



## SECURITIES AND EXCHANGE COMMISSION

Secretariat Building, PICC Complex, Roxas Boulevard, Pasay City, 1307 Metro Manila Philippines

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### Company Information

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**SEC Registration No.:** 0000175222

**Company Name:** VIVANT CORPORATION

**Industry Classification:** J66940

**Company Type:** Stock Corporation

### Document Information

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**Document ID:** OST1040420228280952

**Document Type:** Financial Statement

**Document Code:** FS

**Period Covered:** December 31, 2021

**Submission Type:** Consolidated, Annual

**Remarks:** None

# COVER SHEET

for

## AUDITED FINANCIAL STATEMENTS

SEC Registration Number

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### COMPANY NAME

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A	R	I	E	S																									

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

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Form Type

A	A	C	F	S
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Department requiring the report

C	R	M	D
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Secondary License Type, If Applicable

N	/	A	
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### COMPANY INFORMATION

Company's Email Address

vivant@vivant.com.ph

Company's Telephone Number

(032) 234-2256

Mobile Number

N/A

No. of Stockholders

1,415

Annual Meeting (Month / Day)

June 17

Fiscal Year (Month / Day)

December 31

### CONTACT PERSON INFORMATION

The designated contact person MUST be an Officer of the Corporation

Name of Contact Person

Atty. Joan A. Giduquio-Baron

Email Address

jbaron@jpgarcialaw.com

Telephone Number/s

(032) 232-0253

Mobile Number

0917-5356692

### CONTACT PERSON'S ADDRESS

9<sup>th</sup> Floor Oakridge IT Center 2, Oakridge Business Park, A.S. Fortuna Street, Brgy. Banilad,  
Mandaue City, Cebu, Philippines, 6014

**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.





**STATEMENT OF MANAGEMENT'S RESPONSIBILITY  
FOR FINANCIAL STATEMENTS**


The Management of **VIVANT CORPORATION AND SUBSIDIARIES** is responsible for the preparation and fair presentation of the consolidated financial statements, including the schedules attached therein, for the years ended December 31, 2021 and 2020, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

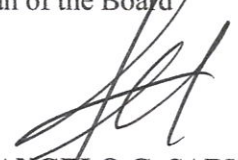
In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the 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 consolidated 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 for the years ended December 31, 2021 and 2020, has audited the consolidated 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.

  
**RAMONTITO E. GARCIA**  
Chairman of the Board

  
**ARLO ANGELO G. SARMIENTO**  
Chief Executive Officer

  
**MINUEL CARMELA N. FRANCO**  
Chief Financial Officer

Signed this 18<sup>th</sup> day of March, 2022.

# ACKNOWLEDGEMENT

Republic of the Philippines }  
**Cebu City** } s.s.

**MAR 21 2022** BEFORE ME, a Notary Public, for and in Cebu City, Philippines, this  
 personally appeared the following:

Name	Competent Evidence of Identity	Expiration Date	Place of Issue
Ramontito E. Garcia	Passport No. P4784127B	February 11, 2030	DFA Cebu
Arlo Angelo G. Sarmiento	Passport No. P6592337A	March 27, 2028	DFA Cebu
Minuel Carmela N. Franco	Driver's License No. N02-89-113805	November 11, 2023	

known to me and to me known to have executed the foregoing instrument, and they acknowledged to me that the same are their free and voluntary act and deed and of the corporations they represent.

IN WITNESS WHEREOF, I have hereunto set my hand on the date and place above stated.

Doc. No. 89;  
 Page No. 18;  
 Book No. 37;  
 Series of 2022.



*Joan A. Giduquio-Baron*  
**ATTY. JOAN GIDUQUIO - BARON**  
 NOTARY COMMISSION NO. 018-19  
 NOTARY PUBLIC  
 UNTIL JUNE 30, 2022  
 UNITS 1501-1502 AYALA LIFE - FGU CENTER  
 CEBU BUSINESS PARK, CEBU CITY  
 ROLL NO. 41829  
 PTR NO. 3548988 - CEBU CITY - 01.04.2022  
 IBP LIFETIME NO. 091431 - CEBU CITY



## **INDEPENDENT AUDITOR'S REPORT**

The Board of Directors and the Stockholders  
Vivant Corporation  
9<sup>th</sup> Floor, Oakridge IT Center 3  
Oakridge Business Park, A.S. Fortuna Street  
Brgy. Banilad, Mandaue City  
Cebu, Philippines 6014

### **Opinion**

We have audited the consolidated financial statements of Vivant Corporation and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2021 and 2020, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2021, 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, 2021 and 2020, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2021 in accordance with Philippine Financial Reporting Standards (PFRSs).

### **Basis for Opinion**

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

### **Key Audit Matters**

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

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

***Accounting for the Investment in Visayan Electric Company, Inc. (VECO)***

As disclosed in Notes 1 and 10 to the consolidated financial statements, the Group owns 34.81% of VECO, an associate engaged in power distribution services, as at December 31, 2021 and accounts for the investment under the equity method. The application of the equity method of accounting to the Group's investment in VECO is significant to our audit because the carrying value of the investment accounted for 13% of the consolidated total assets and it contributed 35% to the consolidated net income of the Group as at and for the year ended December 31, 2021, respectively. VECO's net income is significantly affected by the electricity revenue which depends on the electric consumption captured, the rates applied across different customer groups, and the systems involved in the billing process. The electric consumption captured is based on the meter readings taken on various dates for the different groups of customers (i.e., industrial, commercial, and residential customers) within the franchise area of operation.

The disclosures relating to the investment in VECO are included in Note 10 to the consolidated financial statements.

***Audit Response***

We obtained the relevant financial information of VECO and recomputed the Group's share in the net income of VECO for the year ended December 31, 2021. We evaluated the design and tested the controls over VECO's billing and revenue process. These include the capture and accumulation of meter data in the billing system as well as a calculation of the billed amounts, and uploading of the billed amounts from the billing system to the financial 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 the billing statements.

***Impairment Testing of Goodwill***

The Group is required to annually test the amount of goodwill for impairment under PAS 36, *Impairment of Assets*. As of December 31, 2021, the goodwill attributable to several cash-generating units (CGUs), presented as part of "Other noncurrent assets" in the consolidated statement of financial position, amounted to ₱299.0 million, which is considered significant to the consolidated financial statements. In addition, management's assessment process requires significant judgment and is based on assumptions such as discount and growth rates and revenue assumptions, which are subject to estimation uncertainty due to the current economic conditions which have been impacted by the coronavirus pandemic.

The disclosures relating to the impairment testing of goodwill are included in Note 13 to the consolidated financial statements.

### *Audit Response*

We assessed the appropriateness of the methodologies and assumptions used, which included discount and growth rates and revenue assumptions. We obtained an understanding of management's processes involved in producing the budgets and forecasts used in the analysis. We compared the key assumptions used, such as growth rate and revenue assumptions, against the historical performance of the CGUs and considered our understanding of the CGUs' signed and committed arrangements with their customers, the outlook in their respective industries 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 the 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.

### **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, 2021, 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, 2021 are expected to be made available to us after the date of this auditor's report.

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

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

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

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

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

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

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

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

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

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

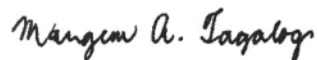
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

The engagement partner on the audit resulting in this independent auditor's report is Margem A. Tagalog.

SYCIP GORRES VELAYO & CO.



Margem A. Tagalog

Partner

CPA Certificate No. 0098098

Tax Identification No. 206-544-506

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

SEC Partner Accreditation No. 98098-SEC (Group A)

Valid to cover audit of 2021 to 2025 financial statements of SEC covered institutions

SEC Firm Accreditation No. 0001-SEC (Group A)

Valid to cover audit of 2021 to 2025 financial statements of SEC covered institutions

BIR Accreditation No. 08-001998-138-2021, November 10, 2021, valid until November 9, 2024

PTR No. 8854370, January 3, 2022, Makati City

March 18, 2022

**VIVANT CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

	<b>December 31</b>	
	<b>2021</b>	<b>2020</b>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 6)	<b>₱5,650,024,939</b>	₱4,872,331,464
Trade and other receivables (Note 7)	<b>880,046,705</b>	814,103,832
Advances to associates, joint ventures and stockholders (Note 16)	<b>276,564,877</b>	253,060,382
Inventories - at cost (Note 8)	<b>152,675,459</b>	220,498,758
Prepayments and other current assets (Note 9)	<b>330,572,837</b>	281,892,670
<b>Total Current Assets</b>	<b>7,289,884,817</b>	6,441,887,106
<b>Noncurrent Assets</b>		
Investments in associates and joint ventures (Note 10)	<b>11,614,930,568</b>	11,247,606,324
Property, plant and equipment (Note 11)	<b>3,318,784,838</b>	2,260,461,407
Right-of-use assets (Note 24)	<b>442,360,406</b>	672,222,914
Investment properties (Note 12)	<b>863,642,001</b>	757,280,601
Deferred income tax assets (Note 20)	<b>20,414,257</b>	34,013,474
Other noncurrent assets (Note 13)	<b>1,467,011,681</b>	1,167,489,781
<b>Total Noncurrent Assets</b>	<b>17,727,143,751</b>	16,139,074,501
<b>TOTAL ASSETS</b>	<b>₱25,017,028,568</b>	₱22,580,961,607
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Current portion of trade and other payables (Note 14)	<b>₱1,032,237,239</b>	₱875,837,380
Current portion of long-term notes payable (Note 15)	<b>92,076,898</b>	2,819,508,120
Current portion of lease liabilities (Note 24)	<b>200,707,787</b>	360,063,325
Short term notes payable (Note 15)	<b>—</b>	749,300,741
Advances from related parties (Note 16)	<b>5,689,112</b>	5,689,112
Income tax payable	<b>4,016,925</b>	36,955,619
<b>Total Current Liabilities</b>	<b>1,334,727,961</b>	4,847,354,297
<b>Noncurrent Liabilities</b>		
Long-term notes payable - net of current portion (Note 15)	<b>4,381,463,942</b>	—
Lease liabilities - net of current portion (Note 24)	<b>158,012,021</b>	303,114,979
Pension liability (Note 19)	<b>61,460,008</b>	87,541,306
Deferred income tax liabilities (Note 20)	<b>205,019,567</b>	189,832,424
Other noncurrent liabilities - net of current portion (Notes 14 and 23)	<b>838,293,931</b>	837,635,182
<b>Total Noncurrent Liabilities</b>	<b>5,644,249,469</b>	1,418,123,891
<b>Total Liabilities</b>	<b>6,978,977,430</b>	6,265,478,188
<b>Equity Attributable to Equity Holders of the Parent</b>		
Capital stock - ₱1 par value (Note 21)		
Authorized - 2,000,000,000 shares		
Issued - 1,023,456,698 shares	<b>1,023,456,698</b>	1,023,456,698
Additional paid-in capital	<b>8,339,452</b>	8,339,452
Other components of equity:		
Share in revaluation increment of an associate (Note 10)	<b>1,702,071,167</b>	1,658,598,674

(Forward)





	December 31	
	2021	2020
Share in remeasurement losses on employee benefits of associates and joint ventures (Note 10)	(P94,016,067)	(P96,181,114)
Remeasurement loss on employee benefits (Note 19)	(56,940)	(13,035,095)
Unrealized valuation gain on financial assets at fair value through other comprehensive income (FVOCI)	4,643,039	2,862,209
Equity reserves (Note 21)	(25,128,554)	(25,128,554)
Retained earnings (Notes 10 and 21):		
Appropriated for business expansion	6,198,363,882	5,213,900,230
Unappropriated	8,177,690,481	7,674,801,422
<b>Equity Attributable to Equity Holders of the Parent</b>	<b>16,995,363,158</b>	<b>15,447,613,922</b>
<b>Equity Attributable to Non-controlling Interests</b> (Note 21)	<b>1,042,687,980</b>	<b>867,869,497</b>
<b>Total Equity</b>	<b>18,038,051,138</b>	<b>16,315,483,419</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>P25,017,028,568</b>	<b>P22,580,961,607</b>

*See accompanying Notes to Consolidated Financial Statements.*

**VIVANT CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	Years Ended December 31		
	2021	2020	2019
<b>REVENUE</b>			
Revenue from contracts with customers			
Sale of power (Note 23)			
Generation	₱1,577,500,737	₱328,907,875	₱2,446,354,295
Ancillary services	1,174,695,315	1,407,752,125	1,009,757,401
Retail electricity supply	301,048,099	120,232,272	70,589,533
Management and service fees (Note 16)	102,589,626	210,189,238	97,547,438
Engineering service income	42,037,953	111,068,559	18,582,784
	3,197,871,730	2,178,150,069	3,642,831,451
<b>EQUITY IN NET EARNINGS OF ASSOCIATES AND JOINT VENTURES (Note 10)</b>	1,769,960,102	1,530,892,007	2,183,383,722
<b>INTEREST INCOME (Note 6)</b>	22,961,585	62,242,191	153,411,964
	4,990,793,417	3,771,284,267	5,979,627,137
<b>COSTS OF SERVICES</b>			
Generation costs (Notes 17 and 23)	1,787,029,991	896,158,327	2,332,094,275
Engineering service fees (Note 17)	71,039,720	117,711,267	1,451,250
	1,858,069,711	1,013,869,594	2,333,545,525
<b>OPERATING EXPENSES</b>			
Salaries and employee benefits (Notes 18 and 19)	322,364,136	284,005,583	202,975,160
Professional fees (Note 16)	155,599,643	157,302,439	173,671,643
Depreciation and amortization (Notes 11, 13 and 24)	51,170,700	48,356,782	31,861,829
Taxes and licenses (Note 12)	40,165,758	58,940,183	55,333,078
Outside services	36,535,466	25,698,856	19,532,232
Management fees (Note 16)	25,270,413	26,002,274	22,206,974
Travel	13,294,561	10,788,470	37,462,373
Representation	9,529,837	5,998,099	8,566,625
Communication and utilities	9,523,925	7,276,738	7,084,959
Rent and association dues	8,564,767	5,949,841	3,613,177
Project termination cost (Note 1)	—	—	53,111,200
Provision for estimated liability (Note 14)	—	—	32,577,442
Other operating expenses (Note 17)	81,773,381	78,333,134	70,956,984
	753,792,587	708,652,399	718,953,676
<b>INCOME FROM OPERATIONS</b>	2,378,931,119	2,048,762,274	2,927,127,936
<b>OTHER INCOME (CHARGES)</b>			
Finance costs on loans (Note 15)	(165,305,661)	(172,911,936)	(170,922,101)
Finance costs on lease liabilities (Note 24)	(52,513,071)	(75,342,137)	(85,661,701)
Foreign exchange gains (losses) - net	16,129,762	4,313,061	(4,387,978)
Gain on fair value measurement of investment properties (Note 12)	106,361,400	—	235,326,709
Gain on disposal of an associate (Notes 1 and 10)	3,684,540	—	—
Gain on loss of control of a subsidiary (Note 1)	3,079,734	—	—
Other income - net (Notes 11, 12 and 17)	24,797,384	56,411,994	41,931,060
	(63,765,912)	(187,529,018)	16,285,989

(Forward)

	Years Ended December 31		
	2021	2020	2019
<b>INCOME BEFORE INCOME TAX</b>	<b>₱2,315,165,207</b>	<b>₱1,861,233,256</b>	<b>₱2,943,413,925</b>
<b>PROVISION FOR INCOME TAX</b> (Note 20)	<b>171,157,540</b>	154,412,620	271,663,175
<b>NET INCOME</b>	<b>2,144,007,667</b>	1,706,820,636	2,671,750,750
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>			
Items that will not be reclassified to profit or loss:			
Remeasurement gain (loss) on employee benefits (Note 19)	17,451,341	(7,457,347)	(26,956,362)
Income tax effect	(3,453,873)	2,237,205	7,310,862
	<b>13,997,468</b>	(5,220,142)	(19,645,500)
Unrealized valuation gain on financial assets at FVOCI (Note 13)	2,550,000	30,000	1,820,000
Income tax effect	187,500	(4,500)	(273,000)
	<b>2,737,500</b>	25,500	1,547,000
Share in the remeasurement gains (losses) on employee benefits of associates and joint ventures, net of tax (Note 10)	2,165,047	(15,767,833)	(2,240,958)
Share in revaluation increment of an associate, net of tax (Note 10)	112,003,656	407,012,356	—
<b>OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR</b>	<b>130,903,671</b>	386,049,881	(20,339,458)
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>₱2,274,911,338</b>	<b>₱2,092,870,517</b>	<b>₱2,651,411,292</b>
<b>NET INCOME</b>			
Attributable to:			
Equity holders of the parent	₱1,777,031,392	₱1,442,131,978	₱2,338,934,325
Non-controlling interests	366,976,275	264,688,658	332,816,425
	<b>₱2,144,007,667</b>	<b>₱1,706,820,636</b>	<b>₱2,671,750,750</b>
<b>TOTAL COMPREHENSIVE INCOME</b>			
Attributable to:			
Equity holders of the parent	₱1,905,959,080	₱1,830,637,661	₱2,320,970,603
Non-controlling interests	368,952,258	262,232,856	330,440,689
	<b>₱2,274,911,338</b>	<b>₱2,092,870,517</b>	<b>₱2,651,411,292</b>
<b>EARNINGS PER SHARE</b>			
Basic and diluted, for net income for the year attributable to equity holders of the parent (Note 22)	<b>₱1.736</b>	₱1.409	₱2.285

See accompanying Notes to Consolidated Financial Statements.

