90 days or less; interest-bearing | No impairment |
| AI | **3,042** | 15,332 | 7,091 | **785,066** | 729,907 | 90 days or less; interest-bearing | No impairment |
| SEZ | **1,305** | 262 | 176 | **79,167** | 4,044 | 90 days or less; interest-bearing | No impairment |
| EAUC | **1,294** | 5,740 | 3,932 | **167,267** | 212,010 | 90 days or less; interest-bearing | No impairment |
| CLP | **1,212** | 402 | 157 | **35,889** | 3,025 | 90 days or less; interest-bearing | No impairment |
| LEZ | **1,049** | 41 | 2,635 | **44,185** | 27,872 | 90 days or less; interest-bearing | No impairment |
| PEI | **811** | 888 | 121 | **69,666** | 175,572 | 90 days or less; interest-bearing | No impairment |
| MEZ | **581** | 311 | 153 | **29,020** | 3,145 | 90 days or less; interest-bearing | No impairment |
| BEZ | **575** | 205 | 156 | **14,514** | 2,515 | 90 days or less; interest-bearing | No impairment |
| MVEZ | **416** | 35 | – | **56,026** | 32,790 | 90 days or less; interest-bearing | No impairment |
| CIPI | **–** | – | – | **–** | 200 | 90 days or less; interest-bearing | No impairment |
| MHSCI | **–** | – | – | **–** | 49 | 90 days or less; interest-bearing | No impairment |
| SACASUN | **1** | – | – | **885** | 178 | 90 days or less; interest-bearing | No impairment |
| APIct | **–** | – | – | **–** | 105 | 90 days or less; interest-bearing | No impairment |
| | **₱151,870** | ₱277,850 | ₱442,344 | **₱14,562,293** | ₱10,140,102 | | |

The Company's Fund is in the form of a trust being maintained and managed by AEV. In 2020 and 2019, other than contributions to the Fund, no transactions occurred between the Company or any of its direct subsidiaries and the Fund.

Compensation of BOD and key management personnel of the Group follows:

| | **2020** | 2019 | 2018 |
|---|---|---|---|
| Short-term benefits | **₱385,431** | ₱456,844 | ₱439,859 |
| Post-employment benefits | **18,392** | 30,616 | 25,998 |
| | **₱403,823** | ₱487,460 | ₱465,857 |

## 32. Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise cash and cash equivalents and long-term debts. The main purpose of these financial instruments is to raise finances for the Group's operations. The Group has various other financial instruments such as trade and other receivables, short-term loans, trade and other payables, lease liabilities, long-term obligation on power distribution system and customers' deposits, which generally arise directly from its operations.

The Group also enters into derivative transactions, particularly foreign currency forwards, to economically hedge its foreign currency risk from foreign currency denominated liabilities and purchases (see Note 33).

Risk Management Structure
The BOD is mainly responsible for the overall risk management approach and for the approval of risk strategies and principles of the Group.

*Financial risk committee*
The Financial Risk Committee has the overall responsibility for the development of risk strategies, principles, frameworks, policies and limits. It establishes a forum of discussion of the Group's approach to risk issues in order to make relevant decisions.

*Treasury service group*
The Treasury Service Group is responsible for the comprehensive monitoring, evaluating and analyzing of the Group's risks in line with the policies and limits.

The main risks arising from the Group's financial instruments are interest rate risk, credit risk, liquidity risk, commodity price risk and foreign exchange risk.

Liquidity risk
Liquidity risk is the risk of not meeting obligations as they become due because of the inability to liquidate assets or obtain adequate funding. The Group maintains sufficient cash and cash equivalents to finance its operations. Any excess cash is invested in short-term money market placements. These placements are maintained to meet maturing obligations and pay any dividend declarations.

In managing its long-term financial requirements, the Group's policy is that not more than 25% of long-term borrowings should mature in any twelve-month period. 10.9% and 6.92% of the Group's debt will mature in less than one year as of December 31, 2020 and 2019 respectively. For its short-term funding, the Group's policy is to ensure that there are sufficient working capital inflows to match repayments of short-term debt.

The financial assets that will be principally used to settle the financial liabilities presented in the following table are from cash and cash equivalents amounting to ₱38.7 billion and ₱37.4 billion as of December 31, 2020 and 2019, respectively, and trade and other receivables amounting to ₱23.5 billion and ₱23.9 billion as of December 31, 2020 and 2019, respectively. Cash and cash equivalents can be withdrawn anytime while trade and other receivables are expected to be collected/realized within one year.

The following tables summarize the maturity profile of the Group's financial liabilities as of December 31, 2019 and 2018 based on contractual undiscounted payments:

**December 31, 2020**

| | Total carrying value | Contractual undiscounted principal payments | | | | |
|---|---|---|---|---|---|---|
| | | Total | On demand | <1 year | 1 to 5 years | > 5 years |
| Short-term loans | ₱11,743,413 | ₱11,776,805 | ₱— | ₱11,776,805 | ₱— | ₱— |
| Trade and other payables* | 15,166,856 | 15,166,856 | 1,662,192 | 12,405,270 | 1,099,394 | — |
| Long-term debts | 177,321,332 | 211,079,856 | — | 23,266,403 | 122,135,563 | 65,677,890 |
| Customers' deposits | 6,798,845 | 6,798,845 | — | 171 | 400,461 | 6,398,213 |
| Lease liabilities | 39,262,977 | 53,155,319 | — | 10,548,371 | 37,462,775 | 5,144,173 |
| Long-term obligation on PDS | 183,436 | 320,000 | — | 40,000 | 200,000 | 80,000 |
| Derivative liabilities | 1,788,802 | 1,788,802 | — | 787,273 | 1,001,529 | — |
| | ₱252,265,661 | ₱300,086,483 | ₱1,662,192 | ₱58,824,293 | ₱162,299,722 | ₱77,300,276 |

*Includes the noncurrent portion of the PSALM deferred adjustment presented under other noncurrent liabilities in the consolidated balance sheet.

December 31, 2019

| | Total Carrying Value | Contractual undiscounted payments | | | | |
|---|---|---|---|---|---|---|
| | | Total | On demand | <1 year | 1 to 5 years | > 5 years |
| Short-term loans | ₱10,335,420 | ₱10,547,767 | ₱— | ₱10,547,767 | ₱— | ₱— |
| Trade and other payables* | 24,882,034 | 24,882,034 | 2,115,302 | 15,954,482 | 6,812,250 | — |
| Long-term debts | 177,971,622 | 243,705,445 | — | 17,883,835 | 129,204,381 | 96,617,229 |
| Customers' deposits | 6,521,469 | 6,521,469 | — | 25,199 | 184,625 | 6,311,645 |
| Lease liabilities | 44,789,644 | 63,070,543 | — | 9,117,883 | 44,872,854 | 9,079,806 |
| Long-term obligation on PDS | 199,350 | 360,000 | — | 40,000 | 200,000 | 120,000 |
| Derivative liabilities | 2,468,324 | 2,468,324 | — | 2,255,736 | 212,588 | — |
| | ₱267,167,863 | ₱351,555,582 | ₱2,115,302 | ₱55,824,902 | ₱181,486,698 | ₱112,128,680 |

*Includes the noncurrent portion of the PSALM deferred adjustment presented under other noncurrent liabilities in the consolidated balance sheet.

Market risk

The risk of loss, immediate or over time, due to adverse fluctuations in the price or market value of instruments, products, and transactions in the Group's overall portfolio (whether on or off-balance sheet) is market risk. These are influenced by foreign and domestic interest rates, foreign exchange rates and gross domestic product growth.

*Interest rate risk*
The Group's exposure to market risk for changes in interest rates relates primarily to its long-term debt obligations. To manage this risk, the Group determines the mix of its debt portfolio as a function of the level of current interest rates, the required tenor of the loan, and the general use of the proceeds of its various fund-raising activities. As of December 31, 2020, 16% of the Group's long-term debt had annual floating interest rates ranging from 2.25% to 7.41%, and 84% have annual fixed interest rates ranging from 3.13% to 9.00%. As of December 31, 2019, 16% of the Group's long-term debt had annual floating interest rates ranging from 3.09% to 4.81%, and 84% have annual fixed interest rates ranging from 4.05% to 9%.

The following tables set out the carrying amounts, by maturity, of the Group's financial instruments that are exposed to cash flow interest rate risk:

**As of December 31, 2020**

| | **<1 year** | **1-5 years** | **>5 years** | **Total** |
|---|---|---|---|---|
| **Floating rate - long-term debt** | **₱2,361,434** | **₱17,531,930** | **₱8,007,950** | **₱27,901,314** |

As of December 31, 2019

| | <1 year | 1-5 years | >5 years | Total |
|---|---|---|---|---|
| Floating rate - long-term debt | ₱1,887,609 | ₱23,257,354 | ₱4,183,912 | ₱29,328,875 |

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year. Interest on the other financial instruments of the Group that are not included in the above tables are either fixed-rate or non-interest bearing and are therefore not subject to interest rate risk. The Group's derivative assets and liabilities are subject to fair value interest rate risk (see Note 33).

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Group's income before tax (through the impact on floating rate borrowings):

| | Increase (decrease) in basis points | Effect on income before tax |
|---|---|---|
| **December 2020** | **200** | **(₱279,013)** |
| | **(100)** | **139,507** |
| December 2019 | 200 | (₱586,577) |
| | (100) | 293,289 |

There is no other impact on the Group's equity other than those already affecting the consolidated statements of income.

The interest expense and other finance charges recognized according to source are as follows:

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| Short-term loans and long-term debt (see Notes 15 and 16) | **₱10,812,088** | ₱9,443,882 | ₱7,237,217 |
| Lease liabilities (see Note 34) | **3,255,808** | 4,350,043 | 4,659,794 |
| Customers' deposits (see Note 17) | **4,027** | 4,353 | 2,143 |
| Other long-term obligations (see Notes 12 and 18) | **181,605** | 249,368 | 183,004 |
| | **₱14,253,528** | ₱14,047,646 | ₱12,082,158 |

*Commodity Price Risk*
Commodity price risk of the Group arises from transactions on the world commodity markets to secure the supply of fuel, particularly coal, which is necessary for the generation of electricity.

The Group's objective is to minimize the impact of commodity price fluctuations and this exposure is hedged in accordance with the Group's commodity price risk management strategy.

Based on a 36-month forecast of the required coal supply, the Group hedges the purchase price of coal using commodity swap contracts. The commodity swap contracts do not result in physical delivery of coal, but are designated as cash flow hedges to offset the effect of price changes in coal.

*Foreign exchange risk*
The foreign exchange risk of the Group pertains significantly to its foreign currency denominated obligations. To manage its foreign exchange risk, stabilize cash flows and improve investment and cash flow planning, the Group enters into foreign currency forward contracts aimed at reducing and/or managing the adverse impact of changes in foreign exchange rates on financial performance and cash flows. Foreign currency denominated borrowings account for 29.32% and 32% of total consolidated borrowings as of December 31, 2020 and 2019, respectively.

Presented below are the Group's foreign currency denominated financial assets and liabilities translated to Philippine Peso:

| | December 31, 2020 | | December 31, 2019 | |
|---|---|---|---|---|
| | **US Dollar** | **Philippine Peso equivalent[1]** | US Dollar | Philippine Peso equivalent[2] |
| Financial assets: | | | | |
| Cash and cash equivalents | **$156,869** | **₱7,533,320** | $43,352 | ₱2,195,129 |
| Trade and other receivables | **4** | **192** | 18,725 | 948,140 |
| Advances to associates | **457** | **21,947** | — | — |
| Total financial assets | **157,330** | **7,555,459** | 62,077 | 3,143,269 |
| Financial liabilities: | | | | |
| Short-term loans | **550** | **26,413** | 12,000 | 607,620 |
| Trade and other payables | **39,054** | **1,875,490** | 13,439 | 680,493 |
| Long-term debt | **300,000** | **14,406,900** | 300,000 | 15,190,500 |
| Lease liabilities | **394,341** | **18,937,438** | 443,002 | 22,431,406 |
| Total financial liabilities | **733,945** | **35,246,241** | 768,441 | 38,910,019 |
| Total net financial liabilities | **($576,615)** | **(₱27,690,782)** | ($706,364) | (₱35,766,750) |

[1]US$1 = ₱48.02
[2]US$1 = ₱50.64

The following table demonstrates the sensitivity to a reasonable possible change in the US dollar exchange rates, with all other variables held constant, of the Group's income before tax as of December 31:

| | Increase (decrease) in US Dollar | Effect on income before tax |
|---|---|---|
| **2020** | | |
| **US Dollar denominated accounts** | **US Dollar strengthens by 5%** | **(₱1,384,539)** |
| **US Dollar denominated accounts** | **US Dollar weakens by 5%** | **1,384,539** |
| 2019 | | |
| US Dollar denominated accounts | US Dollar strengthens by 5% | (₱1,788,338) |
| US Dollar denominated accounts | US Dollar weakens by 5% | 1,788,338 |

The increase in US Dollar rate represents the depreciation of the Philippine Peso while the decrease in US Dollar rate represents appreciation of the Philippine Peso.

The following table presents LHC's and GMEC's foreign currency denominated assets and liabilities:

| | December 31, 2020 | | December 31, 2019 | |
|---|---|---|---|---|
| | Philippine Peso | US Dollar Equivalent[1] | Philippine Peso | US Dollar Equivalent[2] |
| Financial assets: | | | | |
| Cash and cash equivalents | ₱1,160,417 | $24,164 | ₱718,508 | $14,190 |
| Trade and other receivables | 773,437 | 16,106 | 461,052 | 9,105 |
| Total financial assets | 1,933,854 | 40,270 | 1,179,560 | 23,295 |
| Financial liabilities: | | | | |
| Trade and other payables | 824,791 | 17,175 | 842,075 | 16,630 |
| Net foreign currency denominated assets | ₱1,109,063 | $23,095 | ₱337,485 | $6,665 |

[1]US$1 = ₱48.02
[2]US$1 = ₱50.64

The following tables demonstrate the sensitivity to a reasonable possible change in the US dollar exchange rate in relation to Philippine peso, with all variables held constant, of the Group's income before tax as of December 31:

| 2020 | Effect on income before tax |
|---|---|
| **U.S. dollar appreciates against Philippine peso by 5.0%** | **($1,155)** |
| **U.S. dollar depreciates against Philippine peso by 5.0%** | **1,155** |
| 2019 | |
| U.S. dollar appreciates against Philippine peso by 5.0% | ($333) |
| U.S. dollar depreciates against Philippine peso by 5.0% | 333 |

There is no other impact on the Group's equity other than those already affecting the consolidated statements of income.

Credit risk

For its cash investments (including restricted portion), financial assets at FVTPL and trade and other receivables, the Group's credit risk pertains to possible default by the counterparty, with a maximum exposure equal to the carrying amount of these investments. With respect to cash investments and financial assets at FVTPL, the risk is mitigated by the short-term and/or liquid nature of its cash investments mainly in bank deposits and placements, which are placed with financial institutions and entities of high credit standing. With respect to trade and other receivables, credit risk is controlled by the application of credit approval, limit and monitoring procedures. It is the Group's policy to only enter into transactions with credit-worthy parties to mitigate any significant concentration of credit risk. The Group ensures that sales are made to customers with appropriate credit history and it has internal mechanisms to monitor the granting of credit and management of credit exposures.