# VIVANT CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31, 2021, 2020 AND 2019

### Equity Attributable to Equity Holders of the Parent

	Capital Stock (Note 21)	Paid-In Capital	Share in Revaluation Increment of an Associate	Share in Remeasurement			Unrealized Valuation Gain (Loss) on FVOCI	Retained Earnings (Note 21)			Total	Equity Attributable to Non-Controlling Interests	Total Equity
				Share in Employee Benefits of Associates and Joint Ventures	Remeasurement Gain on Employee Benefits	Financial Assets at FVOCI		Equity Reserves	Appropriated	Unappropriated			
Balances at January 1, 2021	P1,023,456,698	P8,339,452	P1,658,598,674	(P96,181,114)	(P13,035,095)	P2,862,209	(P25,128,554)	P5,213,900,230	P7,674,801,422	P15,447,613,922	P867,869,497	P16,315,483,419	
Total comprehensive income	-	-	112,003,656	2,165,047	12,978,155	1,780,830	-	1,950,000,000	(1,777,031,392)	1,905,959,080	368,952,258	2,274,911,338	
Appropriation for business expansion	-	-	-	-	-	-	-	1,950,000,000	(1,950,000,000)	-	-	-	
Reversal of appropriation for business expansion	-	-	-	-	-	-	-	(965,536,348)	965,536,348	-	-	-	
Acquisition of subsidiaries (Note 13)	-	-	-	-	-	-	-	-	-	-	-	-	
Additional investments of non-controlling interests of subsidiaries	-	-	-	-	-	-	-	-	-	-	26,582,798	26,582,798	
Loss of control of a subsidiary	-	-	-	-	-	-	-	-	-	-	55,847,573	55,847,573	
Share in the amount transferred to retained earnings representing depreciation on the revaluation increment of an associate	-	-	-	-	-	-	-	-	-	-	(500,000)	(500,000)	
(Note 10)	-	-	(68,531,163)	-	-	-	-	-	-	-	-	-	
Cash dividends	-	-	P1,702,071,167	(P94,016,067)	(P56,940)	P4,643,039	(P25,128,554)	P6,198,363,882	P8,177,690,481	(358,209,844)	(276,064,146)	(634,273,990)	
Balances at December 31, 2021	P1,023,456,698	P8,339,452	P1,323,680,397	(P80,413,281)	(P10,270,755)	P2,836,709	(P25,128,554)	P4,449,483,361	P7,392,814,294	P14,084,798,321	P1,042,687,980	P18,038,051,138	
Balances at January 1, 2020	P1,023,456,698	P8,339,452	P1,323,680,397	(P80,413,281)	(P10,270,755)	25,500	(P25,128,554)	P4,449,483,361	1,442,131,978	1,830,637,661	262,232,856	P14,798,097,470	
Total comprehensive income (loss)	-	-	407,012,356	(15,767,833)	(2,764,340)	-	-	2,286,000,000	(2,286,000,000)	-	-	2,092,870,517	
Appropriation for business expansion	-	-	-	-	-	-	-	2,286,000,000	(2,286,000,000)	-	-	-	
Reversal of appropriation for business expansion	-	-	-	-	-	-	-	(1,521,583,131)	1,521,583,131	-	-	-	
Additional investments of non-controlling interests of a subsidiary	-	-	-	-	-	-	-	-	-	-	16,000,907	16,000,907	
Conversion of deposit for future stock subscription to equity	-	-	-	-	-	-	-	-	-	-	73,008,585	73,008,585	
Share in the amount transferred to retained earnings representing depreciation on the revaluation increment of an associate	-	-	-	-	-	-	-	-	-	-	-	-	
(Note 10)	-	-	(72,094,079)	-	-	-	-	-	-	-	-	-	
Cash dividends	-	-	-	-	-	-	-	-	72,094,079	(467,822,060)	(196,672,000)	(664,494,060)	
Balances at December 31, 2020	P1,023,456,698	P8,339,452	P1,658,598,674	(P96,181,114)	(P13,035,095)	P2,862,209	(P25,128,554)	P5,213,900,230	P7,674,801,422	P15,447,613,922	P867,869,497	P16,315,483,419	
Balances at January 1, 2019	P1,023,456,698	P8,339,452	P1,398,039,947	(P78,172,323)	(P6,999,009)	P1,289,709	(P43,845)	P3,972,397,789	P5,802,739,051	P12,135,045,487	P435,418,470	P12,570,463,957	
Total comprehensive income (loss)	-	-	-	(2,240,958)	(17,269,764)	1,547,000	-	2,338,934,325	(2,338,934,325)	2,320,970,603	330,440,689	2,651,411,292	
Appropriation for business expansion	-	-	-	-	-	-	-	2,600,000,000	(2,600,000,000)	-	-	-	
Reversal of appropriation for business expansion	-	-	-	-	-	-	-	(2,122,914,428)	2,122,914,428	-	-	-	
Acquisition of a subsidiary (Note 13)	-	-	-	-	-	-	-	-	-	-	21,249,999	21,249,999	
Additional investments of non-controlling interests of a subsidiary	-	-	-	-	-	-	-	-	-	-	12,737,500	12,737,500	
Purchase of NCI's share (Note 21)	-	-	-	-	-	-	-	-	-	(25,084,709)	(5,907,509)	(30,992,218)	
Share in the amount transferred to retained earnings representing depreciation on the revaluation increment of an associate	-	-	-	-	-	-	-	-	-	-	-	-	
(Note 10)	-	-	(74,359,550)	-	-	-	-	-	-	-	-	-	
Cash dividends	-	-	-	-	-	-	-	-	-	-	(80,640,000)	(426,773,060)	
Balances at December 31, 2019	P1,023,456,698	P8,339,452	P1,323,680,397	(P80,413,281)	(P10,270,755)	P2,836,709	(P25,128,554)	P4,449,483,361	P7,392,814,294	P14,084,798,321	P713,299,149	P14,798,097,470	

See accompanying Notes to Consolidated Financial Statements.



**VIVANT CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Years Ended December 31		
	2021	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax	<b>₱2,315,165,207</b>	₱1,861,233,256	₱2,943,413,925
Adjustments for:			
Equity in net earnings of associates and joint ventures (Note 10)	<b>(1,769,960,102)</b>	(1,530,892,007)	(2,183,383,722)
Depreciation and amortization (Notes 11, 13, and 24)	<b>344,601,772</b>	306,122,597	269,322,566
Finance costs on loans (Note 15)	<b>165,305,661</b>	172,911,936	170,922,101
Gain on fair value remeasurement of investment properties (Note 12)	<b>(106,361,400)</b>	—	(235,326,709)
Finance costs on lease liabilities (Note 24)	<b>52,513,071</b>	75,342,137	85,661,701
Interest income (Note 6)	<b>(22,961,585)</b>	(62,242,191)	(153,411,964)
Pension expense (Note 19)	<b>22,223,302</b>	15,961,646	11,987,522
Unrealized foreign exchange losses (gains)	<b>(16,129,762)</b>	(4,313,061)	4,387,978
Gain on disposal of an associate (Notes 1 and 10)	<b>(3,684,540)</b>	—	—
Loss (gain) on disposal of property and equipment (Note 17)	<b>(3,101,818)</b>	(330,357)	96,818
Gain on loss of control of a subsidiary (Notes 1 and 10)	<b>(3,079,734)</b>	—	—
Gain on pre-termination of lease	—	—	(153,732)
Operating income before working capital changes	<b>974,530,072</b>	833,793,956	913,516,484
Decrease (increase) in:			
Trade and other receivables	<b>(235,835,774)</b>	60,810,583	(88,576,075)
Inventories	<b>73,650,755</b>	(17,654,034)	(93,355,049)
Prepayments and other current assets	<b>(44,969,824)</b>	(119,190,857)	24,191,045
Increase (decrease) in trade and other payables	<b>120,888,620</b>	(261,872,673)	143,083,792
Net cash generated from operations	<b>888,263,849</b>	495,886,975	898,860,197
Income taxes paid	<b>(180,075,218)</b>	(147,936,527)	(187,494,039)
Interest paid	<b>(199,430,760)</b>	(241,567,931)	(253,658,954)
Contributions to the retirement fund (Note 19)	<b>(30,853,258)</b>	(3,122,623)	(454,148)
Net cash flows from operating activities	<b>477,904,613</b>	103,259,894	457,253,056
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Dividends received from associates and joint ventures (Note 10)	<b>1,755,155,896</b>	1,884,511,195	1,317,391,449
Additions to property, plant and equipment (Note 11)	<b>(721,327,849)</b>	(1,010,719,915)	(399,126,651)
Net cash outflow from acquisition of subsidiaries (Note 13)	<b>(392,811,115)</b>	—	(61,131,114)
Additions to financial assets at FVOCI (Note 13)	<b>(94,000,000)</b>	—	—
Additional investments and advances to associates and joint ventures (Note 10)	<b>(49,742,306)</b>	(102,381,502)	(8,400,000)
Proceeds from:			
Disposal of an equity interest in an associate (Note 10)	<b>33,225,513</b>	—	—
Disposal of property, plant and equipment (Note 11)	<b>3,627,540</b>	330,357	299,789
Disposal of financial assets at FVOCI	<b>2,620,000</b>	—	—
Redemption of preferred shares (Note 10)	—	40,000,000	—
Interest received	<b>20,397,915</b>	66,969,905	153,575,414
(Forward)			



	Years Ended December 31		
	2021	2020	2019
Decrease (increase) in other noncurrent assets	<b>₱10,738,517</b>	(₱123,180,917)	(₱25,662,576)
Cash in subsidiary whose control was lost (Notes 1 and 10)	<b>(560,316)</b>		
Advances to suppliers on purchase of fixed assets	–	(104,303,524)	–
Additions to investment properties (Note 12)	–	–	(10,500,000)
Net cash flows from investing activities	<b>567,323,795</b>	651,225,599	966,446,311
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from loans	<b>4,506,974,410</b>	779,300,741	–
Payments of:			
Loans (Note 15)	<b>(3,945,898,260)</b>	(60,000,000)	(30,000,000)
Cash dividends (Note 21)	<b>(632,912,067)</b>	(745,895,948)	(480,184,967)
Lease liabilities (Note 24)	<b>(298,971,986)</b>	(193,715,915)	(259,530,952)
Additional investments and deposits for future stock subscriptions of non-controlling interests of a subsidiary (Note 21)	<b>55,847,565</b>	89,009,492	12,737,500
Net proceeds (payments) of advances from related parties (see Note 26)	<b>31,295,643</b>	(160,410,109)	(13,112,210)
Purchase of NCI's shares (Note 21)	–	–	(30,992,218)
Net cash flows used in financing activities	<b>(283,664,695)</b>	(291,711,739)	(801,082,847)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>761,563,713</b>	462,773,754	622,616,520
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>	<b>16,129,762</b>	4,313,061	(4,387,978)
<b>TOTAL CASH AT BEGINNING OF YEAR</b>			
Cash and cash equivalents (Note 6)	<b>4,872,331,464</b>	4,405,244,649	3,787,016,107
Restricted cash (Notes 9 and 13)	<b>2,002,202</b>	650,000	650,000
	<b>4,874,333,666</b>	4,405,894,649	3,787,666,107
<b>TOTAL CASH AT END OF YEAR</b>			
Cash and cash equivalents (Note 6)	<b>5,650,024,939</b>	4,872,331,464	4,405,244,649
Restricted cash (Notes 9 and 13)	<b>2,003,311</b>	2,002,202	650,000
	<b>₱5,652,028,250</b>	₱4,874,333,666	₱4,405,894,649

See accompanying Notes to Consolidated Financial Statements.





# VIVANT CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. Corporate Information

Vivant Corporation (the “Parent Company” or “Vivant”) was incorporated under the laws of the Republic of the Philippines and registered with the Securities and Exchange Commission (SEC) on May 28, 1990. The Parent Company is listed in the Philippine Stock Exchange using the symbol VVT. Vivant is the ultimate parent of the Group.

The Parent Company’s primary purpose is to invest in and manage the general business of any other corporation or corporations except management of fund securities portfolios and other similar assets of a managed entity.

The Parent Company is owned by Mai-I Resources Corporation (MRC) and JEG Development Corporation (JDC) with a combined ownership of 75.84%. MRC and JDC are entities incorporated and domiciled in the Philippines.

The Parent Company and its Subsidiaries (collectively referred to as the Group) are engaged in various business activities, through its subsidiaries and affiliates, namely electric power generation (both renewable and non-renewable energy), electric power distribution, retail electricity supply, electrical engineering services, water infrastructure and real estate.

The principal office address of the Parent Company is currently located at 9<sup>th</sup> Floor Oakridge IT Center 3, Oakridge Business Park, A.S. Fortuna Street, Barangay Banilad, Mandaue City, Cebu.

The consolidated financial statements comprise the financial statements of the Parent Company and the following subsidiaries, associates and joint ventures, all incorporated in the Philippines, as at December 31, 2021 and 2020:

	2021		2020	
	Percentage of Ownership			
	Direct	Indirect	Direct	Indirect
<b>Subsidiaries</b>				
Hijos De F. Escaño (HDFE)	50.94	—	50.94	—
Southern Grove Properties and Development Corp. (SGPDC)	100.00 <sup>(n)</sup>	—	100.00 <sup>(n)</sup>	—
Vivant Realty Ventures Corporation (VRVC)	—	100.00 <sup>(q) (r)</sup>	—	100.00 <sup>(q) (r)</sup>
Vivant Corporate Center, Inc. (VCCI)	—	100.00 <sup>(q) (w)</sup>	—	100.00 <sup>(q) (w)</sup>
Vivant Infracore Holdings Inc. (VIHI)	100.00 <sup>(v)</sup>	—	100.00 <sup>(v)</sup>	—
Vivant Hydrocore Holdings Inc. (VHHI)	—	100.00 <sup>(y) (bb)</sup>	—	100.00 <sup>(y) (bb)</sup>
Vivant Transcore Holdings Inc. (VTHI)	—	100.00 <sup>(y) (bb)</sup>	—	100.00 <sup>(y) (bb)</sup>
Isla Mactan Cordova Corporation (IMCC)	—	100.00 <sup>(p) (cc)</sup>	—	100.00 <sup>(p) (cc)</sup>
Watermatic Philippines Corporation (WMP)	—	60.00 <sup>(z) (cc)</sup>	—	60.00 <sup>(z) (cc)</sup>
Watermatic Southeast Asia, Ltd. (WMP SEA)	—	60.00 <sup>(ee) (ff)</sup>	—	—
Northern Metro Cebu Water Corporation (NMCWC)	—	100.00 <sup>(cc) (jj)</sup>	—	—
Vivant Energy Corporation (VEC)	100.00	—	100.00	—
Vivant Integrated Generation Corporation (VIGC)	—	100.00 <sup>(a)</sup>	—	100.00 <sup>(a)</sup>
Vivant Geo Power Corp. (VGPC)	—	100.00 <sup>(b) (g)</sup>	—	100.00 <sup>(b) (g)</sup>
Vivant Isla, Inc. (VII)	—	100.00 <sup>(a) (h)</sup>	—	100.00 <sup>(a) (h)</sup>
Vivant Renewable Energy Corporation (VREC)	—	100.00 <sup>(a) (f)</sup>	—	100.00 <sup>(a) (f)</sup>
Corenergy Inc. (Core)	—	100.00 <sup>(a)</sup>	—	100.00 <sup>(a)</sup>
Vivant Integrated Diesel Corporation (VIDC)	—	100.00 <sup>(a) (i)</sup>	—	100.00 <sup>(a) (i)</sup>
Isla Norte Energy Corp. (INEC)	—	65.00 <sup>(e) (m)</sup>	—	65.00 <sup>(e) (m)</sup>

(Forward)



	2021		2020	
	Percentage of Ownership			
	Direct	Indirect	Direct	Indirect
Southern Powercore Holding Corp. (SPHC)	—	100.00 <sup>(b) (s)</sup>	—	100.00 <sup>(b) (s)</sup>
Amberdust Holding Corporation (AHC)	—	100.00 <sup>(a) (t)</sup>	—	100.00 <sup>(b) (t)</sup>
Vivant-Malogo Hydropower, Inc. (VMHI)	—	67.00 <sup>(a)</sup>	—	67.00 <sup>(a)</sup>
1590 Energy Corp. (1590 EC)	—	55.20 <sup>(a)</sup>	—	55.20 <sup>(a)</sup>
Vivant Solar Corporation (VSC)	—	100.00 <sup>(a) (x)</sup>	—	100.00 <sup>(a) (x)</sup>
Corenergy Solar Solutions Corporation (CSSC)	—	100.00 <sup>(a) (d)</sup>	—	100.00 <sup>(a) (d)</sup>
Bukidnon Power Corporation (BPC)	—	90.00 <sup>(gg) (ii)</sup>	—	—
North Bukidnon Power Corporation (NBPC)	—	90.00 <sup>(hh) (ii)</sup>	—	—
<b>Associates</b>				
Visayan Electric Company, Inc. (VECO)	34.81	—	34.81	—
Prism Energy, Inc. (PEI)	—	40.00 <sup>(a)</sup>	—	40.00 <sup>(a)</sup>
Abovant Holdings, Inc. (AHI)	—	40.00 <sup>(c)</sup>	—	40.00 <sup>(c)</sup>
Cebu Private Power Corporation (CPPC)	—	40.00 <sup>(a)</sup>	—	40.00 <sup>(a)</sup>
Minergy Power Corporation (MPC)	—	40.00 <sup>(c)</sup>	—	40.00 <sup>(c)</sup>
Therma Visayas, Inc. (TVI)	—	20.00 <sup>(c)</sup>	—	20.00 <sup>(c)</sup>
Lunar Power Core Inc. (LPCI)	—	42.50 <sup>(c) (k)</sup>	—	42.50 <sup>(c) (k)</sup>
Global Luzon Energy Development Corporation (GLEDC)	—	42.50 <sup>(c) (o)</sup>	—	42.50 <sup>(c) (o)</sup>
Sabang Renewable Energy Corporation (SREC)	—	—	—	30.00 <sup>(b) (p)</sup>
Culina Renewable Energy Corp. (CREC)	—	35.00 <sup>(b) (u)</sup>	—	35.00 <sup>(b) (u)</sup>
Lihangin Wind Energy Corp (LWEC)	—	40.00 <sup>(b) (aa)</sup>	—	40.00 <sup>(b) (aa)</sup>
Faith Lived Out Visions 2 Ventures Holdings, Inc. (FLOWS)	—	45.00 <sup>(cc) (dd)</sup>	—	45.00 <sup>(cc) (dd)</sup>
Puerto Princesa Water Reclamation and Learning Center, Inc. (PPWRLC)	—	40.31 <sup>(kk) (ll)</sup>	—	40.31 <sup>(kk) (ll)</sup>
<b>Joint Ventures</b>				
Calamian Islands Power Corp. (CIPC)	—	50.00 <sup>(a)</sup>	—	50.00 <sup>(a)</sup>
Delta P, Inc. (Delta P)	—	50.00 <sup>(a) (j)</sup>	—	50.00 <sup>(a) (j)</sup>
La Pampanga Energy Corp (LPEC)	—	50.00 <sup>(a) (l)</sup>	—	100.00 <sup>(a) (l)</sup>

a. Indirect ownership through VEC

b. Indirect ownership through VREC

c. Indirect ownership through VIGC

d. Incorporated January 11, 2017. Ownership interest in ETEI is through VSC. Changed its corporate name from ET Energy Inc. (ETEI) to Corenergy Solar Solutions Corporation (CSSC) on August 26, 2021.

e. Indirect ownership through VIDC.

f. Incorporated on January 8, 2010. Changed its corporate name from Vics-Bakun Holdings Corporation (Vics-Bakun) to VREC on October 2, 2015.

g. Incorporated on April 23, 2014

h. Incorporated on July 11 2014

i. Incorporated on August 7, 2015

j. Increased to 50% effective May 28, 2015

k. Incorporated on June 10, 2016

l. Incorporated on May 26, 2016. Changed its corporate name from Vivant Enercore Integrated, Inc. to La Pampanga Energy Corporation (LPEC) on January 13, 2021. Ownership interest was diluted to 50% in May 2021.

m. Incorporated on June 13, 2016. Changed its corporate name from Vivant Powercore Active Inc. (VPAI) to INEC on December 20, 2019.

n. Incorporated on December 8, 2004

o. Incorporated on January 31, 2013. Ownership interest in GLEDC is through LPCI.

p. Incorporated on August 14, 2020

q. Indirect ownership through SGPDC

r. Incorporated May 19, 2017

s. Incorporated April 20, 2017

t. Incorporated August 16, 2017

u. Incorporated April 12, 2017

v. Incorporated December 18, 2018

w. Incorporated October 10, 2018.

x. Incorporated April 4, 2018. Changed its corporate name from ET-Vivant Solar Corporation (EVC) to VSC on November 9, 2020.

y. Incorporated May 20, 2019

z. Incorporated July 23, 2019

aa. Incorporated January 24, 2017. Changed its corporate name from 6 Barracuda Energy Corp. (6 Barracuda) to (LWEC) on June 15, 2020

bb. Indirect ownership through VIHI

cc. Indirect ownership through VHII

dd. Incorporated August 31, 2018

ee. Incorporated on July 1, 2021



	2021		2020	
	Percentage of Ownership			
	Direct	Indirect	Direct	Indirect
ff. Indirect ownership through WMP				
gg. Incorporated September 23, 2014				
hh. Incorporated October 10, 2016				
ii. Indirect ownership through AHC				
ij. Incorporated March 21, 2021				
kk. Incorporated November 8, 2018				
ll. Indirect ownership through FLOWS				

### Subsidiaries

Except for 1590 EC, INEC, VMHI, Core, VII, VGPC, VIDC, CSSC, WMP and IMCC, all subsidiaries are also operating as holding and investing companies, which are primarily engaged in power generation and distribution, and water infrastructure. 1590 EC is operating a diesel power plant, while VMHI is in its pre-operating stage of building a hydro power plant in Silay, Negros Occidental. INEC is operating a diesel power plant in Bantayan, Cebu. Core is operating as a retail electricity supplier and engineering services provider. WMP provides engineering services, mainly for water infrastructure projects. IMCC is in its pre-operating stage of building a seawater desalination facility.

The following sets out a brief information of the Parent Company's subsidiaries and associates:

### HDFE

HDFE was incorporated on December 24, 1926, which registration was renewed for another 50 years effective November 26, 1974. The primary purpose of HDFE is to invest in, hold, own, purchase, acquire, lease, contract, operate, improve, develop, grant, sell, exchange, or otherwise dispose of real and personal properties of every kind and description including shares of stocks, bonds and other securities or evidence of indebtedness of any other corporation, association, firm, or entity, domestic or foreign, where necessary or appropriate, and to process and exercise in respect thereof of all the rights, powers and privileges of ownership, including all voting powers of any stock so owned, without acting as, or engaging in the business of an investment company, or dealer or broker in securities.

### SGPDC

SGPDC was incorporated on December 8, 2004 with a primary purpose to invest in, purchase, or otherwise acquire and own, hold, develop, use, sell, lease, assign, transfer, mortgage, pledge, exchange, or otherwise dispose of real and personal property of every kind and description for whatever purpose the same may have been organized. It has also direct equity shareholdings in VRVC and VCCI, both real estate companies.

On March 5, 2015, during the Special Stockholders' Meeting and Special Board Meeting, the stockholders and BOD approved that one of SGPDC's secondary purposes is to conduct and transact any and all lawful business, and to do or cause to be done any one or more of the acts and things set forth as its purposes, within or without the Philippines, and in any and all foreign countries, and to do everything necessary, desirable or incidental to the accomplishment of the purposes or the exercise of any one or more of the powers of the Company under the Corporation Code of the Philippines, or which shall at any time appear conducive to or expedient for its protection or benefit. These amendments made in SGPDC's Articles of Incorporation (AOI) were approved by the SEC on October 8, 2015.



On January 6, 2016, the SEC approved the amendment to its AOI changing its name from VC Ventures Net, Inc. to Southern Grove Properties and Development Corp. and its primary purpose is to engage in real estate business, to hold, construct, develop, manage, administer, sell, convey, encumber, purchase, acquire, rent or otherwise deal in and dispose of all kinds of real property or to act as real estate broker for such fees as may be legal and proper.

#### VRVC

VRVC was incorporated on May 19, 2017. Its primary purpose is to engage in the real estate business. On July 3, 2017, VRVC purchased from HDFE, a company under common control, a parcel of land located at M.J. Cuenco Ave., Tinago Central, Barangay San Roque, Cebu City amounting to ₱27.9 million, with the intention of holding the land for capital appreciation. As of December 31, 2021, VRVC has recognized rental income from the purchased investment property (see Note 12).

#### VCCI

VCCI was incorporated on October 10, 2018 and its primary purpose is to engage in the real estate business. As of December 31, 2021, VCCI has not yet started its operations.

#### VIHI

VIHI was incorporated on December 18, 2018 and its primary purpose is to purchase, subscribe for or otherwise acquire and own, hold, use, invest in, develop, sell, assign, transfer, lease, take option to, mortgage, pledge, exchange, and in all ways deal with, personal and real property of every kind and description, including share of the capital stock of corporations, bonds, notes, evidence of indebtedness, and other securities, contracts, or obligations of any corporation, domestic or foreign, without however engaging in dealership in securities, in the stock brokerage business or in the business of an investment company, all in accordance with the Corporation Code, the Securities Act and other applicable laws and regulations. As of December 31, 2021, VIHI is operating as a holding company for VTHI and VHHL.

#### VHHI

VHHI was incorporated on May 20, 2019 and its primary purpose is to purchase, subscribe for or otherwise acquire and own, hold, use, invest in, develop, sell, assign, transfer, lease, take option to, mortgage, pledge, exchange, and in all ways deal with, personal and real property of every kind and description, including share of the capital stock of corporations, bonds, notes, evidence of indebtedness, and other securities, contracts, or obligations of any corporation, domestic or foreign, without however engaging in dealership in securities, in the stock brokerage business or in the business of an investment company, all in accordance with the Corporation Code, the Securities Act and other applicable laws and regulations. As of December 31, 2021, VHHI is operating as a holding company for WMP, IMCC, NMCWC, and FLOWS, a holding company.

#### VTHI

VTHI was incorporated on May 20, 2019 and its primary purpose is to purchase, subscribe for or otherwise acquire and own, hold, use, invest in, develop, sell, assign, transfer, lease, take option to, mortgage, pledge, exchange, and in all ways deal with, personal and real property of every kind and description, including share of the capital stock of corporations, bonds, notes, evidence of indebtedness, and other securities, contracts, or obligations of any corporation, domestic or foreign, without however engaging in dealership in securities, in the stock brokerage business or in the business of an investment company, all in accordance with the Corporation Code, the Securities Act and other applicable laws and regulations. As of December 31, 2021, VTHI has not yet started its operations.



#### IMCC

IMCC was incorporated on August 14, 2020 and its primary purpose is to develop, layout (by duly licensed engineers), build, fund, operate and maintain a seawater desalination facility, ground and surface water treatment facility, waste water treatment facility and water distribution systems; and to negotiate and sell bulk water to the water districts, private entities and consumers.

As of December 31, 2021, IMCC has not yet started its operations.

#### WMP

WMP was incorporated on July 23, 2019 as a water treatment engineering company primarily engaged in the design, supply (which includes detailed design, procurement, and assembly), installation, commission, operation and maintenance of water treatment and waste water treatment plant to be owned by WMP or for third parties. WMP also engages into bulk water supply agreements using water sourced from ground water, surface water, or desalinated water. As of December 31, 2020, WMP has already started its operations.

#### WMP SEA

WMP SEA was incorporated on July 1, 2021 according to the Companies Law 5769-1999, as a limited liability company under the laws of the Republic of Israel. Its primary purpose is to buy and sell products for waste water and waste water treatment projects.

As of December 31, 2021, WMP SEA has already started operations.

#### NMCWC

NMCWC was incorporated and registered with the SEC on March 18, 2021. Its primary purpose is to develop, layout (by duly licensed engineers), build, fund, operate and maintain a seawater desalination facility, ground and surface water treatment facility, waste water treatment facility, and water distribution systems; and to negotiate and sell bulk water to the water districts, private entities and consumers.

The registered office of the Company is located at 9<sup>th</sup> Floor, Oakridge IT Center 3, Oakridge Business Park, A.S. Fortuna Street, Brgy. Banilad, Mandaue City, Philippines

As of December 31, 2021, NMCWC has not yet started operations.

#### VEC

VEC was incorporated on January 25, 2005 and its primary purpose is to establish, maintain and operate power plants of any kind and such other sources that may be a viable source of electric light, heat and power system and to sell to the general public, electricity as the corporation may determine.

VEC currently exists as a holding company with direct equity shareholdings in CPPC, Delta P, 1590 EC, CIPC, VMHI, TVI, VII, INEC, LPEC, VIDC, NBPC and BPC entities engaged in the power generation business and PEI and Core, entities engaged in the retail electricity supply. Core is also engaged in engineering services. VEC also has direct equity shareholdings on holding entities namely VIGC and VREC.

In November 2013, VEC participated in the public bidding process conducted by Power Sector Assets and Liabilities Management (PSALM) for the selection and appointment of the Independent Power Producer (IPP) Administrator for the Strips of Energy of the Unified Leyte Geothermal Power Plants (ULGPP) located at Tongonan, Leyte. On January 29, 2014, PSALM has declared and selected VEC as the Winning Bidder for Seventeen (17) Strips of Energy of the ULGPP. This allowed VEC to sell seventeen (17) MW of geothermal power from ULGPP beginning January 1,



2015 (see Note 23). On October 25, 2019, the Company paid pre-termination costs amounting to ₱53.1 million recognized under “Operating expenses” in the statement of comprehensive income effectively terminating the contract.

#### VIGC

VIGC was incorporated on November 5, 2008 with the primary purpose of holding investments in power generation companies. It has direct equity shareholdings in MPC, TVI and LPCI, entities engaged in the power generation business and AHI, a holding entity.

#### VGPC

VGPC was incorporated on April 23, 2014. Its primary purpose is to establish, maintain, own, and operate geothermal, thermal, hydroelectric, solar, wind, coal, diesel power plants and such other sources that may be viable source of electric light, heat and power system and to sell and/or trade electricity for light, heat and power purposes within cities, municipalities and provinces of the Philippines as the corporation may determine and enter into business activity that now or hereafter may be necessary, incidental, proper, advisable or convenient in furtherance of or otherwise relating to such purpose. As of December 31, 2021, VGPC is still in the pre-operating stage.

#### VII

VII was incorporated on July 11, 2014. Its primary purpose is to engage in business of owning, acquiring, commissioning, operating, maintaining, evaluating, developing, constructing, holding and selling power generation facilities and related facilities, or any other business activity that now or hereafter may be necessary, incidental, proper, advisable or convenient in furtherance of or otherwise relating to such purpose. As of December 31, 2021, VII is still in the pre-operating stage.

#### VREC

VREC was incorporated on January 8, 2010 with the primary purpose of holding investments in power generation companies. On October 2, 2015, the SEC approved its application for change in corporate name from Vics Bakun Holdings Corporation to VREC. It also has direct equity shareholdings in VMHI, VGPC, SPHC, AHC, VSC, SREC, CREC, and LWEC as of December 31, 2021.

#### Core

Core was incorporated on December 14, 2012. Its primary purpose is to buy, source and obtain electricity from generating companies or from the wholesale electricity spot market to sell, broker, market or aggregate electricity to the end-users, to provide services necessary in connection with the supply or delivery of electricity thereof, distribution utilities and other entities in the electric systems by a duly licensed electrical engineer, the conduct of energy examinations, inspections, assessments, maintenance, testing and commissioning, as amended dated May 31, 2019. As of December 31, 2021, Core has entered into Retail Supply Contract and engineering service contracts with various customers.

#### VIDC

VIDC was incorporated on August 7, 2015. Its primary purpose is to establish, maintain, acquire, own, hold, and operate diesel powered generating facilities. As of December 31, 2021, VIDC is the holding company of INEC.





#### INEC

INEC was incorporated on June 13, 2016. Its primary purpose is to engage in the business of exploring, developing and utilizing renewable energy resources, and establishing, acquiring, maintaining, commissioning, owning and operating geothermal, thermal, hydroelectric, solar, wind, coal, diesel plants and such other sources that may be a viable source of electric light, heat and power system. INEC has started its interim commercial operations through an Interim Power Supply Agreement (IPSA) with Bantayan Electric Cooperative (BANELCO) in 2020 (see Note 23).

As of December 31, 2021 and 2020, INEC is effectively 65%-owned by VEC and 35%-owned by GPI through a consortium formed by VIDC.

The registered office of INEC is at 9<sup>th</sup> Floor, Oakridge IT Center 3, Oakridge Business Park, A.S. Fortuna, Brgy. Banilad, Mandaue City, Cebu, Philippines 6014.

#### SPHC

SPHC was incorporated on April 20, 2017. Its primary purpose is to engage in the business of holding investments in power generation companies. As of December 31, 2021, SPHC has not yet started its commercial operations.

The registered office of SPHC is at 9<sup>th</sup> Floor, Oakridge IT Center 3, Oakridge Business Park, A.S. Fortuna, Brgy. Banilad, Mandaue City, Cebu, Philippines 6014.

#### AHC

AHC was incorporated on August 16, 2017. Its primary purpose is to engage in the business of a holding company. As of December 31, 2021, AHC has not yet started its commercial operations.

In May 2021, AHC in partnership with VEC acquired 9% ownership in BPC equivalent to 66,825,000 and 7,425,000 common stocks with par value of ₱1.00 per share, respectively. Further, AHC acquired 9% ownership in NBPC equivalent to 9,720,000 and 1,080,000 common stocks with par value of ₱10.00 per share, respectively.

On June 28, 2021, VREC assigned its 45,000 common shares in AHC with par value of ₱1.00 per share to VEC.

The registered office of AHC is at 9<sup>th</sup> Floor, Oakridge IT Center 3, Oakridge Business Park, A.S. Fortuna, Brgy. Banilad, Mandaue City, Cebu, Philippines 6014.

#### VMHI

VMHI was incorporated on June 8, 2012. Its primary purpose is to engage in the business of owning, acquiring, operating, generating, collecting and distributing electricity.

VMHI is in its starting phase or pre-operational stage as a power generating entity that will implement a greenfield power plant project, involving the construction and operation of a series of run-of-river hydropower facility in Barangay Capitan Ramon in Silay City, Negros Occidental. VMHI will implement the project in phases, where Phase 1 will involve the construction and operation of a six (6) MW power plant facility along the Malogo river. The project has concluded its detailed engineering design. A tender process is underway for the construction to coincide with the project timetable, but subject to adjustments that may be brought about by regulations from the grid system operator.



#### 1590 EC

1590 EC was incorporated and started operations on July 30, 2010. It is primarily engaged in power generation and operates a 225 MW diesel-fired power plant in Bauang, La Union. 1590 EC is also partly-owned by GPI, Eco Utilities Ventures Holdings Company, Inc. and ICS Renewables Holdings, Inc. (ICS), among others. The principal place of business is located at 9th Floor, Oakridge IT Center 3, Oakridge Business Park, A.S. Fortuna Street, Brgy. Banilad, Mandaue City, Cebu Philippines.

#### VSC

VSC, formerly ET Vivant, was incorporated on April 4, 2018 primarily to engage in developing and constructing solar power generation and related facilities for lighting and power purposes and whole-selling the electric power to the wholesale electricity spot market, private distribution utilities, private electric cooperatives and other off-takers and selling and/or trading electricity for light, heat and power purposes. VSC has direct equity shareholding in CSSC, an entity engaged in the solar power generation business. As of December 31, 2021, VSC has started its commercial operations.

On November 9, 2020, the application to change the name of ET Vivant to VSC was approved by the SEC.

#### CSSC

CSSC, formerly ET Energy Island Corporation (ETEI), was incorporated on January 11, 2017 with the primary purpose to explore, develop, build, construct, install, commission, rehabilitate, maintain, own, manage, operate and invest in, bid for or otherwise acquire power generating plants and related facilities and to engage in the business of generating, marketing, selling and supplying electricity generated from solar photovoltaic systems and components; planning and construction of photovoltaic power plants and to provide consulting services associated with photovoltaic power plants, provided that it shall not operate a public utility. In January 2019, CSSC has started its commercial operations.

On August 26, 2021, the application to change the name of ETEI to CSSC on August 26, 2021 was approved by the SEC.

#### BPC

BPC was incorporated to develop, construct, erect assemble, commission, own, operate, maintain, rehabilitate and manage facilities used in the generation of electricity including but not limited to facilities that utilize renewable energy sources and other power generating plants and related facilities. BPC has two (2) operating power plants in Bukidnon and have started commercial operations on February 26, 2016 for Plant 1 and February 26, 2017 for Plant 2.