*Concentration risk*
Credit risk concentration of the Group's receivables according to the customer category is summarized in the following table:

| | 2020 | 2019 |
|---|---|---|
| Power distribution: | | |
| Industrial | ₱4,005,713 | ₱5,554,969 |
| Residential | 1,922,998 | 1,825,217 |
| Commercial | 1,144,382 | 437,994 |
| City street lighting | 764,702 | 111,570 |
| Power generation: | | |
| Power supply contracts | 8,066,769 | 8,982,962 |
| Non-power supply contracts | 1,821,815 | 1,481,760 |
| | ₱17,726,379 | ₱18,394,472 |

The above receivables were provided with allowance for ECL amounting to ₱2.28 billion in 2020 and ₱1.97 billion in 2019 (see Note 6).

*Credit quality*
The maximum exposure to credit risk of the Group's financial assets, including their related credit quality per class, is as follows:

**December 31, 2020**

| | Neither past due nor impaired | | | Past due or individually impaired | |
|---|---|---|---|---|---|
| | High Grade | Standard | Sub-standard | | Total |
| Cash and cash equivalents: | | | | | |
| Cash on hand and in banks | ₱14,790,197 | ₱— | ₱— | ₱— | ₱14,790,197 |
| Short-term deposits | 23,909,348 | — | — | — | 23,909,348 |
| | 38,699,545 | — | — | — | 38,699,545 |
| Trade receivables: | | | | | |
| Power supply contracts | 5,978,326 | — | — | 2,088,443 | 8,066,769 |
| Non-power supply contracts | 302,649 | — | — | 1,519,166 | 1,821,815 |
| Industrial | 3,235,760 | — | — | 769,953 | 4,005,713 |
| Residential | 667,936 | — | — | 1,255,062 | 1,922,998 |
| Commercial | 569,713 | — | — | 574,669 | 1,144,382 |
| City street lighting | 365,511 | — | — | 399,191 | 764,702 |
| | 11,119,895 | — | — | 6,606,484 | 17,726,379 |
| Other receivables* | 7,644,570 | — | — | 20,098 | 7,664,668 |
| Financial assets at FVTPL | 3,906 | — | — | — | 3,906 |
| Restricted cash | 5,324,213 | — | — | — | 5,324,213 |
| Total | ₱62,792,129 | ₱— | ₱— | ₱6,626,582 | ₱69,418,711 |

**Includes the noncurrent portion of the PSALM deferred adjustment presented under other noncurrent assets in the consolidated balance sheet.*

December 31, 2019

| | Neither past due nor impaired | | | Past due or individually impaired | |
|---|---|---|---|---|---|
| | High Grade | Standard | Sub-standard | | Total |
| Cash and cash equivalents: | | | | | |
| Cash on hand and in banks | ₱14,177,919 | ₱— | ₱— | ₱— | ₱14,177,919 |
| Short-term deposits | 23,256,010 | — | — | — | 23,256,010 |
| | 37,433,929 | — | — | — | 37,433,929 |
| Trade receivables: | | | | | |
| Power supply contracts | 6,311,002 | — | — | 2,671,960 | 8,982,962 |
| Non-power supply contracts | 84,853 | — | — | 1,396,907 | 1,481,760 |
| Industrial | 5,274,393 | — | — | 280,576 | 5,554,969 |
| Residential | 1,346,631 | — | — | 478,586 | 1,825,217 |
| Commercial | 301,098 | — | — | 136,896 | 437,994 |
| City street lighting | 99,320 | — | — | 12,250 | 111,570 |
| | 13,417,297 | — | — | 4,977,175 | 18,394,472 |
| Other receivables* | 7,466,689 | — | — | — | 7,466,689 |
| Financial assets at FVTPL | 3,906 | — | — | — | 3,906 |
| Restricted cash | 9,121,747 | — | — | — | 9,121,747 |
| Derivative assets | 82,327 | — | — | — | 82,327 |
| Total | ₱67,525,895 | ₱— | ₱— | ₱4,977,175 | ₱72,503,070 |

*Includes the noncurrent portion of the PSALM deferred adjustment presented under other noncurrent assets in the consolidated balance sheet.

| | 2020 | | | |
|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | |
| | **12-month ECL** | **Lifetime ECL** | **Lifetime ECL** | **Total** |
| High grade | **₱51,672,233** | **₱11,119,896** | **₱—** | **₱62,792,129** |
| Standard grade | **—** | **—** | **—** | **—** |
| Substandard grade | **—** | **—** | **—** | **—** |
| Default | **—** | **4,350,209** | **2,276,373** | **6,626,582** |
| Gross carrying amount | **51,672,233** | **15,470,105** | **2,276,373** | **69,418,711** |
| Loss allowance | **—** | **—** | **2,276,373** | **2,276,373** |
| Carrying amount | **₱51,672,233** | **₱15,470,105** | **₱—** | **₱67,142,338** |

| | 2019 | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | |
| | 12-month ECL | Lifetime ECL | Lifetime ECL | Total |
| High grade | ₱57,571,121 | ₱9,954,774 | ₱— | ₱67,525,895 |
| Standard grade | — | — | — | — |
| Substandard grade | — | — | — | — |
| Default | — | 3,027,476 | 1,949,699 | 4,977,175 |
| Gross carrying amount | 57,571,121 | 12,982,250 | 1,949,699 | 72,503,070 |
| Loss allowance | — | 23,821 | 1,949,699 | 1,973,520 |
| Carrying amount | ₱57,571,121 | ₱12,958,429 | ₱— | ₱70,529,550 |

High grade - pertain to receivables from customers with good favorable credit standing and have no history of default.

Standard grade - pertain to those customers with history of sliding beyond the credit terms but pay a week after being past due.

Sub-standard grade - pertain to those customers with payment habits that normally extend beyond the approved credit terms, and has high probability of being impaired.

Trade and other receivables that are individually determined to be impaired at the balance sheet date relate to debtors that are in significant financial difficulties and have defaulted on payments and accounts under dispute and legal proceedings.

The Group evaluated its cash and cash equivalents and restricted cash as high quality financial assets since these are placed in financial institutions of high credit standing.

With respect to other receivables, investments in equity securities and derivative assets, the Group evaluates the counterparty's external credit rating in establishing credit quality.

The tables below show the Group's aging analysis of financial assets:

**December 31, 2020**

| | Total | Neither past due nor impaired | Past due but not impaired: Less than 30 days | Past due but not impaired: 31 days to 60 days | Past due but not impaired: Over 60 days | Individually impaired |
|---|---|---|---|---|---|---|
| Cash and cash equivalents: | | | | | | |
| Cash on hand and in banks | ₱14,790,197 | ₱14,790,197 | ₱— | ₱— | ₱— | ₱— |
| Short-term deposits | 23,909,348 | 23,909,348 | — | — | — | — |
| | 38,699,545 | 38,699,545 | — | — | — | — |
| Trade receivables: | | | | | | |
| Power supply contracts | 8,066,769 | 5,978,326 | 232,668 | 159,520 | 1,182,518 | 513,737 |
| Non-power supply contracts | 1,821,815 | 302,649 | 11,604 | 25,176 | 199,048 | 1,283,338 |
| Industrial | 4,005,713 | 3,235,760 | 339,146 | 78,585 | 243,461 | 108,761 |
| Residential | 1,922,998 | 667,936 | 551,843 | 181,743 | 246,802 | 274,674 |
| Commercial | 1,144,382 | 569,713 | 295,445 | 93,458 | 111,918 | 73,848 |
| City street lighting | 764,702 | 365,511 | 207,039 | 102,755 | 67,382 | 22,015 |
| | 17,726,379 | 11,119,895 | 1,637,745 | 641,237 | 2,051,129 | 2,276,373 |
| Other receivables* | 7,664,668 | 7,644,570 | 5,306 | 608 | 14,184 | — |
| Financial assets at FVTPL | 3,906 | 3,906 | — | — | — | — |
| Restricted cash | 5,324,213 | 5,324,213 | — | — | — | — |
| Total | ₱69,418,711 | ₱62,792,129 | ₱1,643,051 | ₱641,845 | ₱2,065,313 | ₱2,276,373 |

**Includes the noncurrent portion of the PSALM deferred adjustment presented under other noncurrent assets in the consolidated balance sheet.*

December 31, 2019

| | Total | Neither past due nor impaired | Past due but not impaired: Less than 30 days | 31 days to 60 days | Over 60 days | Individually impaired |
|---|---|---|---|---|---|---|
| Cash and cash equivalents: | | | | | | |
| Cash on hand and in banks | ₱14,177,919 | ₱14,177,919 | ₱— | ₱— | ₱— | ₱— |
| Short-term deposits | 23,256,010 | 23,256,010 | — | — | — | — |
| | 37,433,929 | 37,433,929 | — | — | — | — |
| Trade receivables: | | | | | | |
| Power supply contracts | 8,982,962 | 6,311,002 | 208,094 | 222,758 | 1,663,483 | 577,625 |
| Non-power supply contracts | 1,481,760 | 84,853 | 9,339 | 1,405 | 126,148 | 1,260,015 |
| Industrial | 5,554,969 | 5,274,393 | 77,650 | 18,125 | 169,528 | 15,272 |
| Residential | 1,825,217 | 1,346,631 | 166,663 | 30,187 | 182,435 | 99,301 |
| Commercial | 437,994 | 301,098 | 39,269 | 5,628 | 71,720 | 20,279 |
| City street lighting | 111,570 | 99,320 | 8,801 | 1,931 | 490 | 1,028 |
| | 18,394,472 | 13,417,297 | 509,816 | 280,035 | 2,213,804 | 1,973,520 |
| Other receivables* | 10,929,212 | 10,929,212 | — | — | — | — |
| Financial assets at FVTPL | 3,906 | 3,906 | — | — | — | — |
| Restricted cash | 9,121,747 | 9,121,747 | — | — | — | — |
| Derivative assets | 82,327 | 82,327 | — | — | — | — |
| Total | ₱75,965,593 | ₱70,988,418 | ₱509,816 | ₱280,035 | ₱2,213,804 | ₱1,973,520 |

**Includes the noncurrent portion of the PSALM deferred adjustment presented under other noncurrent assets in the consolidated balance sheet.*

Capital Management

Capital includes equity attributable to the equity holders of the parent. The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

The Group monitors capital using a gearing ratio, which is net debt divided by equity plus net debt. The Group's policy is to keep the gearing ratio at 70% or below. The Group determines net debt as the sum of interest-bearing short-term loans, long-term loans, and lease liabilities less cash and short-term deposits (including restricted cash).

Gearing ratios of the Group as of December 31, 2020 and 2019 are as follows:

| | **2020** | 2019 |
|---|---|---|
| Short-term loans | **₱11,743,413** | ₱10,335,420 |
| Long-term debt | **216,584,309** | 222,761,266 |
| Cash and cash equivalents | **(38,699,545)** | (37,433,929) |
| Restricted cash | **(5,324,213)** | (9,121,747) |
| Net debt (a) | **184,303,964** | 186,541,010 |
| Equity | **134,585,073** | 133,643,011 |
| Equity and net debt (b) | **318,889,037** | 320,184,021 |
| Gearing ratio (a/b) | **57.80%** | 58.26% |

Part of the Group's capital management is to ensure that it meets financial covenants attached to long-term borrowings. Breaches in meeting the financial covenants would permit the banks to immediately call loans and borrowings. The Group is in compliance with the financial covenants attached to its long-term debt as of December 31, 2020 and 2019 (see Note 16).

Certain entities within the Group that are registered with the BOI are required to raise a minimum amount of capital in order to avail of their registration incentives. As of December 31, 2020 and 2019, these entities have complied with the requirement as applicable (see Note 36).

No changes were made in the objectives, policies or processes during the years ended December 31, 2020 and 2019.

## 33. Financial Instruments

Fair Value of Financial Instruments

Fair value is defined as the amount at which the financial instrument could be sold in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced liquidation or sale. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models, as appropriate.

A financial instrument is regarded as quoted in an active market if quoted prices are readily available from an exchange, dealer, broker, pricing services or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis. For a financial instrument with an active market, the quoted market price is used as its fair value. On the other hand, if transactions are no longer regularly occurring even if prices might be available and the only observed transactions are forced transactions or distressed sales, then the market is considered inactive. For a financial instrument with no active market, its fair value is determined using a valuation technique (e.g. discounted cash flow approach) that incorporates all factors that market participants would consider in setting a price.

Set out below is a comparison by category of carrying amounts and fair values of the Group's financial instruments whose fair values are different from their carrying amounts.

| | **December 31, 2020** | | December 31, 2019 | |
|---|---|---|---|---|
| | **Carrying Amounts** | **Fair Values** | Carrying Amounts | Fair Values |
| **Financial Asset** | | | | |
| PSALM deferred adjustment | **₱2,140,226** | **₱1,939,398** | ₱3,183,080 | ₱2,846,279 |
| **Financial Liabilities** | | | | |
| Lease liabilities | **₱39,262,977** | **₱37,907,883** | ₱44,789,644 | ₱38,495,450 |
| Long-term debt - fixed rate | **149,420,018** | **164,336,417** | 148,642,748 | 152,786,437 |
| PSALM deferred adjustment | **2,140,226** | **1,939,398** | 3,183,080 | 2,846,279 |
| Long-term obligation on power distribution system | **183,436** | **162,164** | 199,350 | 320,194 |
| | **₱191,006,657** | **₱204,345,862** | ₱196,814,822 | ₱194,448,360 |

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

*Cash and cash equivalents, trade and other receivables, short-term loans and trade and other payables.* The carrying amounts of cash and cash equivalents, trade and other receivables, short-term loans and trade and other payables approximate fair value due to the relatively short-term maturity of these financial instruments.

*Fixed-rate borrowings.* The fair value of fixed rate interest-bearing loans is based on the discounted value of future cash flows using the applicable rates for similar types of loans. Interest-bearing loans were discounted using credit-adjusted interest rates ranging from 3.03% to 6.22% in 2020 and 3.47% to 6.52% in 2019.

*Floating-rate borrowings.* Since repricing of the variable-rate interest bearing loan is done on a quarterly basis, the carrying value approximates the fair value.

*Lease liabilities.* The fair value of lease liabilities was calculated by discounting future cash flows using discount rates of 1.38% to 2.44% for dollar payments and 1.38% to 3.56% for peso payments in 2020 and 3.10% to 4.13% for dollar payments and 6.68% to 7.04% for peso payments in 2019.

*Long-term obligation on PDS and PSALM deferred adjustment.* The fair value of the long-term obligations on power distribution system and PSALM deferred adjustment is calculated by discounting expected future cash flows at prevailing market rates. Discount rates used in discounting the obligation ranges from 3.15% to 4.45% in 2020 and 3.16% to 3.92% in 2019.

*Customers' deposits.* The fair value of bill deposits approximates the carrying values as these deposits earn interest at the prevailing market interest rate in accordance with regulatory guidelines. The timing and related amounts of future cash flows relating to transformer and lines and poles deposits cannot be reasonably and reliably estimated for purposes of establishing their fair values using an alternative valuation technique.

*Financial assets at FVTPL.* These equity securities are carried at fair value.

*Derivative financial instruments.* The fair value of forward contracts is calculated by reference to prevailing interest rate differential and spot exchange rate as of valuation date, taking into account its remaining term to maturity. The fair value of the embedded prepayment options is determined using Binomial Option Pricing Model which allows for the specification of points in time until option expiry date. This valuation incorporates inputs such as interest rates and volatility. The fair value of the IRS and interest rate cap are determined by generally accepted valuation techniques with reference to observable market data such as interest rates.

The Group entered into an IRS agreement to fully hedge its floating rate exposure on its foreign currency-denominated loan and par forward contracts to hedge the floating rate exposure on foreign-currency denominated payments.

The Group also entered into deliverable and non-deliverable short-term forward contracts with counterparty banks to manage its foreign currency risks associated with foreign currency-denominated liabilities, purchases and highly probable forecasted purchases.

The Group also entered into commodity swap contracts to hedge the price volatility of its forecasted coal purchases.

*IRS*

In August 2012, LHC entered into an IRS agreement effective October 31, 2012 to fully hedge its floating rate exposure on its US Dollar-denominated loan. Under the IRS agreement, LHC, on a semi-annual basis, pays a fixed rate of 1.505% per annum and receives variable interest at 6-month LIBOR plus margin. The interest payments and receipts are based on the outstanding USD notional amount simultaneous with the interest payments on the hedged loan. Similar with the hedged loan, the IRS has amortizing notional amounts which cover a period up to final maturity. LHC designated the swap as a cash flow hedge.

As of December 31, 2020, the outstanding notional amount and derivative liability as a result of the swap amounted to $5.7 million and ₱2.8 million, respectively. As of December 31, 2019, the outstanding notional amount and derivative asset as a result of the swap amounted to $11.2 million and ₱2.2 million, respectively.

On September 29, 2017, GMEC entered into an IRS agreement to hedge the variability in the interest cash flows on the entire amount of its LIBOR Loan (see Note 16), which bears interest based on six-month US LIBOR. Under the swap agreement, GMEC pays a fixed rate of 2.18% and receives six-month US LIBOR, semi-annually from March 29, 2018 until September 27, 2024. The IRS settlement dates coincide with the semi-annual interest payment dates of the NFA. GMEC designated the swap as a cash flow hedge.

As of December 31, 2020, the outstanding notional amount and derivative asset as a result of the swap amounted to US$267.5 million and ₱252.3 million, respectively. As of December 31, 2019, the outstanding notional amount and derivative asset as a result of the swap amounted to US$288.5 million and ₱272.2 million, respectively.

In September 2019, the Company entered into an interest rate swap agreement effective September 30, 2019 to hedge $150 million of its floating rate exposure on its loan (see Note 16). Under the interest rate swap agreement, the Company, on a quarterly basis, pays a fixed rate of 1.449300% per annum and received variable interest at 3-month LIBOR, subject to a floor of 0%. The interest payments and receipts are based on the outstanding USD notional amount simultaneous with the interest payments on the hedged loan. Similar with the hedged loan, the interest rate swap has amortizing notional amounts which cover a period up to April 30, 2024. The GMEC designated the swap as a cash flow hedge.

As of December 31, 2020, the outstanding notional amount and fair value of the swap amounted to ₱9.6 billion and ₱389.4 million, respectively. As of December 31, 2019, the outstanding notional amount and fair value of the swap amounted to ₱7.6 billion and ₱80.1 million, respectively.

*Foreign currency forward contracts*

In 2020, the Company entered into foreign currency forward contracts, namely Principal-only Swap (POS) and Call Spread (CS), with counterparty banks to manage foreign currency risks associated with its US dollar denominated loan. The notional amount of the forward contract is $25.0 million (₱1.21 billion) and $10.0 million (₱480 million) for POS and CS, respectively. The Company designated both the forward contracts as a cash flow hedge.

TLI entered into forward contracts to hedge the foreign currency risk arising from forecasted US dollar denominated coal purchases. These forecasted transactions are highly probable, and they comprise about 20% of the TLI's total expected coal purchases. The forward contracts were designated as cash flow hedges.

On January 1, 2020, TLI re-designated its foreign currency forwards with notional amount of $22.5 million and average forward rate of ₱48.00 as cash flow hedges of the monthly fees due to PSALM under its IPP Administration Agreement, the settlement of which is in USD. The cash flow hedges of PSALM fees were all matured as of December 31, 2020.

As of December 31, 2020 and 2019, the aggregate notional amount of the forward contracts is ₱5.25 billion and ₱13.09 billion, respectively.

In 2015, TVI entered into par forward contracts to hedge the foreign currency risk arising from the forecasted US Dollar denominated payments under the Engineering Procurement Construction (EPC) contract related to the construction of a power plant. As of December 31, 2019, the aggregate notional amount of the par forward contracts is $16.8 million (₱0.9 billion). The contracts were fully settled in 2020.

*Commodity swap contracts*
In 2018, TLI entered into commodity swap contracts to hedge the price volatility of forecasted coal purchases. The commodity swaps do not result in physical delivery of coal, but are designated as cash flow hedges to offset the effect of price changes in coal. TLI hedges approximately 30% of its expected coal purchases considered to be highly probable. There is an economic relationship between the hedged items and the hedging instruments as the terms of the foreign currency forward and commodity swap contracts match the terms of the expected highly probable forecasted transactions.

There is an economic relationship between the hedged items and the hedging instruments as the terms of the foreign currency forward, IRS and commodity swap contracts match the terms of the expected highly probable foreign currency denominated forecasted purchases and floating rate loans. The Group has established a hedge ration of 1:1 for the hedging relationships as the underlying risk of the foreign currency forward, IRS and commodity swap contracts are identical to the hedged risk components. To test the hedge effectiveness, the Group uses the hypothetical derivative technique and compares the changes in the fair value of the hedging instruments against the changes in fair value of the hedged items attributable to the hedged risks.

The hedge ineffectiveness can arise from:

- Different reference prices linked to the hedged risk of the hedged items and hedging instruments
- Differences in the timing of the cash flows of the hedged items and the hedging instruments
- The counterparties' credit risk differently impacting the fair value movements of the hedging instruments and hedged items
- Changes to the forecasted amount of cash flows of hedged items and hedging instruments
- Non-zero fair value hedging instruments

The Group is holding the following hedging instruments designated as cash flow hedges:

**December 31, 2020**

| | Maturity | | | | | |
|---|---|---|---|---|---|---|
| | Less than 3 months | 3 to 6 months | 6 to 12 months | 1 to 2 years | More than 2years | Total |
| IRS - Derivative Assets | | | | | | |
| Notional amount (in PHP) | — | — | — | — | 9,604,600 | 9,604,600 |
| Average fixed interest rate (%) | — | — | — | — | 1.45%-1.51% | |
| IRS - Derivative Liability | | | | | | |
| Notional amount (in PHP) | 517,352 | 105,651 | 579,349 | 1,084,455 | 10,848,156 | 13,134,963 |
| Average fixed interest rate (%) | 2.18% | 2.18% | 2.18% | 2.18% | 2.18% | |
| Foreign Currency Forward Contracts - Derivative Assets | | | | | | |
| Notional amount (in PHP) | 48,106 | 54,559 | 49,247 | — | — | 151,912 |
| Average forward rate (in PHP) | 48 | 48 | 49 | — | — | |
| Foreign Currency Forward Contracts - Derivative Liability | | | | | | |
| Notional amount (in PHP) | 1,187,189 | 1,016,015 | 1,825,623 | 1,343,132 | 34,057 | 5,406,016 |
| Average forward rate (in PHP) | 54 | 53 | 53 | 53 | 51 | |
| Principal Only Swap Currency Forward Contracts - Derivative Liability | | | | | | |
| Notional amount (in PHP) | — | — | — | — | 1,214,775 | 1,214,775 |
| Call Spread Foreign Currency Forward Contracts - Derivative Liability | | | | | | |
| Notional amount (in PHP) | — | — | — | — | 480,360 | 480,360 |
| Commodity swaps - Derivative Asset | | | | | | |
| Notional amount (in metric) | 105,000 | 72,000 | 140,000 | 52,000 | — | 369,000 |
| Notional amount (in PHP) | 363,956 | 243,215 | 477,051 | 177,783 | — | 1,262,005 |
| Average hedged rate (in PHP per metric tonne) | 3,466 | 3,466 | 3,408 | 3,419 | — | |
| Commodity swaps - Derivative Liability | | | | | | |
| Notional amount (in metric tonnes) | 177,000 | 174,000 | 291,000 | 260,000 | 8,000 | 910,000 |
| Notional amount (in PHP) | 748,246 | 725,808 | 1,211,904 | 1,040,778 | 31,782 | 3,758,518 |
| Average hedged rate (in PHP per metric tonne) | 4,227 | 4,171 | 4,165 | 4,411 | 3,973 | |

December 31, 2019

| | Maturity | | | | | |
|---|---|---|---|---|---|---|
| | Less than 3 months | 3 to 6 months | 6 to 12 months | 1 to 2 years | More than 2years | Total |
| IRS - Derivative Assets | | | | | | |
| Notional amount (in PHP) | — | 111,397 | 167,096 | 278,493 | 7,602,845 | 8,159,831 |
| Average fixed interest rate (%) | 1.45%-1.51% | 1.45%-1.51% | 1.45%-1.51% | 1.45%-1.51% | 1.45%-1.51% | |
| IRS - Derivative Liability | | | | | | |
| Notional amount (in PHP) | 505,084 | — | 319,001 | 744,335 | 11,973,912 | 13,542,332 |
| Average fixed interest rate (%) | 2.18% | 2.18% | 2.18% | 2.18% | 2.18% | |
| Foreign Currency Forward Contracts - Derivative Assets | | | | | | |
| Notional amount (in PHP) | 35,448 | — | — | — | — | 35,448 |
| Average forward rate (in PHP) | 51 | — | — | — | — | |
| Foreign Currency Forward Contracts - Derivative Liability | | | | | | |
| Notional amount (in PHP) | 2,549,299 | 2,459,085 | 4,447,858 | 2,809,170 | 861,922 | 13,127,334 |
| Average forward rate (in PHP) | 53 | 53 | 53 | 55 | 54 | |
| Commodity swaps - Derivative Liability | | | | | | |
| Notional amount (in metric tonnes) | 361,500 | 328,500 | 447,500 | 651,500 | 269,000 | 2,058,000 |
| Notional amount (in PHP) | 1,659,132 | 1,494,677 | 2,008,052 | 2,873,693 | 1,147,704 | 9,183,258 |
| Average hedged rate (in PHP per metric tonne) | 4,590 | 4,550 | 4,487 | 4,411 | 4,267 | |

The impact of the hedged items and hedging instruments in the consolidated balance sheets, consolidated statements of income and consolidated statement of comprehensive income is as follows:

| | As at 31 December 2020 | | | |
|---|---|---|---|---|
| | Carrying amount | Change in fair value used for measuring ineffectiveness | Total hedging gain (loss) recognized in OCI | Ineffectiveness recognized in other comprehensive income (charges) |
| IRS | | | | |
| Derivative asset | ₱— | ₱— | ₱— | ₱— |
| Derivative liability | (1,193,701) | (₱389,377) | (956,447) | — |
| Forward exchange currency forwards | | | | |
| Derivative asset | 735 | 735 | 735 | — |
| Derivative liability | (461,531) | (461,531) | (461,531) | — |
| Principal only swap foreign currency forwards | | | | |
| Derivative liability | (39,350) | (39,350) | (39,350) | — |
| Call spread currency foreign currency forwards | | | | |
| Derivative liability | (771) | (771) | (771) | — |
| Commodity swaps | | | | |
| Derivative asset | 164,361 | 161,703 | 161,703 | 2,658 |
| Derivative liability | (258,545) | (251,251) | (251,251) | (7,294) |

| | As at 31 December 2019 | | | |
|---|---|---|---|---|
| | Carrying amount | Change in fair value used for measuring ineffectiveness | Total hedging gain (loss) recognized in OCI | Ineffectiveness recognized in other comprehensive income (charges) |
| IRS | | | | |
| Derivative asset | ₱82,328 | ₱80,134 | ₱63,429 | ₱— |
| Derivative liability | (256,858) | — | (515,811) | — |
| Forward exchange currency forwards | | | | |
| Derivative asset | 13 | 13 | 13 | — |
| Derivative liability | (521,528) | (521,528) | (405,516) | — |
| Commodity swaps | | | | |
| Derivative asset | — | — | (195,428) | — |
| Derivative liability | (1,689,952) | (1,689,952) | (1,461,259) | (8,430) |

The Group has not bifurcated any embedded derivatives as of December 31, 2020 and 2019.

The movements in fair value changes of all derivative instruments for the year ended December 31, 2020 and 2019 are as follows:

| | 2020 | 2019 |
|---|---|---|
| Balances at beginning of year | **(₱2,385,9976)** | ₱132,902 |
| Net changes in fair value of derivatives designated as cash flow hedges | **1,107,316** | (2,515,732) |
| Net changes in fair value of derivatives not designated as accounting hedges | **(4,848)** | (3,889) |
| Fair value of settled instruments | **(505,273)** | 722 |
| Balances at end of year | **(₱1,788,802)** | (₱2,385,997) |

The net gains and losses from the net fair value changes of derivatives not designated as accounting hedges are included under "Net foreign exchange gain (losses)" in Note 28.

The changes in the fair value of derivatives designated as cash flow hedges were deferred in equity under "Cumulative translation adjustments."

The implementation of community quarantine by the Philippine government and the decline in prices of coal amid COVID-19 pandemic led to reduction in the coal requirements of the TLI in 2020. Due to this, TLI discontinued its cash flow hedge accounting on some derivatives where it assessed that the hedged items were no longer expected to occur and reclassified ₱103.08 million and ₱614.99 million of foreign currency forward and commodity swap contracts, respectively, from equity into the consolidated statement of income.

The net movement of changes to cumulative translation adjustment is as follows:

| | 2020 | 2019 |
|---|---|---|
| Balance at beginning of year (net of tax) | **(₱2,257,289)** | ₱261,378 |
| Changes in fair value recorded in equity | **(1,482,795)** | (2,495,146) |
| | **(3,740,084)** | (2,233,768) |
| Changes in fair value transferred to profit or loss | **2,245,088** | (8,218) |
| Balance at end of year before deferred tax effect | **(1,494,996)** | (2,241,986) |
| Deferred tax income effect | **2,166** | (15,303) |
| Balance at end of year (net of tax) | **(₱1,492,830)** | (₱2,257,289) |

Fair Value Hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As of December 31, 2020 and 2019, the Group held the following financial instruments that are measured and carried or disclosed at fair value:

**December 31, 2020**

| | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| **Carried at fair value:** | | | | |
| **Derivative liabilities** | **₱1,788,802** | **₱–** | **₱1,788,802** | **₱–** |
| **Disclosed at fair value:** | | | | |
| **Lease liabilities** | **37,907,883** | **–** | **–** | **37,907,883** |
| **Long-term debt - fixed rate** | **164,336,417** | **–** | **–** | **164,336,417** |
| **Long-term obligation on PDS** | **183,436** | **–** | **–** | **183,436** |
| **PSALM deferred adjustment** | **2,142,255** | **–** | **–** | **2,142,255** |

December 31, 2019

| | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Carried at fair value: | | | | |
| Derivative assets | ₱110,576 | ₱— | ₱110,576 | ₱— |
| Derivative liabilities | 2,468,324 | — | 2,468,324 | — |
| Disclosed at fair value: | | | | |
| Lease liabilities | 38,495,450 | — | — | 38,495,450 |
| Long-term debt - fixed rate | 152,786,437 | — | — | 152,786,437 |
| Long-term obligation on PDS | 320,194 | — | — | 320,194 |
| PSALM deferred adjustment | 7,855,111 | — | — | 7,855,111 |

The fair values of the Group's investment properties were determined as follows:

- In valuing the land, the Group used the Sales Comparison Approach. This is a comparative approach to value that considers the sales of similar or substitute properties and related market data and establishes a value estimate by processes involving comparison.
- The appraiser gathers data on actual sales and/or listings, offers, and renewal options, and identifies the similarities and differences in the data, ranks the data according to their relevance, adjusts the sales prices of the comparable to account for the dissimilarities with the unit being appraised, and forms a conclusion as to the most reasonable and probable market value of the subject property.