In May 2021, VEC and AHC acquired 81% and 9% ownership of BPC equivalent to 66,825,000 and 7,425,000 common stocks with par value of ₱1.00 per share, respectively.

The registered office address of BPC is at National Highway Barandias, Pangantucan, Bukidnon.

#### NBPC

NBPC was incorporated to develop, construct, erect, assemble, commission, own, operate, maintain, rehabilitate and manage facilities used in the generation of electricity including but not limited to facilities that utilize renewable energy sources and other power generating plants and related facilities. NBPC has started its commercial operations on September 26, 2018.



In May 2021, VEC and AHC acquired 81% and 9% ownership of NBPC equivalent to 9,720,000 and 1,080,000 common stocks with par value of ₱10.00 per share, respectively.

The registered office address of NBPC is at 2<sup>nd</sup> Floor Z-Gas Building, Purok 6A, South Poblacion, Maramag, Bukidnon.

*Associates.* VECO, PEI, AHI, CPPC, MPC, TVI, LPCI, GLEDC, SREC, CREC, LWEC, and FLOWS qualify as associates of the Group.

#### VECO

VECO was incorporated on February 22, 1961 and whose corporate term was extended for another 50 years after the expiration on February 23, 2012. VECO is a power distribution entity, the primary activities of which are to establish, maintain and operate electric light, heat and power systems and to sell to the general public electricity for light, heat and power purposes.

VECO serves the electrical power needs of four cities (Cebu, Mandaue, Talisay and Naga) and four municipalities (Minglanilla, San Fernando, Consolacion and Lilo-an) of the greater part of Metro Cebu by virtue of legislative franchise grants.

The registered office address of VECO is at J. Panis Street, Banilad, Cebu City, Philippines.

#### PEI

PEI was incorporated on March 24, 2009 as a retail electricity supplier. On April 26, 2017, PEI began its operations providing qualified contestable customers the opportunity to select a contract structure that will meet their generation supply requirement.

PEI's registered principal office address is at Aboitiz Corporate Center, Gov. Manuel A. Cuenco Ave., Kasambagan, Cebu City, Philippines.

#### AHI

AHI was incorporated on November 28, 2007 primarily to manage entities and to provide management, investment and technical advice for enterprises engaged in electricity generation and/or distribution.

AHI and Global Formosa Power Holdings, Inc., a joint venture between Global Business Power Corp. (Global Power) and Formosa Heavy Industries (Global Formosa), signed a shareholders' agreement to develop, construct and own Cebu Energy Development Corporation (CEDC), a 246 MW coal-fired power plant in Toledo City, Cebu. AHI has a 44% direct ownership interest in CEDC.

Its principal place of business is located at Aboitiz Corporate Center, Gov. Manuel Cuenco Avenue, Kasambagan, Cebu City, Philippines.

#### CPPC

CPPC was incorporated on July 13, 1994 and its primary purpose is to build, construct or own power generation plants and related facilities. It operates a 70 MW bunker "C" diesel-fired power generating plant.

The registered office address of CPPC, which is also its principal place of business, is Old VECO Compound, Barangay Ermita, Carbon, Cebu City.



#### MPC

MPC (formerly Minergy Coal Corporation) was registered with SEC on February 18, 2013, primarily to design, construct, erect, assemble, commission and operate power-generating plants and related facilities for the generation and supply of power utilizing any fuel or energy source.

In the first quarter of 2014, MPC began construction of a 3x55 MW coal-fired power plant in Balingasag, Misamis Oriental. In September 2017, MPC already started its operations.

The registered office of MPC is at Brgy. Mandangoa, Balingasag, Misamis Oriental.

#### TVI

TVI was registered with SEC on October 15, 1997, primarily to acquire by purchase, lease, contract, concession, or otherwise any and all real estate, land, land patents, opinions, grants, concessions, franchises, water and other rights, privileges, easements, estates, interests and mineral properties of every kind and description. The power plant already started its operations in April 2019.

The registered principal office of TVI is at Barangay Bato, Toledo City, Cebu.

#### LPCI

LPCI was registered with SEC on June 10, 2016 and is primarily engaged in the business of exploring, developing and utilizing renewable energy resources, and establishing, acquiring, maintaining, commissioning, owning and operating geothermal, thermal, hydroelectric, solar, wind, coal, diesel plants and such other sources. As of December 31, 2021, LPCI has not yet started its commercial operations.

The registered office of LPCI is at 22F GT Tower International 6813 Ayala Avenue cor. H.V. dela Costa St, Makati City 1227.

#### GLEDC

GLEDC, a wholly owned subsidiary of LPCI, was registered with SEC on January 31, 2013. It is primarily engaged in the general business of generating power derived from coal, fossil fuel, geothermal, nuclear, natural gas, hydroelectric, and other viable sources of power, for lighting and power purposes and whole selling the electric power to electric cooperatives, distribution utilities, and industrial customers. As of December 31, 2021, GLEDC has not started its commercial operations.

The registered office of GLEDC is at 22nd Flr GT Tower International, Ayala Avenue Corner H.V. Dela Costa St. Bel-air, Makati City.

#### SREC

SREC, an associate through VREC, was registered on September 27, 2013 primarily to engage in the business of owning, acquiring, commissioning, operating, maintaining, evaluating, developing, and constructing conventional renewable energy and/or hybrid power generation, distribution and related facilities, and distributing and selling power, or any other business or activity that now or hereafter may be necessary, incidental, proper, advisable or convenient in the furtherance of or otherwise relating to such purpose. As of December 31, 2021, SREC has not yet started its commercial operations.



On May 28, 2021, VREC and VEC entered into a share-swap agreement with Maharlika Clean Power Holdings Corp. (MCPHC) to sell their entire investment in SREC and acquire additional shares in CREC held by MCPHC. The agreement resulted to the sale of VREC's and VEC's ownership in SREC equivalent to 30% or 11,250 common and 5,625 preferred shares under VREC, and 28,125 preferred shares under VEC, with par value of ₱1,000.00 per share to MCPHC (see Note 10).

The registered principal office of SREC is at Km. 13 North National Highway, Sta. Lourdes, Puerto Princesa City, Palawan.

#### CREC

CREC, an associate through VREC, was registered on April 12, 2017 primarily to engage in the business of owning, acquiring, commissioning, operating, maintaining, evaluating, developing, and constructing conventional renewable energy and/or hybrid power generation, distribution and related facilities, and distributing and selling power, or any other business or activity that now or hereafter may be necessary, incidental, proper, advisable or convenient in the furtherance of or otherwise relating to such purpose. As of December 31, 2021, CREC has not yet started its commercial operations.

On May 28, 2021, VREC and VEC entered into a share-swap agreement with MCPHC to sell its entire investment in SREC and acquire additional shares in CREC. The agreement resulted to VREC's and VEC's acquisition of 938 common stocks and 2,812 preferred stocks with par value of ₱1,000.00 per share in CREC, respectively.

The registered principal office of CREC is at Sitio Lilibutin, Barangay Guadalupe, Coron, Palawan 5316.

#### LWEC

LWEC, formerly known as 6 Barracuda, was incorporated and registered with SEC on January 24, 2017 and was established primarily to engage in all aspects of exploration, assessment, development and utilization of renewable energy resources, including the procurement, acquisition, importation, construction, installation, erection, ownership, lease, operation, and maintenance of edifices, structures, facilities, materials, machinery and equipment, for or related of the generation and sale of power; to acquire, purchase, own, lease, sublease and obtain rights and access to real and personal property. As of December 31, 2021, LWEC has not yet started its operations.

#### FLAWS

FLAWS, an associate of VHHL, was incorporated on August 31, 2018 primarily to engage in the activities of a holding company except as a stockbroker or dealer of securities, provided that, FLAWS shall not solicit, accept or take investments/placements from the public neither shall it issue investments contracts.

FLAWS has an 89.58% direct ownership interest in PPWRLC.

The registered principal office of FLAWS is at 37 Taft Street, Barangay Maligaya, Puerto Princesa City, Palawan.



#### PPWRLC

Puerto Princesa Water Reclamation and Learning Center, Inc. (the “Company”) was incorporated under the laws of the Republic of the Philippines and registered with the Securities and Exchange Commission (SEC) on November 8, 2018. The Company’s primary purpose is to engage in the activities of an operator, contractor and/or agent of the City of Puerto Princesa in providing septage, sewerage and sanitation services and to engage in the development, construction, operation, and maintenance of sewage and/or septage treatment plants which may also act as a tourist attraction and learning center for environmental protection. FLOWS has an 89.58% direct ownership interest in PPWRLC.

The Company has not yet started commercial operations as at December 31, 2021. The Company’s registered principal place of business is at Maligaya, Puerto Princesa City (Capital), Palawan, Region IV-B, Philippines, 5300.

*Joint Ventures.* CIPC, Delta P and LPEC qualify as joint ventures of the Group.

#### CIPC

CIPC was incorporated on October 19, 2010 primarily to engage in the business of owning, acquiring, commissioning, operating and selling power generation facilities and related facilities, or any other business or activity that now or hereafter may be necessary, incidental, proper, advisable or convenient in furtherance of or otherwise relating to such purpose. Currently, CIPC operates an 8 MW bunker and 0.75 MW diesel-fired power generation plants in the municipalities of Coron and Busuanga, respectively.

The registered principal office of CIPC is at Sitio Lilibutin, Barangay Guadalupe Coron, Palawan, Philippines 5316.

#### Delta P

Delta P was registered with SEC on September 20, 2002 primarily to operate and maintain a 16 MW heavy fuel oil-fired generating power station in Puerto Princesa, Palawan. On May 28, 2015, GPI agreed to sell to VEC 6,310,352 common shares representing 15% of Delta P’s total issued and outstanding capital stock, bringing the Group’s ownership in Delta P to 50%. In February 2020, VEC paid GPI ₱19.8 million as an additional consideration for such purchase of shares in 2015. In October 2020, DPI redeemed its preferred shares from VEC amounting to ₱40.0 million (see Note 10).

The registered principal office of Delta P is at Km. 13 North National Highway, Sta. Lourdes, Puerto Princesa City, Palawan.

#### LPEC

La Pampang Energy Corp (LPEC), formerly Vivant Enercore Integrated, Inc. (VEII), was incorporated on May 26, 2016. Its primary purpose is to engage in the business of exploring, developing and utilizing renewable energy resources, and establishing, acquiring, maintaining, commissioning, owning and operating geothermal, thermal, hydroelectric, solar, wind, coal, diesel plants and such other sources that may be a viable source of electric light, heat and power system. As of December 31, 2021, LPEC is still in the pre-operating stage.

On January 13, 2021, the application to change the name of VEII to LPEC was approved by the SEC.





In 2021, VEC entered into a joint venture with GPI which resulted to a 50% ownership in LPEC and reclassification of the investment from a subsidiary to a joint venture. As a result of the dilution, the Group recognized gain amounting to ₱3.7 million and presented as “Gain on loss of control of a subsidiary” in the Statement of Comprehensive Income. ₱39.3 million of the net gain is attributable to the measurement of the retained interest in the former subsidiary at fair value when control was lost.

*Authorization to Issue the Consolidated Financial Statements.* The consolidated financial statements of the Group as of and for the years ended December 31, 2021, 2020 and 2019 were approved and authorized for issuance by the Board of Directors (BOD) on March 18, 2022.

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## 2. **Basis of Preparation, Statement of Compliance and Basis of Consolidation**

### Basis of Preparation

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

### Statement of Compliance

The consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRSs).

### Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries. 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 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 reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. 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 statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

The consolidated financial statements of the subsidiaries are prepared for the same reporting year as the Parent Company using consistent accounting policies.



Profit or loss and each component of Other Comprehensive Income (OCI) 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 into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

#### Accounting for Loss of Control

When the Group loses control of a subsidiary, it derecognizes the assets and liabilities of the former subsidiary, including any non-controlling interests in the former subsidiary at the date control is lost, and components of other comprehensive income attributable to them. The Group also recognizes any investment retained in the former subsidiary at its fair value when control is lost. The Group subsequently accounts for any retained interests and for any amount owed by or to the former subsidiary in accordance with other relevant PFRSs. The fair value shall be regarded as the fair value on initial recognition of a financial asset or the cost on initial recognition of an investment in an associate or joint venture. The Group recognizes a gain or loss associated with the loss of control attributable to the former controlling interest.

The Group accounts for all amounts previously recognized in other comprehensive income in relation to former subsidiaries on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

#### 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 comprehensive income and within equity in the consolidated statement of financial position, 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 to non-controlling interest is also recognized directly in equity.

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### **3. Changes in Accounting Policies and Disclosures**

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of amendments effective as at January 1, 2021. The Group has not early adopted any amendment that has been issued but is not yet effective.

Unless otherwise indicated, adoption of these amendments did not have an impact on the consolidated financial statements of the Group.

- Amendment to PFRS 16, *Leases*, COVID-19-related Rent Concessions beyond June 30, 2021

The amendment provides 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, 2022; 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 amendment is effective for annual reporting periods beginning on or after April 1, 2021. Early adoption is permitted.

The Group adopted the amendment beginning April 1, 2021. The amendments did not have a material effect on the financial statements of the Group.

- Amendments to PFRS 9, *Financial Instruments*, PAS 39, *Financial Instruments: Recognition and Measurement*, PFRS 7, *Financial Instruments: Disclosures*, PFRS 4, *Insurance Contracts* and PFRS 16, Interest Rate Benchmark Reform - Phase 2

The amendments provide the following temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (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; and
- 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 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. The amendments did not have a material impact on the financial statements of the Group.

#### Standards Issued but not yet Effective

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



*Effective beginning on or after January 1, 2022*

- Amendments to PFRS 3, *Business Combinations*, 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 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 effective for annual reporting periods beginning on or after January 1, 2022 and apply 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 is effective for annual reporting periods beginning on or after January 1, 2022 and 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.

The amendments are not expected to have a material impact on the financial statements of the Group.

- Amendments to PAS 37, *Onerous Contracts - Costs of Fulfilling a Contract*

The amendments specify 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 amendments are effective for annual reporting periods beginning on or after January 1, 2022. The Group 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 Philippine Financial Reporting Standards*, 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 PFRSs. 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. The amendments are not expected to have a material impact on the financial statements of the Group.

- Amendments to PFRS 9, 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 Group 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. The amendments are not expected to have a material impact on the financial statements of the Group.

- Amendments to 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. The amendments are not expected to have a material impact on the financial statements of the Group.

*Effective beginning on or after January 1, 2023*

- Amendments to PAS 12, *Income Taxes*, Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction

The amendments narrow the scope of the initial recognition exception under PAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.



The amendments also clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognized in the financial statements (and interest expense) or to the related asset component (and interest expense).

An entity applies the amendments to transactions that occur on or after the beginning of the earliest comparative period presented for annual reporting periods on or after January 1, 2023.

The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and apply prospectively.

- Amendments to PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, Definition of Accounting Estimates

The amendments introduce a new definition of accounting estimates and clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, the amendments clarify that the effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors.

An entity applies the amendments to changes in accounting policies and changes in accounting estimates that occur on or after January 1, 2023 with earlier adoption permitted. The amendments are not expected to have a material impact on the financial statements of the Group.

- Amendments to PAS 1, *Presentation of Financial Statements*, and PFRS Practice Statement 2, Disclosure of Accounting Policies

The amendments provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by:

- Replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies; and
- Adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to the Practice Statement provide non-mandatory guidance. Meanwhile, the amendments to PAS 1 are effective for annual periods beginning on or after January 1, 2023. Early application is permitted as long as this fact is disclosed. The amendments are not expected to have a material impact on the financial statements of the Group.

*Effective beginning on or after January 1, 2024*

- Amendments to PAS 1, Classification of Liabilities as Current or Noncurrent

The amendments clarify paragraphs 69 to 76 of PAS 1 to specify the requirements for classifying liabilities as current or noncurrent. 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; and



- 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 effective for annual reporting periods beginning on or after January 1, 2023 and must be applied retrospectively. However, in November 2021, the International Accounting Standards Board (IASB) tentatively decided to defer the effective date to no earlier than January 1, 2024. The amendments are not expected to have an impact on the financial statements of the Group.

#### *Deferred Effectivity*

- Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Investments in Associates and Joint Ventures*, 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 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.

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## **4. Summary of Significant Accounting Policies**

### Current and Noncurrent Classification

The Group presents assets and liabilities in the consolidated statement of financial position based on current/noncurrent classification. An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the reporting period; or,
- Cash and cash equivalents unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as noncurrent.

A liability is current when:

- It is expected to be settled in the 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 the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as noncurrent.

Deferred tax assets and liabilities are classified as noncurrent assets and liabilities, respectively.



### Fair Value Measurement

The Group measures financial instruments, such as, cash on hand and in banks, short-term placements, trade and other receivables, trade and other payables, notes payable and non-financial assets such as investment properties and AFS investments, at fair value at each reporting date.

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

The Group's management determines the policies and procedures for both recurring fair value measurement, such as cash on hand and in banks, short-term investments, trade and other receivables, advances to associates and stockholders, financial assets at FVOCI, trade and other payables, advances from related parties, notes payable and investment properties.

External valuers are involved for valuation of significant assets, such as investment properties. Involvement of external valuers is decided upon annually by the management after discussion with and approval by the Group's audit committee. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained.





Valuers are normally rotated every 3–6 years. The management decides, after discussions with the Group's external valuers, which valuation techniques and inputs to use for each case.

At each reporting date, the management analyses the movements in the values of assets which are required to be re-measured or re-assessed as per the Group's accounting policies. For this analysis, the management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

The management, in conjunction with the Group's external valuers, also compares the changes in the fair value of each asset with relevant external sources to determine whether the change is reasonable.

On an interim basis, the management and the Group's external valuers present the valuation results to the audit committee. This includes a discussion of the major assumptions used in the valuations.

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.