The elements of comparison include location, physical characteristics, available utilities, zoning, and highest and best use. The most variable elements of comparison are the site's physical characteristics, which include its size and shape, frontage, topography and location.

Fair value investment properties are estimated under Level 3 inputs.

During the years ended December 31, 2020 and 2019, there were no transfers between level 1 and level 2 fair value measurements and transfers into and out of level 3 fair value measurement.

## 34. Lease Agreements

TLI

In 2009, TLI was appointed by PSALM as Administrator under the IPP Administration Agreement, giving TLI the right to receive, manage and control the capacity of the power plant for its own account and at its own cost and risk; and the right to receive the transfer of the power plant at the end of the IPP Administration Agreement for no consideration.

In view of the nature of the IPP Administration Agreement, the arrangement has been considered as a lease. Accordingly, TLI recognized the capitalized asset and related liability of ₱44.79 billion (equivalent to the present value of the minimum lease payments using TLI's incremental borrowing rates of 10% and 12% for dollar and peso payments, respectively) in the consolidated financial statements as "Power plant" and "Lease liabilities" accounts, respectively.

APRI
On May 25, 2009, APRI entered into a lease agreement with PSALM for a parcel of land owned by the latter on which a portion of the assets purchased under the APA is situated. The lease term is for a period of 25 years commencing from the Closing Date as defined in the APA which falls on May 25, 2009. The rental fees for the whole term of 25 years amounting to ₱492.0 million were paid in full after the receipt by APRI of the Certificate of Effectivity on the lease (see Notes 8 and 13).

GMEC
In August 2007, a 25-year lease agreement with Authority of the Freeport Area of Bataan for land at Bataan Economic Zone, used as an access road and right of way for electric power transmission lines.

In January 2010, a 50-year land lease agreement with PMR Group Retirement Plan, Inc. (PGRPI), used for its power plant facilities. GMEC, upon mutual agreement of PGRPI, has the right and option to extend the lease for a period of twenty-five years. In August 2016, GMEC entered into another lease agreement with PGRPI for land to be used for staff house.

HI, HTI and HSI
HI, HTI and HSI entered into contracts with various lot owners for lease of land where their power plants are located. Terms of contract are for a period of 1 to 50 years renewable upon mutual agreement by the parties.

Sacasun
Sacasun entered into a contract for lease of land where the power plant is located. The contract pertains to rent for 25 years renewable upon mutual agreement by the parties.

Therma Mobile
On April 26, 2014, a 10-year lease for portions of the breakwater area of the Navotas Fishport Complex (NFPC), including the mooring facility, marine and land transmission lines.

EAUC
Lease agreement with PEZA for a piece of land located inside Mactan Economic Zone for its power plant facilities for a period of 25 years.

TPVI
TPVI entered into a contract for lease of land where the power plant is located. The contract pertains to rent for 25 years renewable upon mutual agreement by the parties.

*Lease Disclosure in Accordance with PFRS 16 (applicable beginning January 1, 2019)*

Set out below, are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the year ended:

2020

| | Right-of-use assets | | | | | |
|---|---|---|---|---|---|---|
| | **Land** | **Building** | **Power Plant** | **Equipment and Others** | **Total** | **Lease Liability** |
| **Balances at beginning of year** | **₱2,730,076** | **₱230,234** | **₱33,575,200** | **₱117,602** | **₱36,653,112** | **₱44,789,644** |
| **Additions** | **122,456** | **19,121** | **—** | **10,914** | **152,491** | **152,491** |
| **Amortization expense** | **(180,225)** | **(24,950)** | **(1,105,125)** | **(8,759)** | **(1,319,059)** | **—** |
| **Interest expense** | **—** | **—** | **—** | **—** | **—** | **3,383,777** |
| **Payments** | **—** | **—** | **—** | **—** | **—** | **(7,632,923)** |
| **Others** | **150,035** | **(152,767)** | **34,489** | **(37,663)** | **(5,906)** | **(1,430,012)** |
| **Balances at end of year** | **₱2,822,342** | **₱71,638** | **₱32,504,564** | **₱82,094** | **₱35,480,638** | **₱39,262,977** |

2019

| | Right-of-use assets | | | | | |
|---|---|---|---|---|---|---|
| | Land | Building | Power Plant | Equipment and Others | Total | Lease Liability |
| Balances at beginning of year | ₱2,804,819 | ₱249,400 | ₱34,669,713 | ₱116,437 | ₱37,840,369 | ₱49,190,986 |
| Additions | 24,249 | — | — | — | 24,249 | — |
| Amortization expense | (98,992) | (19,166) | (1,094,513) | (10,402) | (1,223,073) | — |
| Interest expense | — | — | — | — | — | 4,350,043 |
| Payments | — | — | — | — | — | (7,424,990) |
| Others | — | — | — | 11,567 | 11,567 | (1,326,395) |
| Balances at end of year | ₱2,730,076 | ₱230,234 | ₱33,575,200 | ₱117,602 | ₱36,653,112 | ₱44,789,644 |

The carrying amount of the Group's right-of-use assets as of December 31, 2020 and 2019 is presented as part of "Property, plant and equipment".

The Group also has certain leases of equipment, meeting rooms and event sites with lease terms of 12 months or less. The Group applies the 'short-term lease' recognition exemption of these leases.

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

| | 2020 | 2019 |
|---|---|---|
| Amortization expense of right-of-use assets | ₱1,319,059 | ₱1,223,073 |
| Interest expense on lease liabilities | 3,255,808 | 4,350,043 |
| Rent expense - short-term leases | 123,329 | 56,896 |
| | ₱4,698,196 | ₱5,630,012 |

## 35. Agreements

Pagbilao IPP Administration Agreement

TLI and PSALM executed the IPP Administration Agreement wherein PSALM appointed TLI to manage the 700MW contracted capacity (the "Capacity") of NPC in the coal-fired power plant in Pagbilao, Quezon.

The IPP Administration Agreement includes the following obligations TLI would have to perform until the transfer date of the power plant (or the earlier termination of the IPP Administration Agreement):

a. Supply and deliver all fuel for the power plant in accordance with the specifications of the original Energy Conservation Agreement (ECA); and
b. Pay to PSALM the monthly payments (based on the bid) and energy fees (equivalent to the amount paid by NPC to the IPP).

TLI has the following rights, among others, under the IPP Administration Agreement:

a. The right to receive, manage and control the Capacity of the power plant for its own account and at its own cost and risk;
b. The right to trade, sell or otherwise deal with the Capacity (whether pursuant to the spot market, bilateral contracts with third parties or otherwise) and contract for or offer related ancillary services, in all cases for its own account and its own risk and cost. Such rights shall carry the rights to receive revenues arising from such activities without obligation to account therefore to PSALM or any third party;
c. The right to receive the transfer of the power plant at the end of the IPP Administration Agreement (which is technically the end of the ECA) for no consideration; and
d. The right to receive an assignment of NPC's interest to existing short-term bilateral Power Supply Contract from the effective date of the IPP Administration Agreement the last of which were scheduled to end in November 2011.

Agreements with Contractors and Suppliers

a. APRI total steam supply cost reported as part of "Cost of generated power" amounted to ₱2.97 billion in 2020, ₱5.01 billion in 2019, and ₱5.23 billion in 2018 (see Note 22).

   On May 26, 2013, APRI's steam supply contract with Chevron Geothermal Philippines Holdings, Inc. (CGPHI) shifted to a GRSC. The change is due to an existing provision under the government's existing contract with CGPHI when the Tiwi-Makban facilities were bidded out under the former's privatization program. Under the GRSC, the effective steam price of APRI payable to PGPC will be a premium to coal.

   To ensure that APRI will continue to remain competitive in the market, a two-month interim agreement supplementing the GRSC was implemented on August 14, 2013 and extended until August 25, 2018. On August 24, 2018, a new contract was signed by APRI and Philippine Geothermal Production Company, Inc. which aims to ensure long-term operations of both parties. The Geothermal Resources Supply and Services Agreement took effect August 26, 2018 and shall continue in effect until October 22, 2034, unless earlier terminated or extended by mutual agreement of the Parties.

b. Construction of civil and electromechanical works, procurement and installation of solar panels and project management related to the construction of the San Carlos Solar Plant. Total payments made for the commitments amounted to $1.3 million (₱64.3 million) and $5.7 million (₱294.5 million) as of December 31, 2020 and 2019.

c. TLI enters into short-term coal supply agreements. Outstanding coal supply agreements as of December 31, 2020 have aggregate supply amounts of 1,840,000 MT (equivalent dollar value is estimated to be at $131 million), which are due for delivery from January 2021 to December 2022. Outstanding coal supply agreements as of December 31, 2019 have aggregate supply amounts of 560,000 MT (equivalent dollar value is estimated to be at $29 million), which are due for delivery from January 2020 to April 2020. Terms of payment are by letter of credit where payment is due at sight against presentation of documents, and by telegraphic transfer where payment is due within 7 days from receipt of original invoice.

d. GMEC has a current Coal Supply Agreement (CSA) with Avra Commodities Pte. Ltd. (Avra) and Arutmin dated December 20, 2019 and December 23, 2019, respectively, for coal deliveries commencing on January 1, 2020. Avra shall annually deliver between a minimum of 500,000 metric tonnes to a maximum of 1,200,000 metric tonnes of coal until CSA expires on December 31, 2024, while Arutmin shall annually deliver 1,650,000 metric tonnes of coal with an additional quantity of 160,000 metric tonnes at GMEC's option until the CSA expires on December 31, 2029.

   In addition, GMEC entered into a CSA with PT. Bayan Resources TBK (Bayan) on April 8, 2020. Bayan shall annually deliver between a minimum of 500,000 metric tonnes to a maximum of 1,000,000 metric tonnes until the CSA expires on April 30, 2030.

e. PEC enters into EPC contracts with suppliers relating to the construction of the 400MW coal fired power plant. Total EPC contract price for the complete performance of these contracts amount to US$398.0 million and ₱7.00 billion. As of December 31, 2020 and 2019, the joint operation has a retention payable amounting to ₱287.2 million and ₱305.1 million, respectively, which is presented as part of "Trade and other payables" in the consolidated balance sheets.

## 36. Registration with the Board of Investments (BOI)

Certain power generation subsidiaries in the Group have been registered with the BOI. The following are the incentives granted by the BOI:

a. ITH for a period of four (4) to seven (7) years, as follows:

| Subsidiary/Joint operation | BOI Approval Date | Start of ITH Period | ITH Period |
|---|---|---|---|
| APRI | July 25, 2016 | Start of commercial operations | 7 years |
| GMEC | January 29, 2010 | July 1, 2013 | 6 years |
| TSI | July 15, 2011 | February 1, 2016 [1] | 4 years |
| TVI | August 28, 2012 | January 1, 2017 [1] | 4 years |
| Hedcor Tudaya | January 31, 2013 | August 1, 2014 [1] | 7 years |
| Hedcor, Inc. [3] | February 20, 2013 | February 1, 2013 | 7 years |
| Hedcor Sibulan[2] | April 23, 2013 | September 1, 2014 [1] | 7 years |
| Hedcor Sabangan | October 23, 2013 | February 1, 2015 [1] | 7 years |
| Hedcor Bukidnon [4] | January 7, 2015 | July 2, 2018 | 7 years |
| PEC | June 26, 2014 | March 7, 2018 | 6 years |
| Sacasun | October 26, 2015 | Start of commercial operations | 7 years |

[1] Or actual start of commercial operations, whichever is earlier.
[2] For Tudaya-1 hydroelectric plant.
[3] For Irisan-1 hydroelectric plant.
[4] For Manolo-1 hydroelectric plant.

The ITH shall be limited only to sales/revenue generated from the sales of electricity of the power plant and revenues generated from the sales of carbon emission reduction credits.

b. For the first five (5) years from date of registration, the registrant shall be allowed an additional deduction from taxable income of fifty percent (50) of the wages corresponding to the increment in the number of direct labor for skilled and unskilled workers in the year of availment as against the previous year if the project meets the prescribed ratio of capital equipment to the number of workers set by BOI of US$10,000 to one worker and provided that this incentive shall not be availed of simultaneously with the ITH.

c. Employment of foreign nationals may be allowed in supervisory, technical or advisory positions for five (5) years from date of registration.

d. Importation of consigned equipment for a period of ten (10) years from the date of registration, subject to the posting of re-export bond.

e. Special realty tax rates on equipment and machinery and tax credit on domestic capital equipment and services.

As a requirement for availment of the incentives, the registrant is required to maintain a minimum equity requirement.

As of December 31, 2020 and 2019, the power generation subsidiaries referred to above, which are currently availing the incentives, have complied with the requirements.

## 37. Notes to Consolidated Statement of Cash Flows

The following are the cash flow movements of the Group's financing liabilities:

**December 31, 2020**

| | | | Non-cash Changes | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | January 1, 2020 | Net cash flows | Dividend Declaration | Amortized deferred financing costs | Foreign exchange movement | Changes in fair values | Accreted interest | Others | December 31, 2020 |
| Current interest-bearing loans and borrowings, excluding obligations under finance leases | ₱20,721,731 | (₱8,978,318) | ₱— | ₱— | ₱— | ₱— | ₱— | ₱17,254,213 | ₱28,997,626 |
| Non-current interest-bearing loans and borrowings, excluding obligations under finance leases | 167,585,311 | 11,928,320 | — | 321,520 | (1,915,843) | — | — | (17,852,189) | 160,067,119 |
| Current obligations under lease liabilities | 5,486,745 | (7,632,923) | — | — | — | — | — | 9,250,359 | 7,104,181 |
| Non-current obligations under lease liabilities | 39,302,899 | — | — | — | (1,038,942) | — | 3,255,808 | (9,360,970) | 32,158,795 |
| Dividends payable | — | (8,682,746) | 8,683,153 | — | — | — | — | — | 407 |
| Derivatives | 2,468,324 | — | — | — | — | (679,522) | — | — | 1,788,802 |
| Total liabilities from financing activities | ₱235,565,010 | (₱13,365,667) | ₱8,683,153 | ₱321,520 | (₱2,954,785) | (₱679,522) | ₱3,255,808 | (₱708,587) | ₱230,116,930 |

December 31, 2019

| | January 1, 2019 | Netcash flows | Non-cash Changes | | | | | | | December 31, 2019 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Effect of Adoption - PFRS 16 | Dividend Declaration | Amortized deferred financing costs | Foreign exchange movement | Changes in fair values | Accreted interest | Others | |
| Current interest-bearing loans and borrowings, excluding obligations under finance leases | ₱20,243,964 | (₱9,885,204) | ₱— | ₱— | ₱— | (₱23,340) | ₱— | ₱— | ₱10,386,311 | ₱20,721,731 |
| Non-current interest-bearing loans and borrowings, excluding obligations under finance leases | 149,360,287 | 30,378,265 | — | — | 231,245 | (1,506,799) | — | — | (10,877,687) | 167,585,311 |
| Current obligations under lease liabilities | — | (7,424,990) | 7,424,990 | — | — | — | | — | 5,486,745 | 5,486,745 |
| Non-current obligations under lease liabilities | — | — | 41,765,996 | — | | (2,018,791) | | 4,350,043 | (4,794,349) | 39,302,899 |
| Current obligations under finance leases | 4,131,059 | — | (4,131,059) | — | — | — | — | — | — | — |
| Non-current obligations under finance leases | 42,763,296 | | (42,763,296) | | | | — | — | | — |
| Dividends payable | — | (10,817,148) | — | 10,817,148 | — | — | — | — | — | — |
| Derivatives | 159,926 | — | | | — | — | 2,308,398 | — | — | 2,468,324 |
| Total liabilities from financing activities | ₱216,658,532 | ₱2,250,923 | ₱2,296,631 | ₱10,817,148 | ₱231,245 | (₱3,548,930) | ₱2,308,398 | ₱4,350,043 | ₱201,020 | ₱235,565,010 |

"Others" includes the effect of reclassification of noncurrent portion of interest-bearing loans and borrowings.

## 38. Contingencies

The Group is a party to certain proceedings and legal cases with other parties in the normal course of business. The ultimate outcome of these proceedings and legal cases cannot be presently determined. Management, in consultation with its legal counsels, believes that it has substantial legal and factual bases for its positions and is currently of the opinion that the likely outcome of these proceedings and legal cases will not have a material adverse effect on the Group's financial position and operating results. It is possible, however, that the future results of operations could be materially affected by changes in estimates or in the effectiveness of the strategies relating to these proceedings and legal cases.

The Group obtained SBLC and is acting as surety for the benefit of certain associates and joint ventures in connection with loans and credit accommodations. The Group provided SBLC for STEAG, CEDC, SNAP M and SNAP B in the amount of ₱900.0 million in 2020, ₱958.3 million in 2019 and ₱1.02 billion in 2018 (see Note 31).

## 39. Other Matters

a. Temporary Restraining Order (TRO) affecting power generation companies trading in WESM

On December 19, 2013, Bayan Muna representatives filed a Petition for Certiorari against the ERC and MERALCO with the Supreme Court (SC). On December 20, 2013, National Association of Electricity Consumers for Reforms filed a Petition for Certiorari and/or Prohibition against MERALCO, ERC and Department of Energy (DOE). These cases raised and questioned, among others, the alleged substantial increase in MERALCO's power rates for the billing period of November 2013, the failure of the ERC to protect consumers from high energy prices and perceived market collusion of the generation companies.

These cases were consolidated by the SC which issued a TRO for a period of 60 days from December 23, 2013 to February 21, 2014, preventing MERALCO from collecting the increase in power rates for the billing period of November 2013. The TRO was subsequently extended for another 60 days ending April 22, 2014 by the SC. Thereafter, the TRO was extended indefinitely.

MERALCO, in turn, filed a counter-petition impleading generation companies supplying power to the WESM. The SC also ordered all the parties in the consolidated cases to file their respective pleadings in response to MERALCO's counter-petition. The SC set the consolidated cases for oral arguments last January 21, 2014, February 4 and 11, 2014. After hearing, all parties were directed to file their comments and/or memorandum. The case is now submitted for resolution.

As a result of the TRO, MERALCO has not been able to fully bill its consumers for the generation costs for the supply month of November 2013; and in turn, it has not been able to fully pay its suppliers of generation costs. As of December 31, 2020, the SC has not lifted the TRO.

b. Imposition of financial penalties on Therma Mobile by PEMC

This case involves an investigation of Therma Mobile in the dispatch of its power barges during the November and December 2013 supply periods. As a result of the MERALCO price hike case brought before the SC, the SC ordered the ERC to investigate anti-competitive behavior and abuse of market power allegedly committed by some WESM participants.

PEMC conducted the investigation under the "Must-Offer" rules of the WESM Rules.

PEMC initially found that Therma Mobile violated the "Must-Offer Rule" during the period under investigation. In its letter dated January 30, 2015, the PEM Board imposed financial penalties amounting to ₱234.9 million on Therma Mobile. According to the PEM Board, the penalties will be collected from Therma Mobile through the WESM settlement process.

Therma Mobile maintains that there is no basis for the PEMC decision. It did not violate the Must-Offer Rule for the period covered, as it was physically impossible for Therma Mobile to transmit more than 100MW to MERALCO. Although Therma Mobile's rated capacity is 234 MW (Net), it could only safely, reliably and consistently deliver 100MW during the November and December 2013 supply period because of transmission constraints. Therma Mobile's engines and transmission lines were still undergoing major repairs to address issues on post rehabilitation.

On February 13, 2015, Therma Mobile filed a notice of dispute with the PEMC to refer the matter to dispute resolution under the WEM Rules and the WESM Dispute Resolution Market Manual.

Therma Mobile also filed a Petition for the Issuance of Interim Measures of Protection with the Regional Trial Court (RTC) of Pasig to hold off enforcement of the payment of the penalties during the pendency of the Therma Mobile and PEMC dispute resolution proceedings. On February 24, 2015, the RTC issued in favor of Therma Mobile an ex parte 20-day Temporary Order of Protection directing PEMC to refrain from (a) demanding and collecting from Therma Mobile the ₱234.9 million financial penalty; (b) charging and accruing interest on the financial penalty; and (c) transmitting the PEMC-ECO investigation report to the ERC.

On April 1, 2015, the RTC granted the prayer for the issuance of Writ of Preliminary Injunction, which ruling was assailed by the PEMC and elevated to the Court of Appeals (CA) via Petition for Review. On December 15, 2015, the CA issued a Decision confirming the RTC's findings. PEMC filed a Motion for Reconsideration, and in compliance with a Resolution of the CA, has filed a comment on the said motion.

On June 6, 2016, PEMC filed a petition before the SC questioning the CA's Decision. TMO also filed its Comment on the Petition on November 14, 2016. On June 1, 2017, TMO received the SC Notice dated March 29, 2017. In the Resolution, the SC noted TMO's Comment and PEMC's Reply. As of December 31, 2020, the petition is still pending resolution with the SC.

c. Therma Marine Cases

In 2013, ERC issued Final Approval of various ESAs of Therma Marine with some modifications on ERC's provisionally approved rates which directed both parties to devise a scheme for the refund of the difference between the final and the provisionally approved rates.

On November 25, 2013, ERC issued its order for Therma Marine to refund the amount of ₱180.0 million to its customers for a period of 6 months with equal installments per month.

On August 27, 2014, ERC issued an order directing NGCP to refund its customers the amount of ₱12.7 million and the corresponding VAT for a period of twelve months. As such, Therma Marine will refund the said amount to NGCP and the latter will refund the same to its customers. In 2015, ERC issued Provisional Approvals (PA) on ESA contracts extensions with capacity fees lower than the previously approved rates. Therma Marine filed MRs on these PAs. During the last quarter of 2015, ERC issued Final Approvals on some of these ESA's sustaining the decision in the PA's, thus Therma Marine filed MRs on the final decisions. As of December 31, 2020, there is no resolution yet on the MRs on the Final Approvals.

d. ERC Case No. 2013-077 MC

On August 29, 2013, MERALCO filed a petition for dispute resolution against TLI/APRI, among other Successor Generating Companies ("SGCs") under ERC Case No. 2013-077 MC. The case arose from a claim of refund of the alleged over charging of transmission line losses pursuant to the ERC Order dated March 4, 2013 and July 1, 2013 in ERC Case No. 2008-083 MC.

On September 20, 2013, TLI, together with the other SGCs, filed a Joint Motion to Dismiss arguing that MERALCO's petition should be dismissed for failure to state a cause of action and ERC's lack of jurisdiction over the subject matter of the case. The SGCs and Meralco have filed their respective comments, reply, rejoinder and sur-rejoinder after the filing of the Joint Motion to Dismiss. The Joint Motion to Dismiss has since then been submitted for resolution with the ERC. As of December 31, 2020, the ERC has yet to render its decision on the Joint Motion to Dismiss.

e. Sergio Osmena III vs. PSALM, Emmanuel R. Ledesma, Jr., SPC Power Corporation (SPC) & Therma Power Visayas, Inc. (TPVI)

In 2009, SPC acquired through a negotiated bid the 153.1MW Naga Land-Based Gas Turbine Power Plant ("Naga Plant") in Naga, Cebu. In the same year, it entered into a Land Lease Agreement (LLA) with PSALM, which includes SPC's right to top (RTT) the price of a winning bidder for the sale of any property in the vicinity of the leased premises.

PSALM subsequently bid out the Naga Plant located in the leased premises. On April 30, 2014 and after two failed biddings, PSALM issued a Notice of Award to TPVI for submitting the highest bid for the Naga Plant. SPC wrote PSALM of its intent to exercise its RTT the winning bid, on the condition that the LLA would be for a term of 25 years from closing date.

Senator Sergio Osmeña III filed with the SC a Petition for Certiorari and Prohibition with prayer for issuance of a Temporary Restraining Order and/or Writ of Preliminary Injunction dated June 16, 2014 (the "Case") with PSALM, Emmanuel R. Ledesma, SPC and TPVI as respondents to enjoin PSALM from making the award of the Naga Plant to SPC. In his petition, Sen. Osmeña argued that the RTT should be held invalid as it defeats the purpose of a fair and transparent bidding for a government asset and it discourages interested bidders considering the unfair advantage given to SPC.

On July 25, 2014, PSALM awarded the contract to SPC, despite TPVI's objection on the ground that SPC did not validly exercise its right to top because of its qualified offer. Thereafter, an APA for the Naga Plant was executed between PSALM and SPC.

On September 28, 2015, the SC declared in the Case that the RTT and the APA executed in favor of SPC are null and void. The parties thereafter filed various motions for reconsideration which the SC subsequently denied.

On March 16, 2016, TPVI filed its Manifestation/Motion praying that the Notice of Award dated April 30, 2014 be reinstated and that respondent PSALM be ordered to execute the Asset Purchase Agreement ("NPPC-APA"), Land Lease Agreement ("NPPC-LLA") and other documents to implement TPVI's acquisition of the Naga Plant.

On April 6, 2016, the SC issued a Resolution that required PSALM and SPC to comment on TPVI's Manifestation/Motion. In the same Resolution, the SC denied the motion for leave to file and admit SPC's second motion for reconsideration and referral to the SC en banc.

On July 19, 2016, TPVI filed its Manifestation with Omnibus Motion to clarify the motion dated March 16, 2016 and for early resolution. TPVI prayed that the SC Decision dated September 28, 2015 be clarified, and if necessary, be amended to include in its "fallo" that the Notice of Award in favor of TPVI be reinstated.

In response to various motions, the SC issued a Notice of Judgment and Resolution dated October 5, 2016 clarifying that the nullification of SPC's right to top did not invalidate the entire bidding process. Thus, the SC ordered the reinstatement of the Notice of Award dated April 30, 2014 in favor of TPVI. Further, the SC annulled and set aside the APA and the LLA executed between SPC and PSALM and directed PSALM to execute with dispatch the NPPC-APA and the NPPC-LLA in favor of TPVI.

On October 26, 2016, SPC filed an Urgent Motion for Reconsideration with Alternative Motion to Refer to the En Banc of the SC. SPC reiterated its prayer for the reversal of the October 5, 2016 Resolution, denial of TPVI's Manifestation/Motion and for the conduct of a new round of bidding for the Naga Plant. PSALM also filed its Motion for Reconsideration with Leave and prayed that the SC's October 5, 2016 Resolution be re-examined and/or reconsidered.

In its Resolution dated November 28, 2016, the SC denied SPC's and PSALM's motions for reconsideration (of the October 5, 2016 Resolution) with finality. The SC ordered that no further pleadings, motions, letters, or other communications shall be entertained in the Case, and it ordered the issuance of Entry of Judgment.

Notwithstanding the above SC Resolution, SPC filed its Motion for Leave to File and Admit (Motion for Reconsideration dated 9 December 2016) with attached Motion for Reconsideration dated December 9, 2016. Thereafter, SPC filed its Supplemental Motion/Petition for Referral to the Banc dated January 16, 2017.

On February 14, 2017, TPVI received a copy of the Entry of Judgment which states that the October 5, 2016 Resolution of the SC has become final and executory on November 28, 2016.

In May 2018, TPVI received the Certificate of Effectivity (COE) from PSALM initiating the purchase of the facility. The COE implements the September 28, 2015 decision of the SC, which upheld the April 30, 2014 award of the facility to TPVI. Pursuant to the NPPC-APA, on July 16, 2018 ("Closing date"), the Joint Certificate of Turn-Over was signed and issued and the facility was formally turned-over to TPVI.

In 2018, TPVI paid a total amount ₱1.03 billion for the NPPC-APA and NPPC-LLA and ₱495.97 million for the inventories upon implementation of the acquisition of the Naga Power Plant.

f. DLP Case

On December 7, 1990, certain customers of DLP filed before the then Energy Regulatory Board (ERB) a letter-petition for recovery claiming that with the SC's decision reducing the sound appraisal value of DLP's properties, DLP exceeded the 12% Return on Rate Base (RORB). The ERB's order dated June 4, 1998, limited the computation coverage of the refund from January 19, 1984 to December 14, 1984. No amount was indicated in the ERB order as this has yet to be recomputed.

The CA, in Court of Appeals General Register Special Proceeding (CA-GR SP) No. 50771, promulgated a decision dated February 23, 2001 which reversed the order of the then ERB, and expanded the computation coverage period from January 19, 1984 to September 18, 1989.

The SC in its decision dated November 30, 2006 per GR150253 reversed the CA's decision CA-GR SP No. 50771 by limiting the period covered for the refund from January 19, 1984 to December 14, 1984, approximately 11 months. The respondent/customers filed a Motion for Reconsideration with the SC, which was denied with finality by the SC in its Order dated July 4, 2007.

The SC, following its decision dated November 30, 2006, ordered the ERC to proceed with the refund proceedings instituted by the respondents with reasonable dispatch.

On March 17, 2010, the ERC directed DLP to submit its proposed scheme in implementing the refund to its customers. In compliance with the order, the DLP filed its compliance stating that DLP cannot propose a scheme for implementing a refund as its computation resulted to no refund.

A clarificatory meeting was held where DLP was ordered to submit its memoranda.

On October 4, 2010, in compliance with the ERC directive, DLP submitted its memoranda reiterating that no refund can be made. After which, no resolution has been received by DLP from the ERC as of December 31, 2020.

g. LHC Franchise Tax Assessment

In 2007, the Provincial Treasurer of Benguet issued a franchise tax assessment against LHC, requiring LHC to pay franchise tax amounting to approximately ₱40.4 million, inclusive of surcharges and penalties covering the years 2002 to 2007. In 2008, LHC has filed for a petition for the annulment of the franchise tax assessment, based primarily on the fact that LHC is not liable for franchise tax because it does not have a franchise to operate the business. Section 6 of R.A. No. 9136 provides that power generation shall not be considered a public utility operation. As such, an entity engaged or which shall engage in power generation and supply of electricity shall not be required to secure a national franchise. Accordingly, no provision has been made in the consolidated financial statements. The case remains pending as of December 31, 2020.

h. EPIRA of 2001

R.A. No. 9136 was signed into law on June 8, 2001 and took effect on June 26, 2001. The law provides for the privatization of NPC and the restructuring of the electric power industry. The IRR were approved by the Joint Congressional Power Commission on February 27, 2002.

R.A. No. 9136 and the IRR impact the industry as a whole. The law also empowers the ERC to enforce rules to encourage competition and penalize anti-competitive behavior.