#### Financial Assets and Financial Liabilities

##### *Financial Instruments - Initial Recognition and Subsequent Measurement*

- *Classification of Financial Assets.* Financial assets are classified in their entirety based on the contractual cash flows characteristics of the financial assets and the Group's business model for managing the financial assets. The Group classifies its financial assets into the following measurement categories:
  - Financial assets measured at amortized cost;
  - Financial assets measured at fair value through profit or loss (FVPL);
  - Financial assets measured at fair value through other comprehensive income (FVOCI), where cumulative gains or losses previously recognized are reclassified to profit or loss
  - Financial assets measured at FVOCI, where cumulative gains or losses previously recognized are not reclassified to profit or loss
- *Contractual Cash Flows Characteristics.* If the financial asset is held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, the Group assesses whether the cash flows from the financial asset represent solely payments of principal and interest (SPPI) on the principal amount outstanding.

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



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

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

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

These financial assets are initially recognized at fair value plus directly attributable transaction costs and subsequently measured at amortized cost using the EIR method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in "Interest income" in the consolidated statement of comprehensive income and is calculated by applying the EIR to the gross carrying amount of the financial asset, except for (a) purchased or originated credit-impaired financial assets and (b) financial assets that have subsequently become credit-impaired, where, in both cases, the EIR is applied to the amortized cost of the financial asset. Losses arising from impairment are recognized in "Provision for bad debts" in the consolidated statement of comprehensive income.

As at December 31, 2021 and 2020, the Group has financial assets at amortized cost consisting of cash and cash equivalents, trade and other receivables, advances to associates, joint ventures and stockholders, and other receivables included under "Other noncurrent assets" such as advances to suppliers and other parties, due from RFM Corporation, and security deposits and restricted cash under "Other current assets" (see Notes 6, 7, 9, 13 and 16).

- *Financial Assets at FVPL.* Financial assets at FVPL are measured at FVPL 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 FVPL are initially recognized at fair value, with transaction costs recognized in the consolidated statement of comprehensive income as incurred. Subsequently, they are measured at fair value and any gains or losses are recognized in the consolidated statement of comprehensive income. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at FVPL, irrespective of the business model.

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 FVPL 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.



The Group 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 liability or nonfinancial contract and accounted for as a 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 FVPL.

For derivatives embedded in financial asset host contracts, the Group applies the financial asset classification and measurement requirements to the entire instrument. No embedded derivatives in financial asset host contracts are recognized separately in the financial statements.

Embedded derivatives are measured at fair value with changes in fair value recognized in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

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 FVPL, and the gains or losses from disposal of financial investments.

As at December 31, 2021 and 2020, the Group has no financial assets at FVPL.

- *Financial Assets at FVOCI.* A financial asset is measured at FVOCI if (a) it is held within a business model for which the objective is achieved by both collecting contractual cash flows and selling financial assets and (b) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. These financial assets are initially recognized at fair value plus directly attributable transaction costs and subsequently measured at fair value. Gains and losses arising from changes in fair value are included in other comprehensive income within a separate component of equity. 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.

As at December 31, 2021 and 2020, the Group has financial assets at FVOCI amounting to ₱102.0 million and ₱7.4 million, respectively, and is presented as part of "Other noncurrent assets" account in Group's consolidated statements of financial position (see Note 13).

- *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 FVPL, 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. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by PFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

The Group's financial liabilities include trade and other payables, notes payable and advances from related parties.

- *Impairment of Financial Assets.* Upon adoption of PFRS 9, the standard introduces the single, forward-looking "expected loss" impairment model, replacing the "incurred loss" impairment model under PAS 39.

The Group recognizes ECL on debt instruments that are measured at amortized cost.

No ECL is recognized on equity investments.

ECLs are measured in a way that reflects the following:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and,



- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

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

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

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

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

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

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

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



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

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

*Offsetting Financial Instruments.* Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

#### *Derecognition of Financial Assets and Liabilities*

- *Financial Assets.* A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:
  - the rights to receive cash flows from the asset have expired;
  - the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
  - the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset 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.

- *Financial Liabilities.* A financial liability is derecognized when the obligation under the liability is discharged or 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 are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of comprehensive income.



#### Cash and Cash Equivalents

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

#### Investments in Associates and Interests in 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 interests in 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 comprehensive 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.

For an associate that is engaged in the power distribution business, the Group accounts for its distribution utility assets under the revaluation model. Thus, the Group's share of the results of operations of the associate and change in the other comprehensive income recognized in the consolidated financial statements reflects the changes in the fair value of the distribution utility assets.

The consolidated 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 reporting 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 comprehensive 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.

#### Inventories

Inventories are valued at the lower of cost and net realizable value (NRV). Costs incurred in bringing the inventory to its present location and condition is determined primarily on the basis of the 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.

#### Prepayments and Other Current Assets

Prepayments and other current assets are recognized and carried at cost, less any impairment in value. These are recognized as assets when it is probable that any future economic benefit associated with the item will flow to or from the entity and the item has a cost or value that can be measured with reliability. An asset is not recognized in the consolidated statement of financial position when expenditure has been incurred for which it is considered improbable that economic benefits will flow to the entity beyond the current accounting period. Instead, such a transaction results in the recognition of an expense in the consolidated statement of comprehensive income.

#### Property, Plant and Equipment

Property, plant and equipment, except land, are stated at cost less accumulated depreciation and amortization, and impairment losses, if any.

Initially, an item of property, plant and equipment is measured at its cost, which comprises its purchase price and any directly attributable costs of bringing the asset to the location and condition for its intended use. Subsequent expenditures are added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance, will flow to the Group. The costs of day-to-day servicing of an asset are recognized as an expense in the period in which they are incurred. Land is measured at cost less any impairment losses. For land transferred from investment properties carried at fair value, the land's deemed cost is its fair value at the date of change in use.

Depreciation and amortization are computed using the straight-line method over the assets' estimated useful lives. Leasehold improvements are amortized using the straight-line method over the estimated useful life of the improvements or the term of the lease, whichever is shorter. The estimated useful lives are as follows:

	Number of Years
Plant machineries and equipment	5–10
Condominium units, building and improvements	5–40
Transportation equipment	5
Office furniture, fixtures and equipment	2–10
Tools and other assets	3–5
Leasehold and land improvements	3–10

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





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

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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.

#### Investment Properties

Investment properties, which pertain to land and buildings, are properties held by the Group either to earn rentals or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment properties are initially measured at cost. Subsequently, investment properties are measured at fair value with any change therein recognized in profit or loss following the fair value model.

The fair value of the Group's investment properties measured using the fair value model is based on the valuation carried out by independent appraisers. The valuation, which conforms to International Valuation Standards, was arrived at by reference to market evidence of transaction prices of similar properties.

Any gain or loss resulting from either a change in the fair value or the sale of investment properties is recognized in profit or loss in the year of change or derecognition.

Transfers are made to investment properties when, and only when, there is a change in use, evidenced by the end of owner-occupation or the start of an operating lease to another party. Transfers are made from investment property when, and only when, there is a change in use, evidenced by start of owner-occupation or of development with a view to sell.

*Business Combination and Goodwill.* 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 their 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 costs incurred are expensed and included in general and 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 the consolidated statement of comprehensive income.

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, will be recognized in accordance with PAS 39 either in the consolidated statement of comprehensive income 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 Group's interest in the fair values of 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 in the consolidated statement of comprehensive income.

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 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 (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognized.

#### Impairment of Nonfinancial Assets

As at December 31, 2021 and 2020, the Group has investments in associates and joint ventures, property, plant and equipment and right-of-use assets which are classified as nonfinancial assets subject to impairment.



The Group assesses at each reporting 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 (CGU) 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. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

Impairment losses of continuing operations, including impairment of inventories, are recognized in the consolidated statement of comprehensive income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting 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 Group estimates the assets or CGU's recoverable amount.

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 and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of comprehensive 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.

### Equity

*Capital Stock.* Capital stock is recognized as issued when the stock is paid for or subscribed under a binding subscription agreement and is measured at par value for all issued shares.

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

*Retained Earnings.* Retained earnings consist of appropriated and unappropriated balances. Appropriated retained earnings are restricted for specific purposes and/or are not available for dividend declaration. Unappropriated retained earnings are not restricted and include the cumulative balance of net income or loss, any dividend distributions, prior period adjustments and effects of any change in accounting policy.

*Equity Reserves.* Equity reserves pertain to the difference between the consideration transferred and the book value of interest acquired from non-controlling interest without loss of control.



### Revenue Recognition

Revenue is measured based on the consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

Revenue is recognized when the Group satisfies a performance obligation by transferring a promised good or service to the customer, which is when the customer obtains control of the good or service. A performance obligation may be satisfied at a point in time or over time. The amount of revenue recognized is the amount allocated to the satisfied performance obligation. The Group has concluded that it is the principal in its revenue arrangements because it controls the goods or services before these goods or services are transferred to the customer.

The following specific recognition criteria must also be met before revenue is recognized:

#### *Revenue from Contracts with Customers*

- *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 to be recognized over time since the customer simultaneously receives and consumes the benefits as the seller supplies power.

Power 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 should be recognized over time based on amounts billed.

- *Management and Service fees.* Revenue from management fees, arising from services involving consultancy, management, technical, and services covered by Service Level Agreements (SLAs), are recognized over time when the related services are rendered based on the terms of the management and service contracts.
- *Engineering service income.* Revenue from engineering services, arising from engagement with customers availing technical and engineering expertise and covered by service contracts, are recognized overtime when the services are rendered.

For the years ended December 31, 2021, 2020 and 2019, the Group has no variable consideration and the timing of revenue recognition currently does not result in any contract assets or liabilities and there are no unfulfilled performance obligations at any point in time.

*Interest Income.* Interest income is recognized as interest accrues taking into account the effective yield on the assets.



*Other Income.* Other income includes proceeds from insurance claims, rental income and gain on disposal of property and equipment. These are generally recognized when earned. Rental income is recognized on a straight-line basis over the term of the lease while gain on disposal of property, plant and equipment is recognized as the difference between the consideration and the book value of the property, plant and equipment disposed.

#### Cost and Expenses

Cost 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. Cost and expenses are recognized in the consolidated statements of comprehensive income when incurred.

#### 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 comprehensive 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.

#### Pension Benefits

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 the consolidated statement of comprehensive income. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability 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 comprehensive 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 comprehensive 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.

### 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 at the reporting date.

*Deferred Income Tax.* Deferred income tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. 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, carry-forward 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 carry-forward 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 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 reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each reporting 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 reporting date. Income tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statement of comprehensive income.

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

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

*Value-Added Tax (VAT).* Revenues, expenses, and assets are recognized net of the amount of VAT, if applicable.

When VAT from sales of services (output VAT) exceeds VAT passed on from purchases of goods or services (input VAT), the excess is recognized as payable in the consolidated statement of financial position. When VAT passed on from purchases of goods or services (input VAT) exceeds VAT from sales of services (output VAT), the excess is recognized as an asset in the consolidated statement of financial position to the extent of the recoverable amount.

#### Leases

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

*Group as a Lessee.* The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. 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 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 and estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.



Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term as follow.

	Number of Years
Office space	1-5
Plant and equipment	5

Right-of-use assets are subject to impairment. Refer to the accounting policies in section on impairment of non-financial assets.

*Lease Liabilities.* At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. 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 a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if 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 in-substance fixed lease payments or a change in the assessment 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 leases of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below ₱0.25 million). 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.

#### Foreign-currency-denominated Transactions

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 reporting date. Exchange gains and losses arising from foreign currency transactions and translations of foreign-currency-denominated monetary assets and liabilities are credited or charged to current operations.

#### Contingencies

Contingent liabilities are not recognized in the consolidated financial statements. They 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 position at the reporting date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed when material.

#### Earnings Per Share

Basic earnings per common share is calculated by dividing net income for the year attributable to the common stockholders of the Group by the weighted average number of common shares issued and outstanding during the year, after retroactive adjustments for any stock dividends declared.

Diluted earnings per share is calculated by dividing the net income for the year attributable to the common stockholders of the Group 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.

As at December 31, 2021 and 2020, the Group does not have dilutive common stock equivalents.

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### **5. Significant Accounting Judgments, Estimates and Assumptions**

The preparation of the consolidated financial statements in compliance with PFRSs requires the Group to make judgments, estimates and assumptions that affect the amounts reported in the consolidated financial statements and related notes. In preparing these consolidated financial statements, the Group made its best judgments and estimates of certain amounts, giving due consideration to materiality. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

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

#### Judgments

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

*Determination of Lease Contract and Lease Payments under PFRS 16.* 1590 EC entered into lease contract with Provincial Government of La Union (PGLU) for the right to preserve, maintain and operate the Buang Diesel Power Plant (BDPP) for its sole account and expense for a term of five years commencing January 1, 2019. Under the contract, 1590 EC will pay PGLU for a fixed monthly rent with annual escalation and annual capital investment to cover for upgrading, maintenance, rehabilitation and repair of BDPP. The Group has determined that the lease contract with PGLU meets the definition of the lease under PFRS 16 since the leased asset is explicitly identified and defined in the contract and 1590 EC has the right to control over the identified asset. Further, the payments for capital investments are considered in-substance lease payments as 1590 EC has no other option but to incur this amount whether it be in the form of leasehold improvement or cash. Accordingly, such in-substance lease payments are included in the measurement of right-of-use asset and lease liability upon commencement date.

The carrying amount of the right-of-use asset and the lease liability amounted to ₱442.4 million and ₱358.7 million, respectively, as at December 31, 2021, and ₱672.2 million and ₱663.2 million, respectively, as of December 31, 2020 (see Note 24).



### 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 discussed below.

*Determining Fair Value of Investment Properties.* The Group carries its investment properties at fair value, with changes in fair value being recognized in the consolidated statements of comprehensive income. While the Group has opted to rely on independent appraisers to determine the fair value of its investment properties, such fair value was determined based on recent prices of similar properties with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices. The amounts and timing of recorded changes in fair value for any period would differ if the Group made different judgments and estimates or utilized different basis in determining fair value.

The key assumptions used to determine the fair value of the properties and sensitivity analyses are provided in Note 25.

Any gain or loss from a change in the fair value of each investment property is included in the consolidated statement of comprehensive income in the year in which the change arises.

As of December 31, 2021, and 2020, the carrying value of the Group's investment properties amounted to ₱863.6 million and ₱757.3 million, respectively. (see Note 12).

*Determining Non-Controlling Interest (NCI) that is Material to the Group.* The Group assesses whether an NCI is material by considering factors such as the carrying amount of the NCI relative to the net equity of the Group, the profit or loss or OCI of the subsidiary attributable to the NCI, the assets and liabilities of the related subsidiary, or the amount of dividends paid by the subsidiary to the NCI, and the proportion that these amounts bear to the Group's financial position or results of operations. The Group also considers the nature of activities of the subsidiary and its relative importance or risk compared to other operations of the Group. Based on management's assessment, it has determined that the NCI in 1590 EC is material to the Group. Information about this subsidiary with material NCI are disclosed in Notes 1 and 21.

*Estimating Useful Lives of Property, Plant and Equipment and Intangible Assets.* The Group reviews annually the estimated useful lives of property, plant and equipment and intangible assets and updates the estimates based on expected asset utilization, market demands and future technological developments consistent with the Group's pursuit of constant modernization of its machineries, equipment and software. However, it is possible that the factors mentioned above may change in the future which could change the estimated useful lives of the property, plant and equipment and intangible assets. The estimated useful lives are also updated if expectations differ from previous estimates due to physical wear and tear, technical obsolescence and legal or other limits on the use of the assets. A reduction in the estimated useful lives could result in a significant increase in depreciation and amortization of property, plant and equipment and intangible assets.

The carrying value of the property, plant and equipment amounted to ₱3,318.8 million and ₱2,260.5 million as of December 31, 2021 and 2020, respectively (see Note 11). The carrying value of intangible assets (relating to software costs under "Other noncurrent assets") amounted ₱1.0 million and ₱0.9 million as of December 31, 2021 and 2020, respectively (see Note 13).



*Estimating Impairment of Nonfinancial Assets.* Internal and external sources of information are reviewed at each reporting date to identify indications that the following assets may be impaired or an impairment loss previously recognized no longer exists or may be decreased:

- Investments in associates and joint ventures
- Property, plant and equipment
- Right-of-use assets

PFRSs requires that an impairment review be performed when certain impairment indicators are present. Determining the recoverable amount, which require 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 investments in associates and joint ventures and property, plant and equipment are impaired. Any resulting impairment loss could have a material adverse impact on the financial condition and results of operations.

Assets that are subject to impairment testing when impairment indicators are present (such as obsolescence, physical damage, significant changes to the manner in which the asset is used, worse than expected economic performance, a drop in revenues or other external indicators) are as follows:

	2021	2020
Investments in associates and joint ventures (see Note 10)	<b>₱11,614,930,568</b>	₱11,247,606,324
Property, plant and equipment (see Note 11)	<b>3,318,784,838</b>	2,260,461,407
Right-of-use assets (see Note 24)	<b>442,360,406</b>	672,222,914

In 2020, the Group has determined that an impairment test has to be performed on certain items of its property, plant and equipment and right-of-use assets amounting to ₱1,071.2 million, respectively (see Notes 11 and 24). The impairment test calculation has not resulted to any recognition of an impairment loss in 2021. There were no impairment indicators on the Group's nonfinancial assets in 2020 and 2019.

*Estimating Impairment of Goodwill.* The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated.

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. In estimating the value in use, the Group estimated revenue based on existing customer contracts, anticipated projects and projected demand, and assumed, for one CGU, a consistent gross margin during the five-year horizon based on the mix of business model arrangements with current and expected customers, and for two other CGUs, a gross margin that varies depending on anticipated demand. The interest rate used to discount the net free cash flows from operations is the weighted average cost of capital (WACC) of 7.32%–7.84% as of December 31, 2021 and 9.51% as of December 31, 2020.

As at December 31, 2021 and 2020, the carrying amount of goodwill amounted to ₱299.0 million and ₱82.4 million, respectively (see Note 13).



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

Deferred income tax assets amounted to ₱20.4 million and ₱34.0 million as of December 31, 2021 and 2020, respectively (see Note 20).

Deferred income tax assets have not been recognized on net operating loss carry-over (NOLCO) of ₱302.7 million and ₱409.1 million as of December 31, 2021 and 2020, respectively, and minimum corporate income tax (MCIT) of ₱0.1 million and ₱0.8 million as of December 31, 2021 and 2020, respectively (see Note 20).

*Estimating the Incremental Borrowing Rate for Lease Liabilities.* The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (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 when available and is required to make certain entity-specific estimates.

The Group's lease liabilities amounted to ₱358.7 million and ₱663.2 million as of December 31, 2021 and 2020, respectively (see Note 24).

*Estimating Legal Contingencies.* The estimate of probable costs for the resolution of possible claims has been developed in consultation with outside counsel handling the Group's defense in these matters and is based upon an analysis of potential results. Management, in consultation with its legal counsel, believes that the likely outcome of these proceedings will not have a material adverse effect on the Group's financial position and operating results.

Management also believes that the current provisions in the accounts are adequate to cover the possible claims that may arise under the current circumstances. Existing circumstances and assumptions about future developments related to these proceedings may still change. Such changes are reflected in the assumptions when they occur.

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## 6. Cash and Cash Equivalents

	2021	2020
Cash on hand and in banks	<b>₱523,471,825</b>	₱513,649,511
Short-term investments	<b>5,126,553,114</b>	4,358,681,953
	<b>₱5,650,024,939</b>	₱4,872,331,464

Cash in banks earn interest at the respective bank deposit rates.



Short-term investments are cash equivalents and are made for varying periods of up to three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term investment rates.

Interest income earned from cash in banks and short-term investments amounted to ₱23.0 million, ₱62.2 million and ₱153.4 million in 2021, 2020 and 2019, respectively. Accrued interest receivable amounted to ₱6.1 million and ₱3.6 million as of December 31, 2021 and 2020, respectively (see Note 7).

## 7. Trade and Other Receivables

	2021	2020
Trade receivables:		
Third parties	<b>₱660,874,515</b>	₱507,201,863
Related parties (see Notes 16 and 23)	<b>53,076,978</b>	32,973,639
Dividends receivable (see Notes 10 and 16)	<b>39,400,000</b>	257,600,000
Accounts receivable (see Note 16)	<b>35,226,207</b>	7,654,602
Advances to officers and employees	<b>8,179,942</b>	4,321,890
Accrued interest (see Note 6)	<b>6,146,305</b>	3,582,634
Others	<b>131,414,793</b>	55,041,239
	<b>934,318,740</b>	868,375,867
Less allowance for impairment losses	<b>54,272,035</b>	54,272,035
	<b>₱880,046,705</b>	₱814,103,832

Trade receivables represent receivables from Independent Electricity Market Operator of the Philippines (IEMOP) for sales to the Wholesale Electricity Spot Market (WESM), Ancillary Services Procurement Agreement (ASPA) with NGCP and bilateral sales contracts with other parties, Power Supply Agreement (PSA), Distribution Wheeling Service (DWS), and Retail Supply Contracts (see Note 23). Trade receivables are noninterest-bearing and generally have credit terms of 30 days (see Note 23).

Other receivables are mainly composed of project costs and receivables from former related parties.

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

	2021	2020
At January 1	<b>₱54,272,035</b>	₱54,026,037
Provision (reversal)	—	245,998
At December 31	<b>₱54,272,035</b>	₱54,272,035



Significant portion of the impairment losses pertains to individually impaired accounts.

## 8. Inventories - at Cost

	2021	2020
Heavy fuel oil	<b>₱75,455,644</b>	₱158,445,555
Spare parts	<b>59,157,954</b>	47,993,480
Lube oil	<b>9,176,416</b>	10,401,563
Light fuel oil	<b>8,885,445</b>	3,658,160
	<b>₱152,675,459</b>	₱220,498,758

The total cost of inventories recognized under “Generation costs” in the consolidated statements of comprehensive income amounted to ₱938.5 million, ₱363.3 million and ₱853.7 million in 2021, 2020 and 2019, respectively (see Note 17).

## 9. Prepayments and Other Current Assets

	2021	2020
Advances to suppliers and other parties	<b>₱136,928,721</b>	₱126,752,274
Input VAT - current	<b>124,988,810</b>	75,782,374
Prepaid expenses	<b>40,370,900</b>	41,650,277
Creditable withholding taxes – current	<b>1,713,591</b>	9,082,487
Others (see Note 23)	<b>26,570,814</b>	28,625,258
	<b>₱330,572,836</b>	₱281,892,670

Advances to suppliers and other parties include down payment for service contractors and advance payments to suppliers for purchases of goods and services for the succeeding year.

Input VAT represents the VAT imposed by the Group’s suppliers of goods and services as required by Philippine taxation laws and regulations. The non-current portion of these input VAT are presented as part of “Other noncurrent assets” (see Note 13).

Prepaid expenses include payments for the Group’s health insurance coverage and for all risks of direct physical loss or damage, including boiler explosion and machinery break down.

Creditable withholding taxes pertain to taxes withheld by the customers on income payments to the companies in the Group from sales of services that can be applied against the companies’ income tax liabilities. The non-current portion of these creditable withholding taxes are presented as part of “Other noncurrent assets” (see Note 13).

“Others” include cash restricted amounting to ₱2.0 million as of December 31, 2021 and 2020 for implementing environmental and community projects pursuant to the agreement entered with the Department of Environment and Natural Resources and PGLU and security deposits paid to distribution utilities in connection with distribution wheeling services agreements (see Note 23).



## 10. Investments in Associates and Joint Ventures

The Group's associates and joint ventures, which are all incorporated in the Philippines, and the corresponding equity ownership as of December 31 follow:

		Percentage of Ownership		
	Nature of Business	2021	2020	2019
Associates:				
VECO	Power distribution	34.81	34.81	34.81
LPCI	Power generation	42.50	42.50	42.50
GLEDC	Power generation	42.50	42.50	42.50
CPPC	Power generation	40.00	40.00	40.00
PEI	Power generation	40.00	40.00	40.00
AHI	Holding company	40.00	40.00	40.00
MPC	Power generation	40.00	40.00	40.00
TVI	Power generation	20.00	20.00	20.00
SREC	Power generation	—	30.00	30.00
CREC	Power generation	35.00	35.00	35.00
LWEC	Power generation	40.00	40.00	40.00
FLAWS	Holding company	45.00	45.00	—
PPWRLC	Water treatment	40.31	40.31	—
Joint ventures:				
CIPC	Power generation	50.00	50.00	50.00
Delta P	Power generation	50.00	50.00	50.00
LPEC	Power generation	50.00	—	—

	2021	2020
Acquisition cost:		
At January 1	₱7,670,265,917	₱7,606,352,015
Additions	49,692,306	102,381,502
Disposal of an associate	(45,000,000)	—
Redemption of preferred shares	—	(40,000,000)
Advances converted to equity	—	1,532,400
At December 31	7,674,958,223	7,670,265,917
Accumulated share in net earnings:		
At January 1	2,014,922,847	2,387,247,956
Equity in net earnings of associates and joint ventures	1,769,960,102	1,530,892,007
Cash dividends received and receivable	(1,536,955,896)	(1,975,311,195)
Disposal of an associate	15,459,028	—
Share in the amount transferred from revaluation surplus representing depreciation on revaluation increment	(68,531,163)	72,094,079
At December 31	2,194,854,918	2,014,922,847
Share in revaluation increment:		
At January 1	1,658,598,674	1,323,680,397
Share in revaluation increment	112,003,656	407,012,356
Share in the amount transferred to equity representing depreciation on revaluation increment of an associate	68,531,164	(72,094,079)
At December 31	1,839,133,494	1,658,598,674

(Forward)



	2021	2020
Share in remeasurement gains (losses) on employee benefits of associates and joint ventures:		
At January 1	(P96,181,114)	(P80,413,281)
Share in the remeasurement gains (losses) on employee benefits	2,165,047	(15,767,833)
At December 31	(94,016,067)	(96,181,114)
	1,745,117,427	1,562,417,560
	<b>P11,614,930,568</b>	<b>P11,247,606,324</b>

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 P2,194.9 million and P2,014.9 million, respectively, are not available for distribution to the stockholders unless declared as dividends by the associates and joint ventures.

#### VECO

In 2020, an appraisal was performed on VECO's utility plant, property and equipment which resulted to a revaluation increment, for which the Group's share amounted to P407.0 million.

In 2021, the Group recognized its share in the increase in the revaluation increment of VECO amounting to P112.0 million from the adjustment to the deferred income tax recognized against the revaluation increment resulting from the lower tax rate under the CREATE law, net of impairment of revalued assets damaged by a typhoon in December 2021.

#### LWEC

VEC made additional investments to LWEC amounting to P2.2 million and P12.7 million in 2021 and 2020, respectively. The additional infusions did not result in a change in ownership interest in LWEC.

#### PEI

In 2020, the Parent Company assigned its 8,432,400 common shares in PEI to VEC, including its advances amounting to P1.5 million, in exchange for VEC's preferred shares amounting to P47.5 million.

#### SREC

In 2020, VREC made additional infusions to SREC amounting to P4.8 million.

On May 28, 2021, VREC and VEC entered into a share-swap agreement with a third party to sell their entire investment in SREC and acquire additional shares in CREC held by the said party. The agreement resulted to the sale of VEC's 29,925 preferred shares with par value of P1,000.00 per share and VREC's 11,250 common shares with a par value of P1,000.00 per share to the buyer for a consideration of P33.2 million. A gain on the sale of investment amounting to P3.7 million was recognized.

#### CREC

In April 2019, a reclassification was made from advances into an equity account amounting to P0.3 million. On October 11, 2019, the Group made an additional capital infusion amounting to P8.4 million.

In 2020, VEC made an additional investment in CREC amounting to P1,000.





On March 24, 2021, an existing shareholder of CREC assigned its 938 common shares of CREC to VREC for a consideration of ₱1.1 million and subscription price payable to CREC amounting to ₱0.6 million.

On May 28, 2021, VREC and VEC entered into a share-swap agreement with a third party to sell its entire investment in SREC and acquire additional shares in CREC held by the said party. The agreement resulted to the VEC's acquisition of 2,812 preferred stocks with par value of ₱1,000.00 per share for a total consideration of ₱5.2 million. The transaction did not result in a change in ownership interest in CREC.

#### Delta P

On February 12, 2020, VEC paid GPI ₱19.8 million as an additional consideration for the purchase of shares that brought VEC's stake in Delta P to 50% in 2015.

On October 16, 2020, Delta P redeemed 40,000,000 preferred shares issued to VEC at ₱1.00 per share amounting to ₱40.0 million. The redemption did not change the Company's ownership interest in Delta P as of December 31, 2020.

#### FLAWS

In 2020, VHVI made an investment to FLAWS amounting to ₱65.0 million which represents 96,750,000 common shares with par value of ₱1.00 per share.

#### LPEC

In 2021, VEC entered into a joint venture agreement with GPI which resulted to a 50% ownership in LPEC and reclassification of the investment from a subsidiary to a joint venture (see Note 1). In the same year, VEC infused advances for future stock subscription amounting to ₱40.6 million in LPEC.

The following are selected financial information of the material associates of the Group as of and for the years ended December 31, 2021, 2020 and 2019:

#### VECO

	2021	2020	2019
Total current assets	<b>₱4,385,888,164</b>	₱4,091,285,412	₱5,138,140,960
Total noncurrent assets	<b>17,635,874,580</b>	18,103,795,515	17,078,859,810
Total current liabilities	<b>7,846,069,125</b>	7,535,333,182	7,778,509,722
Total noncurrent liabilities	<b>4,631,031,218</b>	5,562,123,094	6,025,641,366
Total equity	<b>9,544,662,401</b>	9,097,624,651	8,412,849,682
Gross revenue	<b>21,689,021,868</b>	20,832,306,757	23,891,280,367
Operating profit	<b>2,747,237,218</b>	2,186,235,346	2,876,528,392
Net income	<b>2,141,815,734</b>	1,663,383,286	2,255,327,366
Other comprehensive income (loss)	<b>(857,499)</b>	(34,712,999)	13,201,610
Total comprehensive income	<b>2,140,958,235</b>	1,628,670,287	2,268,528,976
Group's share in net income	<b>745,566,057</b>	579,023,722	785,079,456
Proportion of Group's ownership	<b>34.81%</b>	34.81%	34.81%
Group's share in equity of associate	<b>3,322,496,982</b>	3,166,883,141	2,928,512,974
Goodwill and other adjustments	<b>(38,539,035)</b>	(10,240,510)	(4,511,626)
Carrying amount of the investment	<b>3,283,957,947</b>	3,156,642,631	2,924,001,348
Dividends received from VECO	<b>729,955,901</b>	741,311,200	432,319,454



## MPC

	2021	2020	2019
Total current assets	<b>₱3,700,951,701</b>	₱3,892,451,407	₱4,396,943,242
Total noncurrent assets	<b>17,063,969,413</b>	18,114,484,121	18,880,730,275
Total current liabilities	<b>2,247,453,130</b>	2,315,901,267	2,157,966,265
Total noncurrent liabilities	<b>10,131,695,716</b>	11,255,788,071	12,382,086,896
Total equity	<b>8,385,772,268</b>	8,435,246,190	8,737,620,356
Gross revenue	<b>5,652,572,661</b>	5,612,964,499	6,391,880,815
Operating profit	<b>1,577,894,717</b>	1,031,467,510	1,455,751,305
Net income	<b>550,526,078</b>	1,031,282,086	1,454,726,804
Total comprehensive income	<b>550,526,078</b>	1,031,282,086	1,454,726,804
Group's share in net income	<b>220,210,431</b>	412,512,834	581,890,722
Proportion of Group's ownership	<b>40.00%</b>	40.00%	40.00%
Group's share in equity of associate	<b>3,354,308,907</b>	3,374,098,476	3,495,048,142
Goodwill and other adjustments	<b>20,286,763</b>	20,286,763	20,424,257
Carrying amount of investment	<b>3,374,595,670</b>	3,394,385,239	3,515,472,399
Dividends received from MPC	<b>239,999,995</b>	399,999,995	440,000,000

## TVI

	2021	2020	2019
Total current assets	<b>₱8,287,903,253</b>	₱8,952,688,187	₱10,559,035,456
Total noncurrent assets	<b>33,649,468,128</b>	35,790,157,665	40,246,422,256
Total current liabilities	<b>4,077,133,207</b>	5,069,625,547	5,359,640,905
Total noncurrent liabilities	<b>24,657,863,758</b>	27,244,241,562	33,859,988,898
Total equity	<b>13,202,374,416</b>	12,428,978,743	11,585,827,909
Gross revenue	<b>10,685,992,170</b>	8,490,212,480	6,254,275,652
Operating income	<b>2,717,701,465</b>	1,687,420,404	1,825,528,655
Net income	<b>903,188,516</b>	466,214,728	810,948,128
Other comprehensive income (loss)	<b>—</b>	376,936,106	(5,064,658)
Total comprehensive income	<b>903,188,516</b>	843,150,834	805,883,470
Group's share in net income	<b>180,637,703</b>	93,242,946	162,189,626
Proportion of Group's ownership	<b>20.00%</b>	20.00%	20.00%
Group's share in equity of associate	<b>2,640,474,883</b>	2,485,795,749	2,317,165,582
Goodwill and other adjustments	<b>(15,649,894)</b>	(43,709,872)	33,926,358
Carrying amount of the investment	<b>2,624,824,989</b>	2,442,085,877	2,351,091,940

## AHI

	2021	2020	2019
Total current assets	<b>₱795,803,858</b>	₱751,455,452	₱751,133,134
Total noncurrent assets	<b>2,900,509,469</b>	3,389,233,698	3,443,509,934
Total current liabilities	<b>6,304</b>	6,763	16,883
Total equity	<b>3,696,307,022</b>	4,140,682,387	4,194,626,185
Gross revenue	<b>845,817,147</b>	694,273,269	1,019,465,880
Operating profit	<b>845,714,475</b>	694,170,061	1,019,213,533
Net income	<b>845,601,590</b>	694,056,202	1,019,288,938
Other comprehensive loss	<b>—</b>	—	(20,564,947)
Total comprehensive income	<b>845,601,590</b>	694,056,202	998,723,991
Group's share in net income	<b>338,240,636</b>	277,622,481	407,715,575
Proportion of Group's ownership	<b>40.00%</b>	40.00%	40.00%
Group's share in equity of associate	<b>1,478,522,809</b>	1,656,272,955	1,677,850,474
Goodwill and other adjustments	<b>5,756,410</b>	165,628	165,628
Carrying amount of the investment	<b>1,484,279,219</b>	1,656,438,583	1,678,016,102
Dividends received from AHI	<b>510,400,000</b>	299,200,000	264,000,000



Individually Immaterial Associates and Joint Ventures

The carrying amounts of the Group's interest in all individually immaterial associates and joint ventures that are accounted for using the equity method as of and for the year ended December 31 follows:

	2021	2020	2019
Income from continuing operations	<b>₱300,600,267</b>	₱263,944,402	₱270,239,602
Net income	<b>285,305,275</b>	168,490,025	246,620,376
Other comprehensive income (loss)	<b>152,992</b>	(1,435,229)	2,402,472
Total comprehensive income	<b>285,458,266</b>	167,054,796	249,022,848
Aggregate carrying amounts	<b>847,272,743</b>	598,053,994	768,285,298

The associates and joint ventures had no contingent liabilities or capital commitments as of December 31, 2021 and 2020.