R.A. No. 9136, the EPIRA, and the covering IRR provides for significant changes in the power sector, which include among others:

i. The unbundling of the generation, transmission, distribution and supply and other disposable assets of a company, including its contracts with IPPs and electricity rates;
ii. Creation of a WESM; and
iii. Open and non-discriminatory access to transmission and distribution systems.

The law also requires public listing of not less than 15% of common shares of generation and distribution companies within 5 years from the effectivity date of the EPIRA. It provides cross ownership restrictions between transmission and generation companies and a cap of 50% of its demand that a distribution utility is allowed to source from an associated company engaged in generation except for contracts entered into prior to the effectivity of the EPIRA.

There are also certain sections of the EPIRA, specifically relating to generation companies, which provide for a cap on the concentration of ownership to only 30% of the installed capacity of the grid and/or 25% of the national installed generating capacity.

i. Retail Competition and Open Access

The EPIRA mandates the implementation of Retail Competition and Open Access (RCOA) subject to the fulfilment of the conditions as provided in the EPIRA. The ERC was tasked under the EPIRA Implementing Rules and Regulations to declare, after due notice and public hearing, the initial implementation of RCOA. Through the RCOA, eligible customers will have the option to source their electricity from eligible suppliers that have secured Retail Electricity Supplier (RES) licenses from the ERC. End users with a monthly average peak demand of at least 1 Megawatt (MW) for the preceding 12 months are eligible to be contestable customers. The 1 MW qualification would gradually be reduced upon evaluation of the ERC.

In June 2011, after due notice and public hearings, the ERC declared December 26, 2011 as the date to mark the commencement of the full operation of RCOA in Luzon and Visayas. However, due to deficiencies in the rules and guidelines governing the RCOA at that time, the December 26, 2011 commencement date was deferred several times until an interim system commenced on July 26, 2013.

The DOE and ERC have issued and revised several circulars, rules and resolutions on the implementation of the RCOA and the issuance of RES licences, including a Code of Conduct, Rules on Contestability, and Rules on RES Licencing.

On February 21, 2017, the SC issued a TRO enjoining the DOE and ERC from implementing the following issuances:

1. DOE Circular No. DC-2015-06-0010 or the DOE Circular Providing Policies to Facilitate the Full Implementation of RCOA in the Philippine Electric Power Industry;
2. ERC Resolution No. 5, Series of 2016 or the Rules Governing the Issuance of Licenses to RES and Prescribing the Requirements and Conditions Therefor;
3. ERC Resolution No. 10, Series of 2016 or a Resolution adopting the Revised Rules for Contestability;
4. ERC Resolution No. 11, Series of 2016 or a Resolution Imposing Restrictions on the Operations of DUs and RES in the Competitive Retail Electricity Market; and
5. ERC Resolution No. 28, Series of 2016 or the Revised Timeframe for Mandatory Contestability, Amending Resolution No. 10, Series of 2016, entitled Revised Rules of Contestability.

The TRO effectively enjoined the DOE and the ERC from imposing the mandatory migration of end-users with average monthly peak demand of at least 1MW and 750 kW on 26 February 2017 and 26 June 2017, respectively, and barring Local RESs and DUs from supplying electricity to the Contestable Market.

Due to the TRO, no new or renewed RES licenses were issued by the ERC due to the perceived risk of being declared in contempt by the SC. The renewal of PEI, AEI and AESI's RES licenses remain pending before the ERC. The application for RES licenses of TLI and APRI are likewise pending.

On November 29, 2017, DOE issued Department Circular No. 2017-12-0013, which provides, among other things, for voluntary participation of Contestable Customers in the Retail Market. On the same date, DOE issued Department Circular No. 2017-12-0014, which provides, among other things, the guidelines on the licensing of RES. Both DOE Circulars enjoin the ERC to promote the supporting guidelines to the DOE Circulars. Once the ERC promulgates these rules, approval of RES license applications and renewals can be expected.

j. Renewable Energy Act of 2008

On January 30, 2009, R.A. No. 9513, An Act Promoting the Development, Utilization and Commercialization of Renewable Energy Resources and for Other Purposes, which shall be known as the "Renewable Energy Act of 2008" (the Act), became effective. The Act aims to (a) accelerate the exploration and development of renewable energy resources such as, but not limited to, biomass, solar, wind, hydro, geothermal and ocean energy sources, including hybrid systems, to achieve energy self-reliance, through the adoption of sustainable energy development strategies to reduce the country's dependence on fossil fuels and thereby minimize the country's exposure to price fluctuations in the international markets, the effects of which spiral down to almost all sectors of the economy; (b) increase the utilization of renewable energy by institutionalizing the development of national and local capabilities in the use of renewable energy systems, and promoting its efficient and cost-effective commercial application by providing fiscal and non-fiscal incentives; (c) encourage the development and utilization of renewable energy resources as tools to effectively prevent or reduce harmful emissions and thereby balance the goals of economic growth and development with the protection of health and environment; and (d) establish the necessary infrastructure and mechanism to carry out mandates specified in the Act and other laws.

As provided for in the Act, renewable energy (RE) developers of RE facilities, including hybrid systems, in proportion to and to the extent of the RE component, for both power and non-power applications, as duly certified by the DOE, in consultation with the BOI, shall be entitled to incentives, such as, income tax holiday, duty-free importation of RE machinery, equipment and materials, zero percent VAT rate on sale of power from RE sources, and tax exemption of carbon credits, among others.

k. PSALM deferred adjustment

*Deferred Accounting Adjustments (DAA)*

The ERC issued a Decision dated March 26, 2012 which granted PSALM DAA pertaining to GRAM and ICERA and in its Order dated June 20, 2017, the ERC authorized PSALM to implement the methodology for the recovery/refund of the approved DAA.

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

In its Order dated December 19, 2017, the ERC clarified that the GRAM and ICERA DAA are deferred adjustments, which were incurred by PSALM/NPC in supplying energy during the corresponding period; thus, it should be recovered/refunded by PSALM/NPC to its customers. Hence, the Distribution Utilities (DUs) are not just mere collectors of the said DAA but these are charges that they should pay to NPC/PSALM and charged to their customers as part of their generation charge. In the same Order, the ERC directed the DUs to resume the implementation of the GRAM and ICERA starting the January 2018 billing period.

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

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

l. CSR Projects
The Group has several CSR projects in 2020, 2019 and 2018 which are presented as part of "General and administrative expenses" (see Note 23).

m. COVID 19

In a move to contain the COVID-19 outbreak, on March 13, 2020, the Office of the President of the Philippines issued a Memorandum directive to impose stringent social distancing measures in the National Capital Region effective March 15, 2020. On March 16, 2020, Presidential Proclamation No. 929 was issued, declaring a State of Calamity throughout the Philippines for a period of six (6) months and imposed an enhanced community quarantine throughout the island of Luzon until April 12, 2020, as subsequently extended to April 30, 2020. This was further extended to May 15, 2020 in selected areas including the National Capital Region. This community quarantine has been extended on a more relaxed form after the May 15, 2020 extension. As of March 5, 2021, general community quarantine is in effect in selected areas including the National Capital Region until March 31, 2021. These measures have caused disruptions to businesses and economic activities, and its impact on businesses continue to evolve.

Energy is being dispatched at a lower level, and because of the reduced energy demand, market prices are down, ultimately affecting the Group's energy trading business. Further, collections were impacted as consumer payments on energy bills were not made on original due dates because of the staggered payment scheme directed by the Energy Regulatory Commission.

The Group has an in-placed and extensive business continuity plan on similar risk, including the lay out of the necessary steps that will help address or minimize the Group's business exposures. However, considering the evolving nature of this outbreak, the Group will continue to monitor the situation and adjust the steps it is currently implementing in subsequent periods.

n. Corporate Recovery and Tax Incentives for Enterprises (CREATE) Bill

On February 3, 2021, the House of Representatives and the Senate have ratified the Bicameral Committee's version of the proposed CREATE bill. Among others, CREATE bill contains provisions that affect the taxability of an entity:

- Reduction of corporate income tax rate from 30% to 25% or 20% as the case maybe, depending on the classification of an entity, effective July 1, 2020;
- Reduction of MCIT rate from 2% to 1% of gross income, effective from July 1, 2020 to June 30, 2023;
- Repeal of the imposition of 10% improperly accumulated earnings tax; and
- VAT exemption on certain sale of real properties.

SGV
Building a better working world

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BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

**INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES**

The Board of Directors and Stockholders
Aboitiz Power Corporation
32nd Street, Bonifacio Global City
Taguig City, Metro Manila
Philippines

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Aboitiz Power Corporation and Subsidiaries as at December 31, 2020 and 2019, and for each of the three years in the period ended December 31, 2020. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with the Revised Securities Regulation Code Rule 68 and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Maria Veronica Andresa R. Pore
Maria Veronica Andresa R. Pore
Partner
CPA Certificate No. 90349
SEC Accreditation No. 0662-AR-4 (Group A),
November 21, 2019, valid until November 20, 2022
Tax Identification No. 164-533-282
BIR Accreditation No. 08-001998-071-2020,
December 3, 2020, valid until December 2, 2023
PTR No. 8534345, January 4, 2021, Makati City

March 5, 2021

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS DIVISION-CEBU
RECEIVED
MAR 23 2021
OPQA SECTION INITIAL

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BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

## INDEPENDENT AUDITOR'S REPORT ON COMPONENTS OF FINANCIAL SOUNDNESS INDICATORS

The Board of Directors and Stockholders
Aboitiz Power Corporation
32nd Street, Bonifacio Global City
Taguig City, Metro Manila
Philippines

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Aboitiz Power Corporation and Subsidiaries as at December 31, 2020 and 2019, and for each of the three years in the period ended December 31, 2020. Our audits were made for the purpose of forming an opinion on the basic financial statements 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 financial statements prepared in accordance with PFRS. The components of these financial soundness indicators have been traced to the Company's 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.

SYCIP GORRES VELAYO & CO.

Maria Veronica Andresa R. Pore

Maria Veronica Andresa R. Pore
Partner
CPA Certificate No. 90349
SEC Accreditation No. 0662-AR-4 (Group A),
November 21, 2019, valid until November 20, 2022
Tax Identification No. 164-533-282
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December 3, 2020, valid until December 2, 2023
PTR No. 8534345, January 4, 2021, Makati City

March 5, 2021

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS DIVISION-CEBU
RECEIVED
MAR 2 3 2021
DPQA SECTION INITIAL

# Aboitiz Power Corporation and Subsidiaries

Supplementary Schedules
to the Financial Statements
Required by the Securities and Exchange Commission
For the Year Ended December 31, 2020

and

Independent Auditors' Report

Philippine
Pesos

## ABOITIZ POWER CORPORATION AND SUBSIDIARIES

**Supplementary Schedules Required**
**By the Securities and Exchange Commission**
**As of and for the Year Ended December 31, 2020**



NA: NOT APPLICABLE

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

SCHEDULE A - FINANCIAL ASSETS

AS OF DECEMBER 31, 2020
(Amounts in Thousands except number of shares)

| 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) | Income received and accrued |
|---|---|---|---|
| **CASH ON HAND AND IN BANK, INCLUDING RESTRICTED CASH** | | | |
| ANZ | | P2,203 | P- |
| Banco de Oro | | 9,150,825 | 68,172 |
| Bank of Commerce | | 2,009 | 1 |
| Bank of the Philippine Islands | | 388,423 | 1,443 |
| Bank of Tokyo - Mitsubishi UFJ | | 86 | - |
| Citibank | | 290,407 | 380 |
| Development Bank of the Philippines | | 11,825 | 11 |
| Hongkong Shanghai Banking Corporation | | 114,262 | 398 |
| ING Bank N.V. | | 3,491 | - |
| Land Bank of the Philippines | | 6,063 | 7 |
| Metropolitan Bank and Trust Company | | 1,184,202 | 1,274 |
| Philippine National Bank | | 208,282 | 2,000 |
| Rizal Commercial Banking Corporation | | 11,875 | 32 |
| Rural Bank of Davao | | 8,542 | - |
| Security Bank Corporation | | 132,560 | 72 |
| Standard Chartered Bank | | 379,098 | 2,299 |
| Union Bank of the Philippines | | 8,100,938 | 77,979 |
| Cash on Hand, Cash in Vault and Revolving Fund | | 125,318 | |
| **TOTAL** | | P20,114,410 | P153,668 |
| **SHORT-TERM DEPOSITS** | | | |
| Banco de Oro | | P1,756,962 | P22,631 |
| Bank of the Philippine Islands | | 2,661,444 | 25,436 |
| China Trust Banking Corporation | | - | 8,029 |
| City Savings Bank | | 12,339,867 | 308,396 |
| First Metro Investment Corporation | | - | 1,625 |
| Metropolitan Bank and Trust Company | | - | 5,908 |
| Philippine National Bank | | 6,329 | 81 |
| Rizal Commercial Banking Corporation | | 9,611 | 188 |
| Security Bank Corporation | | 613,180 | 2,485 |
| Mizuho Corporate Bank, Ltd. | | - | 798 |
| Union Bank of the Philippines | | 6,461,355 | 73,891 |
| **TOTAL** | | P23,908,348 | P449,268 |
| **TRADE AND OTHER RECEIVABLES** | | | |
| Trade Receivables (net of allowance): | | | |
| Residential | | P1,648,324 | P- |
| Commercial | | 1,070,534 | - |
| Industrial | | 3,896,352 | - |
| City street lighting | | 742,687 | - |
| Non-power supply contracts | | 538,477 | - |
| Power supply contracts | | 7,553,032 | - |
| Dividends receivable | | 1,498,000 | - |
| Advances to contractors | | 226,123 | - |
| Non-trade receivables | | 3,766,426 | - |
| Interest receivable | | 33,893 | - |
| PSALM deferred adjustment (including noncurrent portion) | | 2,140,226 | |
| **TOTAL** | | P23,114,674 | P- |
| **FINANCIAL ASSET AT FVTPL** | | | |
| Apo Golf & Country Club | 1 | P2 | P- |
| Banco De Oro | 8,050 | 793 | - |
| Philippine Long Distance Telephone Co. | 36,463 | 458 | - |
| PICOP Resources, Inc. | 164 | 8 | - |
| Alta Vista Golf & Country Club | 1 | 2,265 | - |
| Philex Mining Corp | 2,168 | 5 | - |
| Others | 375,000 | 375 | - |
| **TOTAL** | | P3,906 | P- |