11. Property, Plant and Equipment

	2021							
	Land	Plant Machinery and Equipment	Condominium Units, Building and Improvements	Transportation Equipment	Office Furniture, Fixtures and Equipment	Tools and Other Assets	Leasehold and Land Improvements	Construction in Progress
<b>Cost</b>								<b>Total</b>
At January 1	₱38,373,755	₱446,465,014	₱36,421,603	₱71,595,486	₱82,393,435	₱108,620,458	₱85,141,819	₱2,712,822,175
Acquisition of subsidiaries (see Note 13)	6,262,000	353,170,069	150,109,385	—	452,229	—	1,377,597	511,371,280
Additions	54,800,000	7,546,025	—	26,424,908	9,298,397	4,178,603	380,000	721,327,849
Reclassification	—	—	—	—	4,888,893	12,677,206	—	—
Disposal (see Note 17)	—	—	—	(11,918,676)	(1,373,329)	(155,356)	—	(13,447,361)
Derecognition from loss of control in a subsidiary (see Note 10)	(54,800,000)	—	—	—	—	—	—	(54,800,000)
At December 31	44,635,755	807,181,108	186,530,988	86,101,718	95,659,625	125,320,911	86,899,416	3,877,273,943
<b>Accumulated Depreciation and Amortization</b>								
At January 1	—	274,297,222	24,168,840	44,386,158	61,054,645	19,607,611	28,846,292	452,360,768
Depreciation and amortization	—	66,441,372	5,796,534	13,062,346	12,185,677	7,112,570	14,152,678	118,751,177
Disposal	—	—	—	(11,244,989)	(1,222,496)	(155,355)	—	(12,622,840)
At December 31	—	340,738,594	29,965,374	46,203,515	72,017,826	26,564,826	42,998,970	558,489,105
<b>Net Book Value</b>	<b>₱44,635,755</b>	<b>₱466,442,514</b>	<b>₱156,565,614</b>	<b>₱39,898,203</b>	<b>₱23,641,799</b>	<b>₱98,756,085</b>	<b>₱43,900,446</b>	<b>₱3,318,784,838</b>



2020

	Land	Plant Machinery and Equipment	Condominium Units, Building and Improvements	Transportation Equipment	Office Furniture, Fixtures and Equipment	Tools and Other Assets	Leasehold and Land Improvements	Construction in Progress	Total
<b>Cost</b>									
At January 1	₱30,731,600	₱369,568,177	₱36,421,603	₱61,933,130	₱68,361,383	₱82,290,699	₱50,439,728	₱1,003,959,166	₱1,703,705,486
Additions	7,742,155	77,012,702	—	10,900,560	9,733,096	645,741	472,091	904,213,570	1,010,719,915
Reclassification	(100,000)	(115,865)	—	—	4,372,978	25,684,018	34,230,000	(64,362,131)	(291,000)
Disposal (see Note 17)	—	—	—	(1,238,204)	(74,022)	—	—	—	(1,312,226)
At December 31	38,373,755	446,465,014	36,421,603	71,595,486	82,393,435	108,620,458	85,141,819	1,843,810,605	2,712,822,175
<b>Accumulated Depreciation and Amortization</b>									
At January 1	—	242,497,577	23,681,714	36,273,281	50,444,337	13,359,106	16,004,497	—	382,260,512
Depreciation and amortization	—	31,823,545	487,126	9,351,081	10,684,330	6,224,605	12,878,401	—	71,449,088
Reclassification	—	(23,900)	—	—	—	23,900	(36,606)	—	(36,606)
Disposal	—	—	—	(1,238,204)	(74,022)	—	—	—	(1,312,226)
At December 31	—	274,297,222	24,168,840	44,386,158	61,054,645	19,607,611	28,846,292	—	452,360,768
Net Book Value	₱38,373,755	₱172,167,792	₱12,252,763	₱27,209,328	₱21,338,790	₱89,012,847	₱56,295,527	₱1,843,810,605	₱2,260,461,407



Construction in progress mainly includes costs for the construction of a 23 MW bunker-fired power plant of INEC, water desalination plant of IMCC and solar panel installations of VSC and CSSC. The account also includes mobilization fee and engineering detailed design fees paid to a third-party contractor for the construction of a subsidiary's run-of-river hydropower facility in Negros Occidental. The latter project's implementation is intended to approximately coincide with the government's 230 kV backbone project but the government has not yet started the construction as of March 18, 2022.

Depreciation and amortization are recognized in the consolidated statements of comprehensive income as follows:

	2021	2020	2019
Generation costs (see Note 17)	<b>₱81,753,921</b>	₱41,989,939	₱36,800,034
Operating expenses	<b>36,997,256</b>	29,459,149	21,662,928
	<b>₱118,751,177</b>	₱71,449,088	₱58,462,962

## 12. Investment Properties

	2021		
	Land	Condominium Units	Total
At January 1	<b>₱733,195,868</b>	<b>₱24,084,733</b>	<b>₱757,280,601</b>
Unrealized gain on fair value remeasurement	<b>105,264,400</b>	<b>1,097,000</b>	<b>106,361,400</b>
At December 31	<b>₱838,460,268</b>	<b>₱25,181,733</b>	<b>₱863,642,001</b>

	2020		
	Land	Condominium Units	Total
At January 1 and December 31	₱733,195,868	₱24,084,733	₱757,280,601

Some of the Group's properties are leased out to outside parties to earn rental income, for a lease period of three years. Total rental income amounting to ₱1.1 million, ₱1.7 million, ₱2.2 million in 2021, 2020 and 2019, respectively, were recorded as part of "Other income" in the consolidated statements of comprehensive income.

In 2021 and 2019, an appraisal was performed on the Group's investment properties which resulted to an increase in the fair value amounting to ₱106.4 million and ₱235.3 million, respectively. Net unrealized gain on fair value remeasurement of investment properties, recognized under "Other income (charges)" in the consolidated statements of comprehensive income, amounted to ₱106.4 million, nil, ₱235.3 million in 2021, 2020 and 2019, respectively.

Direct costs pertain to real property taxes amounting to ₱0.3 million, ₱0.7 million and ₱0.6 million in 2021, 2020 and 2019, respectively, are included under "Taxes and licenses" account in the consolidated statements of comprehensive income. No other direct operating costs were incurred relating to investment properties in 2021, 2020, and 2019.

The Group has no restrictions on the realizability of its investment properties and no contractual obligations to purchase, construct, or develop investment properties.



Fair value hierarchy disclosures and description of the valuation techniques used and key inputs to valuation for investment properties have been provided in Note 25.

### 13. Other Noncurrent Assets

	2021	2020
Advances to suppliers and other parties	<b>₱636,974,713</b>	₱718,694,310
Goodwill	<b>299,014,763</b>	82,381,116
Creditable withholding taxes - noncurrent (see Note 9)	<b>222,496,037</b>	214,245,466
Input VAT - noncurrent (see Note 9)	<b>192,788,560</b>	124,343,584
Financial assets at FVOCI	<b>102,000,000</b>	7,400,000
Software costs -net	<b>1,046,953</b>	902,260
Others - net of allowance for impairment loss of ₱46.01 million (see Note 23)	<b>12,690,655</b>	19,523,045
	<b>₱1,467,011,681</b>	₱1,167,489,781

#### Advances to Suppliers and Other Parties

Advances to suppliers pertain to cash advances given to contractors and project partners that are to be used to finance the cost of project study, site development, plant rehabilitation, among others and to certain parties to comply with certain contractual obligations.

#### Goodwill

#### Business Combinations

*Acquisition of North Bukidnon Power Corporation (NBPC) and Bukidnon Power Corporation (BPC) in 2021.* In May 2021, VEC and AHC acquired 81% and 9% ownership of NBPC and BPC.

	NBPC	BPC	Total
Cash and cash equivalents	₱15,049,632	₱25,960,876	₱41,010,508
Trade and other receivables	6,538,783	39,538,846	46,077,629
Inventories	1,983,566	3,843,890	5,827,456
Prepayments and other current assets	2,316,113	1,286,383	3,602,496
Property, plant and equipment	286,708,364	224,662,916	511,371,280
Total assets	312,596,458	295,292,911	607,889,369
Less: Trade and other payables	5,244,872	5,002,325	10,355,032
Long-term notes payable	193,339,318	139,729,730	333,069,048
Total net assets	<b>₱114,012,268</b>	<b>₱150,560,856</b>	<b>₱264,573,124</b>
Non-controlling interest	(₱11,524,369)	(₱15,058,429)	(₱26,582,798)
Goodwill arising on acquisition	135,684,991	80,948,656	216,633,647
Purchase consideration transferred	<b>₱238,172,890</b>	<b>₱216,451,083</b>	<b>₱454,623,973</b>



	NBPC	BPC	Total
Cash and cash equivalents	₱228,282,141	₱205,539,483	₱433,821,623
Liability for additional transaction price	9,890,749	10,911,600	20,802,349
Purchase consideration transferred	₱238,172,890	₱216,451,083	₱454,623,973
Cash flow on acquisition:			
Cash acquired with the subsidiary	₱15,049,632	₱25,960,876	₱41,010,508
Cash paid as part of purchase consideration	(228,282,141)	(205,539,483)	(433,821,623)
Net cash outflow	(₱213,232,509)	(₱179,578,607)	(₱392,811,115)

The amounts recognized for trade and other receivables represent the gross contractual amounts receivable from counterparties. As at the acquisition date, management does not expect that any contractual cash flows from these receivables will not be collected.

The Group elected to measure the non-controlling interest in the acquiree at the proportionate share of its interest in the acquiree's identifiable net assets.

The goodwill of ₱216.6 million comprises the value of knowhow of the business and its existing customer base.

As allowed by PFRS 3, the assets recognized and liabilities assumed were based on provisional assessment of their fair value. As of acquisition date, BPC and NBPC have signed contracts with customers for the sale of power which qualify for recognition as intangible assets separate from goodwill.

The valuation had not been completed by the date the financial statements were approved for issue by the BOD. Hence the determination of final amount of property, plant and equipment, intangible assets, trade and other payables, long-term notes payable, goodwill and non-controlling interest are subject to change within one (1) year of measurement period after the acquisition date.

For the period ended December 31, 2021, revenue from sale of power by NBPC and BPC amounting to ₱41.5 million and ₱48.6 million, respectively, and net income amounting to ₱16.3 million and ₱17.8 million, respectively, are recognized in the 2021 consolidated statements of comprehensive income. Had the acquisitions been made at the beginning of the year, consolidated total revenues and consolidated net income would have been ₱3,262.4 million and ₱2,156.4 million, respectively.

*Acquisition of Watermatic Philippines Corporation (WMP) in 2019.* On June 12, 2019, VHHI and WaterMatic International Ltd. (WMI), a subsidiary of an Israel-based company, WaterMatic Treatment Ltd., with an extensive experience and expertise in water treatment and waste water treatment, entered into a Memorandum of Agreement (MOA) to form WMP, each party with 50% interest in the entity with the purpose of transferring WMI's existing operations to WMP. In November 2019, the Group through VHHI, acquired additional 10% equity interest in WMP, increasing its ownership interest to 60%.

The Group elected to measure the non-controlling interest in the acquiree at the proportionate share of its interest in the acquiree's identifiable net assets.





The acquisition resulted in goodwill of ₱82.4 million and, noncontrolling interest of ₱21.2 million, and a net cash outflow of ₱61.1 million. The goodwill comprises the value of technical knowhow and technology of WMI and potential contracts the acquiree was negotiating with prospective customers at the acquisition date. Because the potential contracts were not themselves assets at the acquisition date, the Group did not recognize these potential contracts separately from goodwill.

#### Goodwill

For impairment testing, goodwill acquired through business combinations are allocated to CGUs representing the operating units acquired. The following is the carrying amount of goodwill allocated to each of the CGUs.

	2021	2020
NBPC	<b>₱135,684,991</b>	<b>₱—</b>
WMP	<b>82,381,116</b>	82,381,116
BPC	<b>80,948,656</b>	—
	<b>₱299,014,763</b>	<b>₱82,381,116</b>

As of December 31, 2021 and 2020, the recoverable amounts of the cash generating units 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.

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

- The rate used to discount the net cash flows from operations is NBPC's WACC of 7.82% and BPC's WACC of 7.34% as of December 31, 2021, determined using the capital asset pricing model.
- Revenue forecasts are based on existing contracts, anticipated increases in demand and other economic factors.
- Forecasted gross margins which range from 25%–40% are based on the mix of business model arrangements with the expected changes in demand.
- The computation of terminal value assumes no growth in projected cash flows beyond five years.

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

- The rate used to discount the net cash flows from operations is WMP's WACC of 7.69% and 9.51% as of December 31, 2021 and 2020, respectively, determined using the capital asset pricing model.
- Revenue forecasts are based on existing contracts and anticipated projects and other economic factors.
- Forecasted gross margins, which range from 21%–22% in 2021, and 19%–20% in 2020, are based on the mix of business model arrangements with current and expected customers.
- The computation of terminal value assumes no growth in projected cash flows beyond five years.

Based on the impairment testing, management believes there is no impairment on goodwill in 2021. 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.



### Financial Assets at FVOCI

*Investments in club shares.* These are irrevocably designated at FVOCI as the Group intends to hold these investments in the foreseeable future. As of December 31, 2021 and 2020, the carrying values of these financial assets are as follows:

	2021	2020
<b>Cost:</b>		
Cebu Country Club, Inc.	3,400,000	₱3,400,000
Tower Club, Inc.	300,000	300,000
	<b>3,400,000</b>	<b>3,700,000</b>
<b>Fair value remeasurement gain (loss):</b>		
Cebu Country Club, Inc.	4,600,000	4,000,000
Tower Club, Inc.	(300,000)	(300,000)
	<b>4,600,000</b>	<b>3,700,000</b>
	<b>₱8,000,000</b>	<b>₱7,400,000</b>

- *Cebu Country Club, Inc.* In 2012, the Group acquired proprietary ownership shares in the Cebu Country Club, Inc. The non-listed equity security is stated at fair value based on the published buying and selling prices of these shares.
- *Tower Club, Inc.* In 2014, the Group acquired proprietary ownership shares in the Tower Club, Inc. The non-listed equity security is stated at fair value based on the published buying and selling prices of these shares. On September 25, 2020, the shareholders of Tower Club agreed to shorten its corporate life and permanently close by January 2022.

*Investment in Buskowitz Finance, Inc. (BFI).* In 2021, VREC made an investment amounting to ₱94.0 million, which represents initial subscription to 200,000 common shares of BFI at ₱20 per share or for a total of ₱4.0 million, representing 16.81% ownership in BFI, and advances for future stock subscription amounting to ₱90.0 million. As of December 31, 2021, the application for the increase in authorized capital stock of BFI is still pending approval by the SEC.

Fair value hierarchy disclosures for the Group's financial assets at FVOCI are provided in Note 25.

### Software Costs

Software costs pertain to a subsidiary's accounting software, Human Resources Information System, trading software and documents monitoring system. The movement of software costs is as follows:

	2021	2020
<b>Cost</b>		
At January 1	₱8,534,952	₱7,513,867
Additions during the year	574,654	1,021,085
At December 31	<b>9,109,606</b>	<b>8,534,952</b>
<b>Accumulated Amortization</b>		
At January 1	7,632,692	7,474,929
Amortization for the year	429,961	157,763
At December 31	<b>8,062,653</b>	<b>7,632,692</b>
<b>Net Book Value</b>	<b>₱1,046,953</b>	<b>₱902,260</b>



#### Others

Others include receivable from RFM Corporation, the Group's previous owner, which has been fully provided with allowance for impairment losses as of December 31, 2021 and 2020. Also included in this account are deposits for future subscription of an entity that is yet to be incorporated and security deposits with various tenants and other parties in the conduct of the Group's operations.

### 14. Trade and Other Payables

	2021	2020
Trade payables	<b>₱1,076,481,787</b>	₱1,154,207,459
Deferred output VAT	<b>333,307,491</b>	297,988,047
Accounts payable	<b>158,106,988</b>	69,474,626
Accrued expenses	<b>126,833,560</b>	121,490,363
Unearned income	<b>69,412,825</b>	—
Accrued interest (see Note 15)	<b>32,925,647</b>	25,351,040
Output VAT	<b>14,462,016</b>	4,802,330
Accrued taxes payable	<b>10,246,669</b>	3,243,604
Dividends payable	<b>7,424,418</b>	6,062,495
Others	<b>41,329,769</b>	30,852,598
	<b>1,870,531,170</b>	1,713,472,562
Less noncurrent portion (see Note 23)	<b>838,293,931</b>	837,635,182
	<b>₱1,032,237,239</b>	₱875,837,380

Trade payables significantly consist of liabilities for a subsidiary's purchases of inventories from its suppliers and advances from a supplier. Trade payables for purchases of inventories are noninterest-bearing and are normally settled on a 30 to 45-day term.

Deferred output VAT is related to the recognition of the Group's revenue from bilateral contracts, and its corresponding receivable. The deferred output VAT is eventually closed to output VAT upon collection of the related receivable.

Accounts payable consist mainly of liabilities for payroll, professional fees and other expenses.

Accrued expenses mainly consist of accruals for fuel, audit fees, contracted services, legal fees, securities and transfer fees, benefits, and other expenses.

Unearned income are advance payments from customers.

Dividends payable consists of dividends to the non-controlling interests of the Group arising from dividend declaration made by 1590 EC. Dividends declared relating to non-controlling interests amounted to ₱276.1 million, ₱196.7 million and ₱80.6 million in 2021, 2020 and 2019, respectively (see Note 21).



## 15. Notes Payable

### Short-term Notes Payable

- On May 28, 2020 and June 29, 2020, 1590 EC obtained 90-day and 91-day loans from a local bank amounting to ₱95.0 million and ₱40.0 million which bear interest rates of 5.1% and 4.95% per annum, respectively. On October 26, 2020, 1590 EC made a partial payment in the amount of ₱30.0 million. Both loans totalling ₱105.0 million were extended to January 8, 2021. In February 2021, 1590 EC made another partial payment in the amount of ₱14.0 million. The balance of the two loans were extended up to April 12, 2021. 1590 EC settled the loans on April 12, 2021.
- On various dates in 2020, INEC obtained loans from a local bank totalling to ₱644.3 million. The loans bear interest rates of 4.5% and 5% per annum. All loans matured on December 3, 2020 and were subjected to monthly extensions until their settlement on April 26, 2021.

On various dates in 2021, INEC obtained loans from a local bank totalling ₱338.5 million to finance the construction of its power plant. The loans bear interest rates of 4.25% per annum. All loans matured on April 26, 2021.

Interest expense recognized in the consolidated statements of comprehensive income on these loans in 2021, 2020 and 2019, amounted to ₱1.6 million, ₱3.4 million and nil, respectively. Accrued interest on these loans as of December 31, 2021 and 2020 amounted to nil and ₱2.1 million, respectively (see Note 14).