## ABOITIZ POWER CORPORATION AND SUBSIDIARIES

### SCHEDULE C - AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2020
(Amounts in Thousands)

| Name and Designation of Debtor | Balance at Beginning of Period | Additions | Deductions | | Current | Non-Current | Ending Balance |
|---|---|---|---|---|---|---|---|
| | | | Amounts Collected | Amounts Written-Off | | | |
| Davao Light & Power Co., Inc. | P745,140 | P6,508,711 | (P6,749,922) | P- | P503,929 | P- | P503,929 |
| Therma Power, Inc. and Subsidiaries | 650,019 | 101,858 | (172,115) | - | 579,762 | | 579,762 |
| Cotabato Light & Power Company | 24,067 | 287,319 | (285,423) | - | 25,963 | - | 25,963 |
| Aboitiz Renewables, Inc. and Subsidiaries | 5,732 | 26,554 | (32,211) | - | 75 | - | 75 |
| Subic Enerzone Corporation | 174,590 | 256,437 | (265,424) | - | 165,603 | - | 165,603 |
| Visayan Electric Co., Inc. | 823,163 | 5,770,175 | (6,139,490) | | 453,848 | | 453,848 |
| Aboitiz Energy Solutions, Inc. | 1,346,578 | 7,119,270 | (7,365,837) | - | 1,100,011 | | 1,100,011 |
| Mactan Enerzone Corporation | - | 6,902 | (6,902) | - | - | - | - |
| Balamban Enerzone Corporation | - | 6,824 | (6,824) | - | | | - |
| Cebu Private Power Corporation | 82,713 | 1,003 | (83,716) | - | - | - | - |
| Lima Enerzone Corporation | 71,576 | 286,708 | (281,283) | - | 77,001 | - | 77,001 |
| East Asia Utilities Corporation | 784.00 | 1,636 | (2,420) | - | - | - | - |
| Prism Energy, Inc. | 84,352.00 | 979,745 | (951,284) | - | 112,813 | | 112,813 |
| Adventenergy, Inc. | 677,627 | 3,683,983 | (3,792,540) | - | 569,070 | - | 569,070 |
| TOTAL | P4,686,341 | P25,037,125 | (P26,135,391) | P- | P3,588,075 | P- | P3,588,075 |

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

SCHEDULE D - INTANGIBLE ASSETS - OTHER ASSETS

AS OF DECEMBER 31, 2020
(Amount in Thousands)

| Description | Beginning Balance | Additions At Cost | DEDUCTIONS Charged to Costs and Expenses | DEDUCTIONS Charged to Other Accounts | Other Changes Additions (Deductions) | Ending Balance |
|---|---|---|---|---|---|---|
| A. Intangibles | | | | | | |
| Goodwill | P40,876,082 | P- | P- | P- | (P2,063,230) | P38,812,852 |
| Service concession rights | 2,406,320 | 39,957 | (353,355) | - | (85,547) | 2,007,375 |
| Project development costs | 622,491 | 87,420 | (7,240) | - | | 702,671 |
| Franchise | 2,571,772 | - | (76,961) | - | - | 2,494,811 |
| Software and licenses | 235,836 | 70,653 | (44,812) | - | - | 261,677 |
| Total | P46,712,501 | P198,030 | (P482,368) | P- | (P2,148,777) | P44,279,386 |
| B. Other Noncurrent Assets | | | | | | |
| Restricted cash | P4,672,031 | P- | P- | P- | (P4,672,031) | P- |
| Input vat and tax credit | 4,434,349 | | - | - | (1,440,883) | 2,993,466 |
| Receivable from NGCP | - | - | - | - | 920,682 | 920,682 |
| Advances to contractors and projects | 553,280 | - | - | - | 340,547 | 893,827 |
| Refundable deposits | 326,850 | - | - | - | (13,099) | 313,751 |
| Investment properties | 132,300 | - | - | - | 115,829 | 248,129 |
| Prepaid expenses | - | - | - | - | 251,576 | 251,576 |
| Prepaid taxes | 879,439 | | - | - | 1,442,143 | 2,321,582 |
| Others | 380,844 | - | - | - | (153,572) | 227,272 |
| Total | P11,379,093 | P- | P- | P- | (P3,208,808) | P8,170,285 |
| Total | P58,091,594 | P198,030 | (P482,368) | P- | (P5,357,585) | P52,449,671 |

**ABOITIZ POWER CORPORATION AND SUBSIDIARIES**

**SCHEDULE E - LONG-TERM DEBT**

**AS OF DECEMBER 31, 2020**
**(Amounts in Thousands)**

| Name of Issuer and Type of Obligation | Amount Authorized by Indentures | Amount Shown as Current | Amount Shown as Long-Term | Remarks |
|---|---|---|---|---|
| | | | | |
| Parent: | | | | |
| Aboitiz Power Corporation | P58,810,082 | P6,637,206 | P52,172,876 | |
| Subsidiaries: | | | | |
| Hedcor, Inc. | 1,620,438 | 128,837 | 1,491,601 | |
| Subic Enerzone Corporation | 56,500 | 56,500 | - | |
| Luzon Hydro Corporation | 271,080 | 263,880 | 7,200 | |
| Davao Light & Power Co., Inc. | 434,250 | 146,250 | 288,000 | |
| Cotabato Light & Power Company | 86,850 | 28,950 | 57,900 | |
| Therma South, Inc. | 18,622,802 | 1,286,851 | 17,335,951 | |
| Pagbilao Energy Corp. (Joint Operation) | 12,067,466 | 1,074,354 | 10,993,112 | |
| Visayan Electric Co., Inc. | 578,256 | 194,621 | 383,635 | |
| GNPower Mariveles Coal Plant Ltd. Co. | 33,512,452 | 3,264,799 | 30,247,653 | |
| Therma Visayas, Inc. | 29,164,423 | 2,066,803 | 27,097,620 | |
| Therma Power - Visayas, Inc. | 1,488,984 | - | 1,488,984 | |
| AP Renewables, Inc. | 6,782,624 | 1,220,677 | 5,561,947 | |
| Hedcor Sibulan, Inc. | 3,677,566 | 293,238 | 3,384,328 | |
| Hedcor Bukidnon, Inc. | 9,247,559 | 591,247 | 8,656,312 | |
| Aboitiz Energy Solutions, Inc. | 600,000 | - | 600,000 | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| **Total** | **P177,021,332** | **P17,254,213** | **P159,767,119** | |

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

SCHEDULE F - INDEBTEDNESS TO AFFILIATES
(LONG-TERM LOANS FROM AFFILIATED COMPANIES)

AS OF DECEMBER 31, 2020
(Amounts in Thousands)

| Name of Affiliate | Beginning Balance | Ending Balance |
|---|---|---|
| Aboitiz Equity Ventures, Inc. | P300,000 | P300,000 |
| | - | - |
| | - | - |
| Total | P300,000 | P300,000 |

**ABOITIZ POWER CORPORATION**

SCHEDULE H - CAPITAL STOCK

AS OF DECEMBER 31, 2020
(Amounts in Thousands)

| Title of Issue | Number of Shares Authorized | Number of Shares Issued and Outstanding | Number of Shares Reserved for Options, Warrants, Conversions, and Other Rights | Number of Shares Held By | | |
|---|---|---|---|---|---|---|
| | | | | Affiliates | Directors, Officers and Employees | Others |
| COMMON SHARES | 16,000,000 | 7,358,604 | - | 5,820,533 | 126,695 | 1,411,376 |
| PREFERRED SHARES | 1,000,000 | - | - | - | - | - |

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

SCHEDULE I - TRADE AND OTHER RECEIVABLES FROM RELATED PARTIES
WHICH ARE ELIMINATED DURING CONSOLIDATION OF FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2020
(Amounts in Thousands)

| Related Party | Balances | | | Volume | | | Terms |
|---|---|---|---|---|---|---|---|
| | Trade | Non-trade | Total | Sales | Rental | Advances | |
| Davao Light & Power Co., Inc. | P503,867 | P62 | P503,929 | P6,508,711 | P- | P- | 30 days |
| Therma Power, Inc. and Subsidiaries | - | 579,762 | 579,762 | 101,858 | - | - | 30 days |
| Cotabato Light & Power Company | 25,963 | - | 25,963 | 287,319 | - | - | 30 days |
| Aboitiz Renewables, Inc. and Subsidiaries | - | 75 | 75 | 26,554 | - | - | 30 days |
| Subic Enerzone Corporation | 165,603 | - | 165,603 | 256,437 | - | - | 30 days |
| Visayan Electric Co., Inc. | 453,848 | - | 453,848 | 5,770,175 | - | - | 30 days |
| Aboitiz Energy Solutions, Inc. | 1,100,006 | 5 | 1,100,011 | 7,119,270 | - | - | 30 days |
| Mactan Enerzone Corporation | - | - | - | 6,902 | - | - | 30 days |
| Balamban Enerzone Corporation | - | - | - | 6,824 | - | - | 30 days |
| Cebu Private Power Corporation | - | - | - | 1,003 | - | - | 30 days |
| Lima Enerzone Corporation | 77,001 | - | 77,001 | 5,677 | - | - | 30 days |
| East Asia Utilities Corporation | - | - | - | 1,636 | - | - | 30 days |
| Prism Energy, Inc. | 112,813 | - | 112,813 | 979,745 | - | - | 30 days |
| Adventenergy, Inc. | 568,954 | 116 | 569,070 | 3,683,983 | - | - | 30 days |
| TOTAL | P3,008,055 | P580,020 | P3,588,075 | P24,756,094 | P- | P- | |

## ABOITIZ POWER CORPORATION AND SUBSIDIARIES

### SCHEDULE J - TRADE AND OTHER PAYABLES FROM RELATED PARTIES WHICH ARE ELIMINATED DURING CONSOLIDATION OF FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2020
(Amounts in Thousands)

| Related Party | Balances | | | Volume | | | Terms |
|---|---|---|---|---|---|---|---|
| | Trade | Non-trade | Total | Sales | Rental | Advances | |
| Parent Company | P- | P580,020 | P580,020 | P1,022,193 | P- | P- | 30 days |
| Aboitiz Renewables, Inc. and Subsidiaries | 525,617 | - | 525,617 | 4,315,792 | - | - | 30 days |
| Cebu Private Power Corporation | 63,612 | - | 63,612 | 897,572 | - | - | 30 days |
| Therma Power, Inc. and Subsidiaries | 2,256,354 | - | 2,256,354 | 17,541,339 | - | - | 30 days |
| East Asia Utilities Corporation | 24,168 | - | 24,168 | 141,730 | | - | 30 days |
| Subic Enerzone Corporation | 18,826 | - | 18,826 | 200,440 | - | - | 30 days |
| Mactan Enerzone Corporation | 7,585 | - | 7,585 | 72,545 | - | - | 30 days |
| Lima Enerzone Corporation | 45,173 | - | 45,173 | 466,855 | - | - | 30 days |
| Visayan Electric Co., Inc. | 66,720 | | 66,720 | 378,659 | - | - | 30 days |
| TOTAL | P3,008,055 | P580,020 | P3,588,075 | P25,037,125 | P- | P- | |

**Aboitiz Power Corporation**
**Reconciliation of Retained Earnings Available for Dividend Declaration**
**For the Year Ended December 31, 2020**
**(Amount in Philippine Currency)**

| | | |
|---|---|---|
| Unappropriated Retained Earnings, *beginning* | | P23,522,985,155 |
| **Net income based on face of audited financial statements** | P4,193,432,512 | |
| Less: Non-actual/unrealized income (net of tax) | - | |
| Add: Non-actual loss (net of tax) | - | |
| **Net income actual/realized for the period** | | 4,193,432,512 |
| Less: | | |
| Dividend declaration during the period | | (8,683,153,080) |
| **UNAPPROPRIATED RETAINED EARNINGS, AS ADJUSTED, ENDING** | | **P19,033,264,587** |

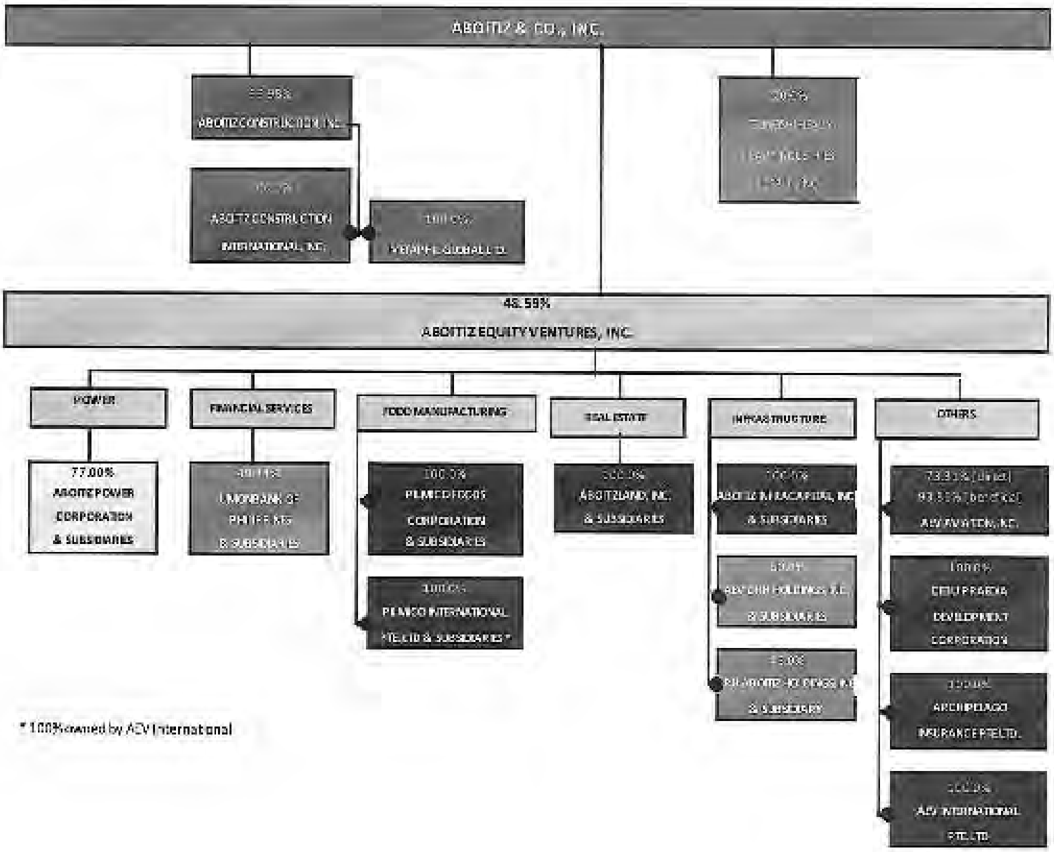
**ABOITIZ EQUITY VENTURES, INC. AND SUBSIDIARIES**

**CONGLOMERATE MAPPING**

As of December 31, 2020

Legend:

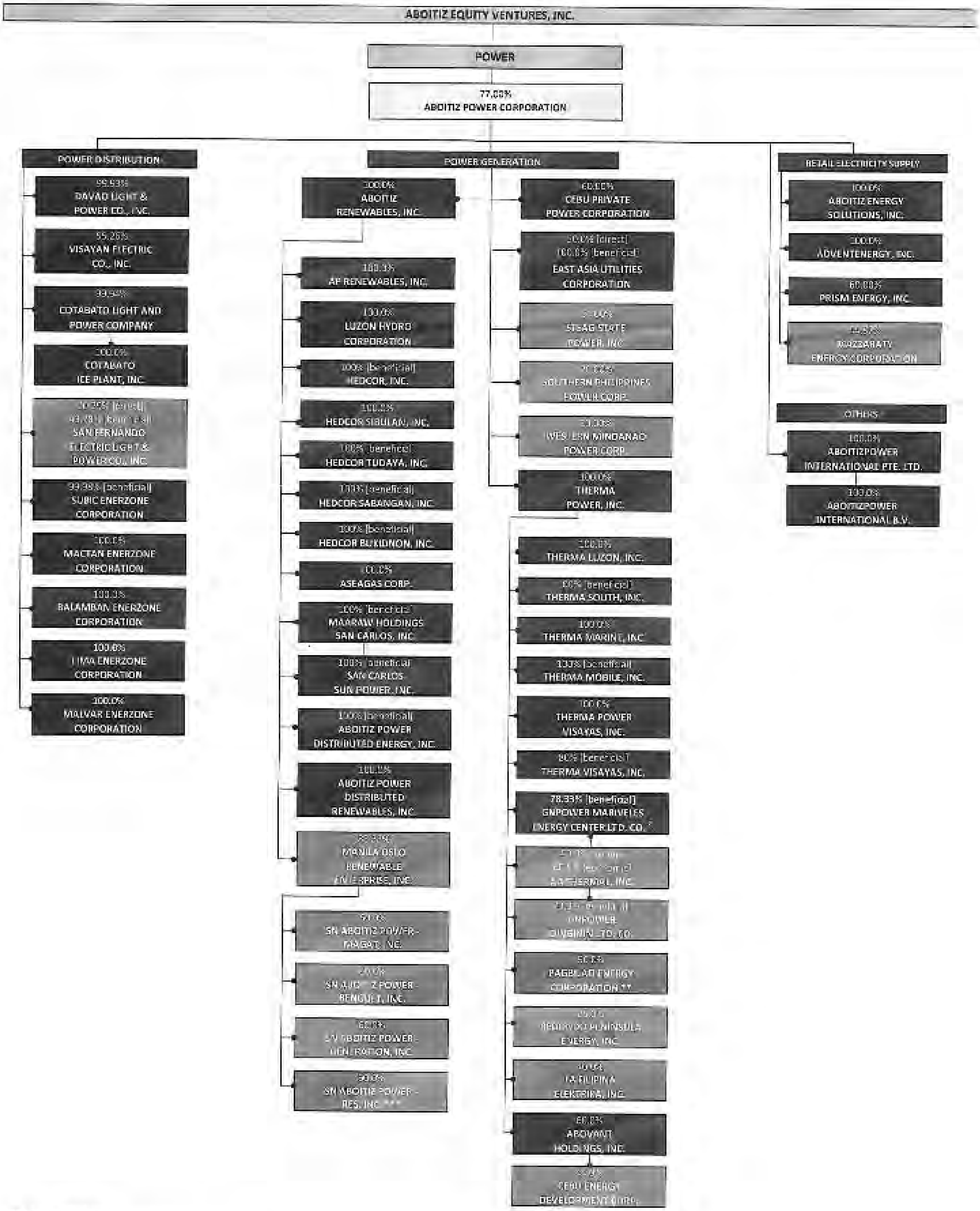
- Reporting Company
- Ultimate Parent Company
- Parent Company
- Subsidiary of Ultimate Parent Company
- Co-Subsidiary/Subsidiary of Parent Company
- Associate or Joint Venture of Parent Company
- Other Related Parties




* 100% owned by AEV International

## ABOITIZ EQUITY VENTURES, INC. - POWER
**CONGLOMERATE MAPPING**
As of December 31, 2020

**Legend:**
- Reporting Company
- Parent Company
- Subsidiary
- Associate or Joint Venture
- Other Related Parties

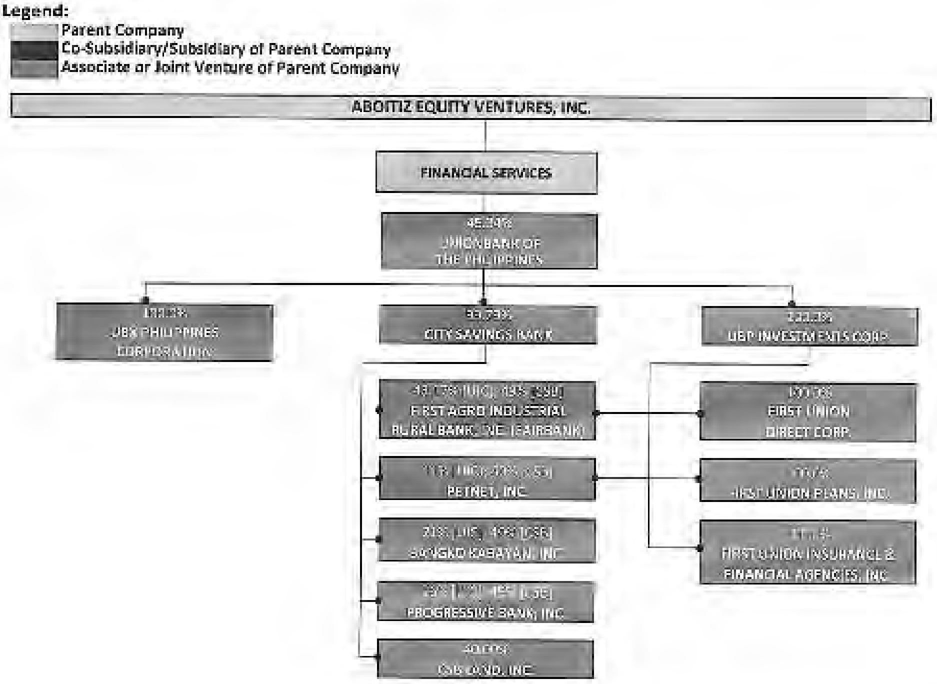



** Joint Operations
*** Engages in retail electricity supply business
*1 Formerly, GNPower Mariveles Coal Plant Ltd. Co.*

**ABOITIZ EQUITY VENTURES, INC. - FINANCIAL SERVICES**

**CONGLOMERATE MAPPING**

As of December 31, 2020



**ABOITIZ EQUITY VENTURES, INC. - FOOD MANUFACTURING**

**CONGLOMERATE MAPPING**

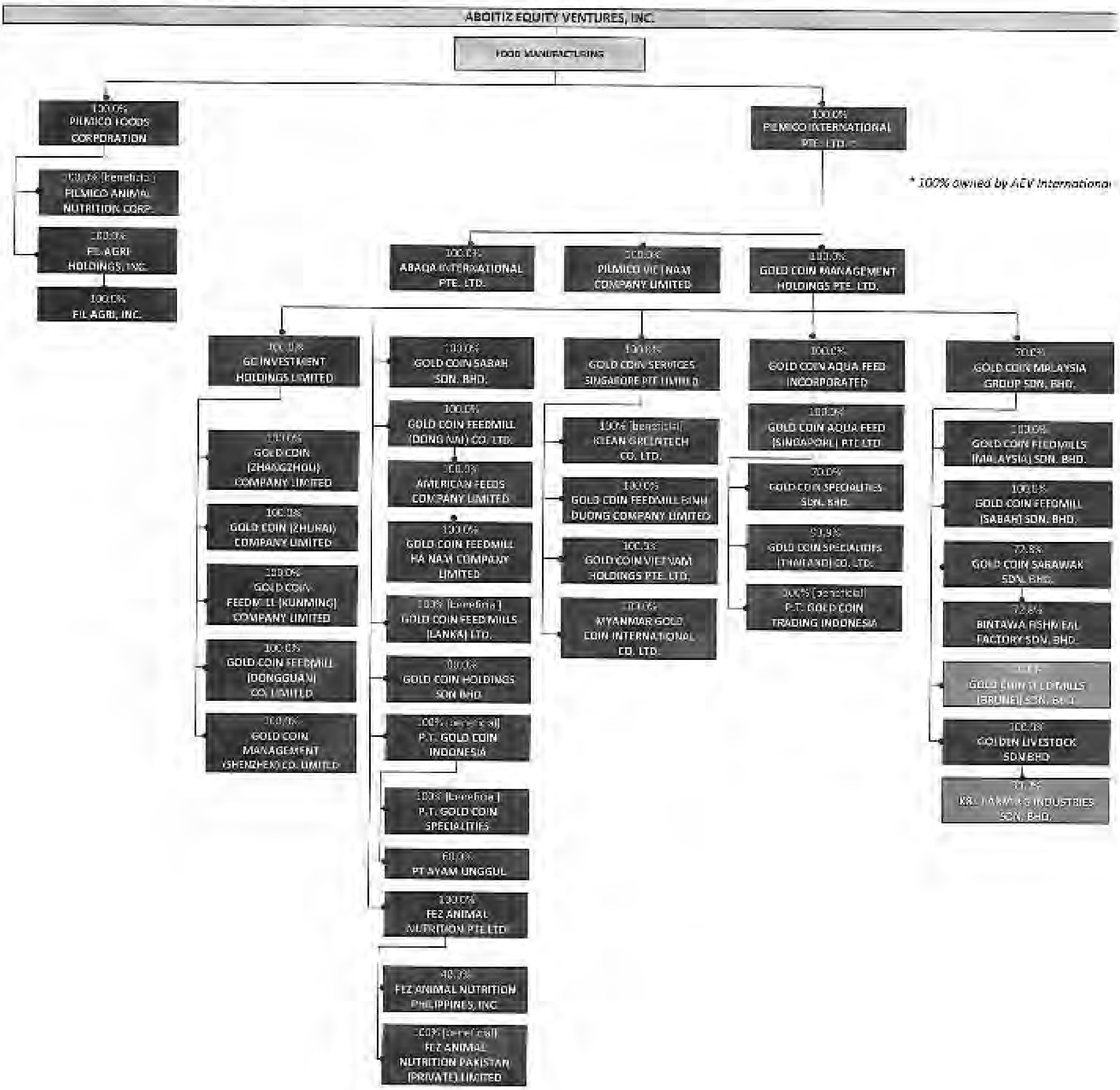
As of December 31, 2020

Legend:

Parent Company

Co-Subsidiary/Subsidiary of Parent Company

Associate or Joint Venture of Parent Company



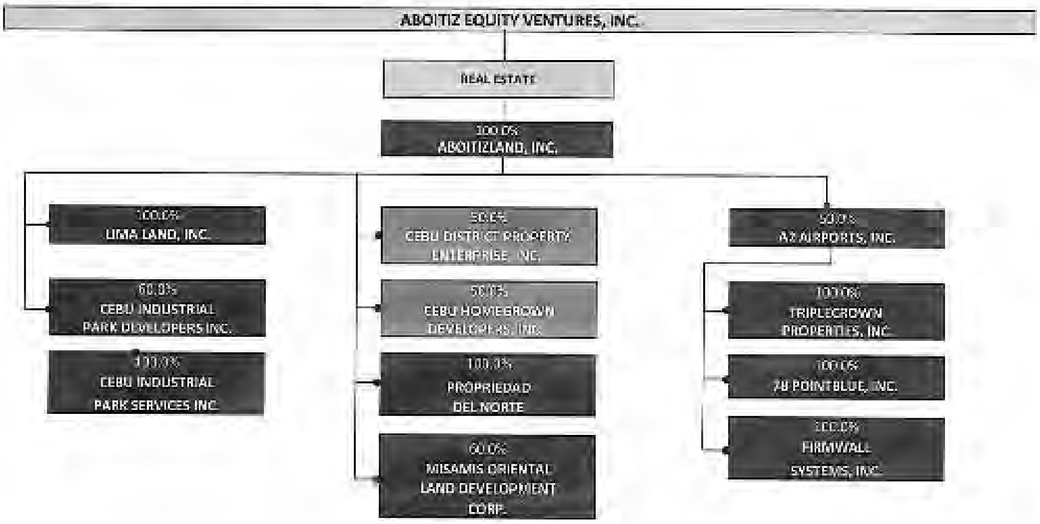
## ABOITIZ EQUITY VENTURES, INC. - REAL ESTATE

**CONGLOMERATE MAPPING**

As of December 31, 2020

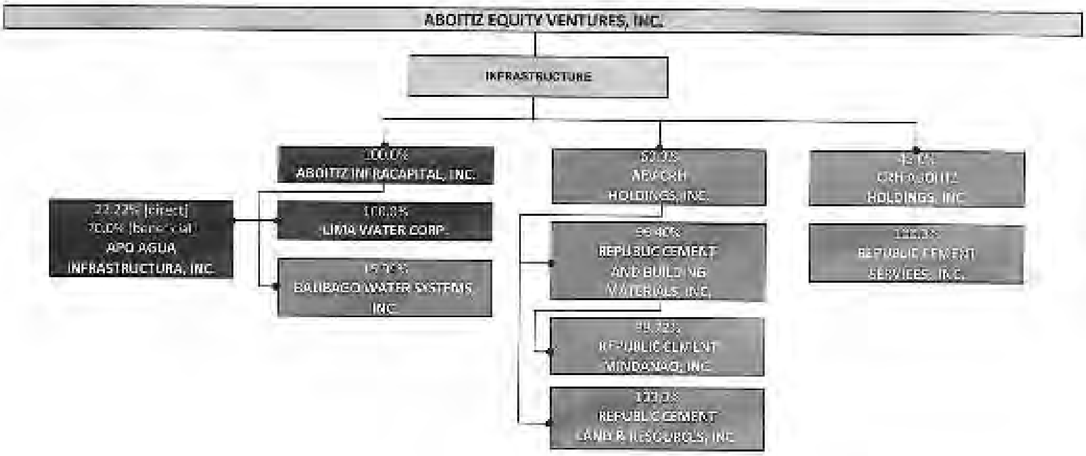
Legend:

Parent Company
Co-Subsidiary/Subsidiary of Parent Company
Associate or Joint Venture of Parent Company



**ABOITIZ EQUITY VENTURES, INC. - INFRASTRUCTURE**
**CONGLOMERATE MAPPING**
As of December 31, 2020

**Legend:**
- Reporting Company
- Subsidiary
- Associate or Joint Venture



**ABOITIZ POWER CORPORATION AND SUBSIDIARIES**
**SCHEDULE OF FINANCIAL SOUNDNESS INDICATOR**

| | FORMULA | 2020 | 2019 |
|---|---|---|---|
| **LIQUIDITY RATIOS** | | | |
| Current ratio | Current assets / Current liabilities | **1.38** | 1.50 |
| Acid test ratio | Cash + Marketable securities + Accounts receivable + Other liquid assets / Current liabilities | **1.08** | 1.15 |
| **SOLVENCY RATIOS** | | | |
| Debt to equity ratio | Total liabilities / Total equity | **1.96** | 2.07 |
| Asset to equity ratio | Total assets / Total equity | **2.96** | 3.07 |
| Net debt to equity ratio | Debt - Cash & cash equivalents / Total equity | **1.37** | 1.40 |
| Gearing ratio | Debt - Cash & cash equivalents / Total equity + (Debt - Cash & cash equivalents) | **57.80%** | 58.26% |
| Interest coverage ratio | EBIT / Interest expense | **2.54** | 2.83 |
| **PROFITABILITY RATIOS** | | | |
| Operating margin | Operating profit / Total revenues | **24.4%** | 23.0% |
| Return on equity | Net income after tax / Total equity adjusted for cash dividends | **10.57%** | 14.48% |

**ABOITIZ POWER CORPORATION AND SUBSIDIARIES**
**Use of Proceeds**
**For the Year Ended December 31, 2020**

Series "E" and "F" of the Thirty Billion Shelf Registration issued in 2020

As of December 31, 2020, the proceeds from the 2020 bonds were utilized for the following:

| Name of Project | Projected Usage (Per Prospectus) | Actual Usage |
|---|---|---|
| Reimburse Previous Equity Contributions to GNPD through AA Thermal and TPI | ₱6,736,749 | ₱6,736,749 |
| Fund Succeeding Equity Infusions in AA Thermal and TPI | 2,082,873 | 783,753 |
| General corporate purposes | 614,889 | 102,127 |
| Bond issuance costs | 115,489 | 113,547 |
| **TOTAL** | **₱9,550,000** | **₱7,736,176** |

| | Per Final Prospectus | Actual |
|---|---|---|
| Gross proceeds | ₱9,550,000 | ₱9,550,000 |
| Net proceeds | 9,434,511 | 9,436,453 |

**Balance of the proceeds as of December 31, 2020:** **₱1,813,824**