### Long-term Notes Payable

	2021	2020
Fixed Rate Corporate Notes (FRCN):		
₱1.0 billion at 4.1856% interest per annum	<b>₱1,000,000,000</b>	—
₱2.0 billion at 4.7416% interest per annum	<b>2,000,000,000</b>	—
₱1.0 billion at 5.7271% interest per annum	—	940,000,000
₱2.0 billion at 5.4450% interest per annum	—	1,880,000,000
15-Year Project Financing Facility		
₱982.8 million at 6.4453% interest per annum	<b>982,826,482</b>	—
₱123.1 million at 6.0117% interest per annum	<b>123,094,272</b>	—
₱100.1 million at 6.0117% interest per annum	<b>107,100,245</b>	—
Loans with Variable Rates		
₱120.7 million at 3-month benchmark rate, 5% floor rate	<b>120,675,675</b>	—
₱174.3 million at 1-year benchmark rate, 5% floor rate	<b>174,321,594</b>	—
	<b>4,508,018,268</b>	2,820,000,000
Less unamortized debt issue costs	<b>34,477,428</b>	491,880
	<b>4,473,540,840</b>	2,819,508,120
Less current portion - net of unamortized debt issue costs of ₱10.3 million in 2021 and ₱0.5 million in 2020	<b>92,076,898</b>	2,819,508,120
	<b>₱4,381,463,942</b>	₱—



*Parent Company.* The Parent Company entered into a Notes Facility Agreement (Agreement) to issue ₱3.0 billion in Fixed Rate Corporate Notes (FRCN or the Notes) on January 29, 2014 to fund its equity investments in power generation projects, to include, but not limited to MPC and TVI. The FRCN was fully subscribed by a consortium of local banks and was issued in two tranches and has a maturity of seven (7) years from the drawdown date. The Notes are unsecured.

The first drawdown amounting to ₱1.0 billion was made on February 3, 2014. The second drawdown amounting to ₱2.0 billion was made on March 31, 2014. The Notes are payable at 1% based on the principal amount of the notes in the first six (6) years and 94% at maturity on February 3, 2021. The Notes were settled on said date.

On December 4, 2020, the Company signed an Agreement to issue ₱3.0 billion worth of FRCN with tenors of two (2) years and five (5) years. The proceeds from the issuance of the Notes will be used to finance capital expenditures for existing assets and investments in power generation and/or water infrastructure projects and partly to refinance the existing 7-year FRCN which matured in February 2021.

The Parent Company issued an FRCN last January 27, 2021 amounting to ₱3.0 billion to fund its equity investments in power generation and infrastructure projects. The FRCN was fully subscribed by a consortium of local banks and was issued in two tranches and has a maturity of seven (7) years from the drawdown date. The Note are unsecured.

The first tranche is for a term of two years and payable on January 27, 2023 while the second tranche is for a term of five years and will mature on January 27, 2026 with principal payment of ₱50.0 million for the first four years and a balloon payment of ₱1.8 billion on maturity.

Repayments of outstanding principal amounts are scheduled as follows:

	2021	2020
Within one year	<b>₱50,000,000</b>	₱2,820,000,000
More than one year but not more than five years	<b>2,950,000,000</b>	—
	<b>₱3,000,000,000</b>	<b>₱2,820,000,000</b>

The Agreement requires that the Parent Company shall not permit its debt-to-equity ratio to exceed 2.5:1. The debt-to-equity ratio is based on the parent company debt and consolidated equity. In addition, the Agreement requires the current ratio to not fall below 1.25:1 and is based on the consolidated current assets and current liabilities. The Parent Company has complied with these ratio requirements as of December 31, 2021 and 2020.

Interest expense recognized in the consolidated statements of comprehensive income related to these notes payable amounted to ₱138.2 million, ₱169.3 million and ₱170.9 million in 2021, 2020 and 2019, respectively, and the related accrued interest expense as of December 31, 2021 and 2020 amounted to ₱18.2 million and ₱25.4 million, respectively (see Note 14).

*INEC.* In 2021, INEC entered into a loan agreement with Security Bank Corporation (SBC) whereby the latter agreed to provide INEC an aggregate principal amount of loan up to ₱1.32 billion to finance the construction of its 23.3 MW diesel power plant in Bantayan, Cebu.



The loan has a term of fifteen (15) years, inclusive of a two (2)-year grace period on principal repayment. Seventy percent (70%) of the loan is payable in fifty-one (51) quarterly installments commencing on the 9<sup>th</sup> quarter from the date of initial borrowing until the maturity date, while the remaining thirty percent (30%) shall be paid on the maturity date. The loan bears annual interest of 6.4453% and 6.0117% which is payable quarterly.

The loan is collateralized by the following: (a) debt service reserve account letter of credit, (b) first ranking mortgage on all present and future immovable properties, (c) assignment by way of security of the company's rights, titles and interest in project documents, insurance policies, performance bonds, receivables and other revenues from the Power Supply Agreement (see Note 23), and operating account; (d) pledge of shares; (e) personal property assignment on all present and movable assets.

Repayments of outstanding principal amounts are scheduled as follows:

	2021	2020
More than one year but not more than five years	<b>₱233,090,310</b>	₱—
More than five years	<b>979,930,689</b>	—
	<b>₱1,213,020,999</b>	<b>₱—</b>

Interest expense recognized in the consolidated statements of comprehensive income related to this loan amounted to ₱14.4 million and the related accrued interest expense as of December 31, 2021 amounted to ₱14.2 million (see Note 14).

*BPC.* BPC has a long-term loan that carries an interest rate based on 3-month benchmark rate plus spread, repriced quarterly, with a floor rate of 5%. The loan is secured by real estate mortgage, pledge of shares and assignment of project accounts.

Repayments of outstanding principal amounts are scheduled as follows:

	2021	2020
Within one year	<b>₱25,405,405</b>	₱—
More than one year but not more than five years	<b>95,270,270</b>	—
	<b>₱120,675,675</b>	<b>₱—</b>

Interest expense recognized in the 2021 consolidated statement of comprehensive income related to this loan amounted to ₱5.3 million and the related accrued interest expense as of December 31, 2021 amounted to ₱0.5 million (see Note 14).

*NBPC.* NBPC has a long-term loan that carries an interest rate based on 1-year benchmark rate plus spread, repriced annually, with a floor rate of 5%. The loan is secured by real estate mortgage, pledge of shares and assignment of project accounts.

Repayments of outstanding principal amounts are scheduled as follows:

	2021	2020
Within one year	<b>₱27,003,802</b>	₱—
More than one year but not more than five years	<b>147,317,792</b>	—
	<b>₱174,321,594</b>	<b>₱—</b>



Interest expense recognized in the 2021 consolidated statement of comprehensive income related to this loan amounted to ₱5.6 million and the related accrued interest expense as of December 31, 2021 amounted to ₱0.1 million (see Note 14).

## 16. Related Party Transactions

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

In the normal course of business, the Group enters into transactions with related parties principally consisting of the following:

2021					
Category	Volume	Outstanding Balance		Terms	Conditions
		Receivables	Payables		
<b>Associates</b>					
Sale of power: VECO (see Note 16g)	₱—	₱7,957,282	₱—	30 days; noninterest-bearing	Unsecured; no impairment
Technical service fees (see Note 16d) CEDC	56,173,000	33,871,344	—	30 days; Noninterest-bearing	Unsecured; no impairment
CPPC	13,068,517	—	—	30-60 days; noninterest-bearing	Unsecured; no impairment
GLEDC	—	6,000,000	—	On-demand; Noninterest-bearing	Unsecured; no impairment
Advances to (see Note 16a): FLOWS	—	150,000,000	—	Interest-bearing; Payable on demand	Unsecured; no impairment
CREC	7,500,000	17,500,258	—	Payable on demand	Unsecured; no impairment
Advances to (see Note 16h): GLEDC	4,962	1,877,725	—	30-60 days; noninterest-bearing	Unsecured; no impairment
LPCI	12,845,625	93,783,539	—	30-60 days; noninterest-bearing	Unsecured; no impairment
Dividends (see Note 16f): VECO	729,955,901	—	—	noninterest-bearing	Unsecured; no impairment
MPC	239,999,995	—	—	noninterest-bearing	Unsecured; no impairment
AHI	510,400,000	—	—	noninterest-bearing	Unsecured; no impairment
PEI	17,200,000	—	—	noninterest-bearing	Unsecured; no impairment
<b>Joint Ventures</b>					
Technical service fees (see Note 16d): Delta P	23,562,489	5,248,352	—	30-60 days; noninterest-bearing	Unsecured; no impairment
CIPC	9,785,620	—	—	30-60 days; noninterest-bearing	Unsecured
Advances to (see Note 16a): Delta P	286,341	1,637,681	—	noninterest-bearing	Unsecured; no impairment
CIPC	5,232	394,818	—	noninterest-bearing	Unsecured; no impairment
LPEC	66,289,662	11,229,919	—	noninterest-bearing	Unsecured; no impairment
Dividends (see Note 16f): CIPC	19,400,000	19,400,000	—	noninterest-bearing	Unsecured; no impairment
Delta P	20,000,000	20,000,000	—	noninterest-bearing	Unsecured; no impairment

(Forward)



2021					
Category	Volume	Outstanding Balance		Terms	Conditions
		Receivables	Payables		
<b>Stockholders with Significant Influence</b>					
Management fees expense (see Note 16e)					
MRC	8,286,248	—	—	30-60 days; noninterest-bearing	Unsecured
JDC	5,524,165	—	—	30-60 days; noninterest-bearing	Unsecured
<b>Stockholders with Significant Influence</b>					
Advances to/from (see Notes 16a and 16b)					
GPI	—	—	5,689,112	30-60 days; noninterest-bearing	Unsecured
WMI	—	140,937	—	payable on demand; noninterest-bearing	Unsecured
<b>Stockholders with No Significant Influence</b>					
Advances to (see Note 16c):					
JGS	—	42,676	—	payable on demand; noninterest-bearing	Unsecured; no impairment
2020					
Category	Volume	Outstanding Balance		Terms	Conditions
		Receivables	Payables		
<b>Associates</b>					
Sale of power:					
VECO (see Note 16g)	P—	P7,960,424	P—	30 days; noninterest-bearing	Unsecured; no impairment
Technical service fees (see Note 16d)					
CEDC	136,557,708	12,517,790	—	30 days; Noninterest-bearing	Unsecured; no impairment
CPPC	45,333,333	—	—	30-60 days; noninterest-bearing	Unsecured; no impairment
GLEDC	—	6,000,000	—	On-demand; Noninterest-bearing	Unsecured; no impairment
Advances to (see Note 16a):					
FLWS	150,000,000	150,000,000	—	Interest-bearing; Payable on demand	Unsecured; no impairment
CREC	10,000,000	10,000,258	—	Payable on demand	Unsecured; no impairment
SREC	—	6,000,000	—	On-demand; Noninterest-bearing	Unsecured; no impairment
Advances to (see Note 16h):					
GLEDC	1,805,016	2,277,620	—	30-60 days; noninterest-bearing	Unsecured; no impairment
LPCI	—	80,937,914	—	30-60 days; noninterest-bearing	Unsecured; no impairment
Dividends (see Note 16f):					
VECO	741,311,200	—	—	noninterest-bearing	Unsecured
MPC	533,599,995	133,600,000	—	noninterest-bearing	Unsecured
CPPC	318,000,000	124,000,000	—	noninterest-bearing	Unsecured
AHI	299,200,000	—	—	noninterest-bearing	Unsecured
PEI	33,200,000	—	—	noninterest-bearing	Unsecured
<b>Joint Ventures</b>					
Technical service fees (see Note 16d)					
Delta P	18,935,475	5,632,984	—	30-60 days; noninterest-bearing	Unsecured; no impairment
CIPC	7,705,853	862,441	—	30-60 days; noninterest-bearing	Unsecured
Advances to (see Note 16a):					
Delta P	226,642	1,352,330	—	noninterest-bearing	Unsecured; no impairment
CIPC	37,027	392,187	—	noninterest-bearing	Unsecured; no impairment
Dividends (see Note 16f):					
CIPC	30,000,000	—	—	noninterest-bearing	Unsecured; no impairment
Delta P	20,000,000	—	—	noninterest-bearing	Unsecured; no impairment
(Forward)					

(Forward)





Category	Volume	2020 Outstanding Balance		Terms	Conditions
		Receivables	Payables		
Advances from (see Note 16b):					
Delta P	—	—	326	payable on demand; noninterest-bearing	Unsecured
<b>Stockholders with Significant Influence</b>					
Management fees expense (see Note 16e)					
JDC	4,389,486	—	—	30-60 days; noninterest-bearing	Unsecured
MRC	6,584,229	—	—	30-60 days; noninterest-bearing	Unsecured
<b>Stockholders with Significant Influence</b>					
Technical service fees expense (see Note 16e)					
GPI	44,280,000	—	—	Payable on demand; Noninterest-bearing	Unsecured
Advances to/from (see Notes 16a and 16b)					
GPI	6,000,955	—	5,688,786	30-60 days; noninterest-bearing	Unsecured
WMI	2,100,073	2,100,073	—	payable on demand; noninterest-bearing	Unsecured
<b>Stockholders with No Significant Influence</b>					
Advances to JGS (see Note 16c):	—	42,676	—	payable on demand; noninterest-bearing	Unsecured; no impairment

- a. Advances to related parties are noninterest-bearing cash advances to associates, joint ventures and stockholders. The outstanding advances, presented as “Advances to associates, joint ventures and stockholders” account in the consolidated statements of financial position, are noninterest-bearing and are due on demand. These advances are for project and working capital requirements.

On February 14, 2020, the Company entered into an Interim Financing Agreement (IFA) with FLOWS for the development of a combined sewerage and septage facility serving the City of Puerto Princesa. The IFA is for a term of four months or until June 13, 2020 at an interest rate of 5.7810% per annum. On June 13, 2020, the IFA was extended for three months or until September 13, 2020 at an interest of 6.2595%, 4.2578% and 4.3016% per annum on the first, second and third month, respectively. FLOWS is in the process of securing bank refinancing of the interim loan.

- b. Advances from related parties are noninterest-bearing cash advances payable on demand, from the Group’s joint ventures and stockholders.
- c. Advances to a “stockholder with no significant influence” pertains to the life insurance plan advanced by the Parent Company for a member of its BOD.
- d. Technical service fees represent the compensation for the services rendered by the Group to and for the use of its facilities by the associates and joint ventures. These are governed by service-level contracts executed by the Group and its associates and joint ventures. These are recognized as “Management and service fees” presented as part of the Group’s revenue in the consolidated statements of comprehensive income amounting to ₱102.6 million, ₱210.2 million and ₱97.5 million in 2021, 2020, and 2019, respectively.



Outstanding receivables for management fees and service fees presented as part of “Accounts receivable” under “Trade and other receivables” account in the consolidated statements of financial position as of December 31, 2021 and 2020 amounted to ₱27.3 million and ₱25.0 million, respectively (see Note 7).

- e. The Group also entered into consultancy and management service agreements with its stockholders to avail of management consultancy services. Expenses incurred related to the consultancy and management service agreements are recognized as part of “Professional fees” under “Generation costs” (see Note 17) and “Operating expenses” in the consolidated statements of comprehensive income.
- f. In 2021, VECO, MPC, AHI, PEI, CIPC and Delta P declared dividends amounting to ₱730.0 million, ₱240.0 million, ₱510.4 million, ₱17.2 million, ₱19.4 million and ₱20.0 million, respectively. In 2020, VECO, MPC, CPPC, AHI, PEI, CIPC and Delta P declared dividends amounting to ₱741.3 million, ₱533.6 million, ₱318.0 million, ₱299.2 million, ₱33.2 million, ₱30.0 million and ₱20.0 million, respectively. The outstanding amounts from these dividends declarations are currently lodged under “Dividends receivable” (see Note 7).
- g. The Group had an Energy Supply Agreement (ESA) with VECO (see Note 23), whereby the Group supplied contract energy to VECO from the 17 MW of the contracted capacity of the Unified Leyte Geothermal Power Plant administered by the Group. The ESA was terminated in October 2019.

Revenue from the ESA with VECO amounted to nil in 2021 and 2020 and, ₱730.8 million in 2019. As of December 31, 2021 and 2020, the Group’s trade receivables from VECO for the sale of power amounted to ₱8.0 million (see Note 7).

In 2017, the Group entered into a Power Supply Agreement (PSA) with PEI to supply contracted power (see Note 23). In 2019, the contract was terminated. Revenue from PSA with PEI amounted to nil in 2021 and 2020 and ₱283.8 million in 2019.

- h. Working capital advances to LPCI and GLEDC are noninterest-bearing, collateral-free and are due on demand. As of December 31, 2021 and 2020, the Group recognized a receivable from LPCI amounting to ₱93.8 million and ₱80.9 million, respectively, and from GLEDC amounting to ₱1.9 million and ₱2.3 million, respectively.

The above transactions are generally settled through cash.

#### Compensation and Benefits of Key Management Personnel

The compensation of the Group’s key management personnel by benefit type follows:

	2021	2020	2019
Short-term employee benefits	<b>₱153,391,047</b>	₱159,714,310	₱106,465,055
Post-employment pension benefits (see Note 19)	<b>7,267,643</b>	8,747,182	6,990,120
	<b>₱160,658,690</b>	₱168,461,492	₱113,455,175



## 17. Costs of Services and Other Operating Expenses

### Costs of Services

The Group's cost of services pertains to the costs incurred in the operation of the BDPP and 17 MW of geothermal power from ULGPP:

	2021	2020	2019
Heavy fuel oil (see Notes 8 and 23)	<b>₱783,844,384</b>	₱271,028,255	₱806,131,649
Purchased power (see Note 23)	<b>225,034,543</b>	82,846,057	934,778,346
Depreciation (see Notes 11 and 24)	<b>291,956,475</b>	257,803,496	237,460,737
Contractual and outside services	<b>127,306,647</b>	136,199,626	130,771,453
Salaries, wages and employee benefits (see Note 18)	<b>99,720,112</b>	77,111,285	66,680,338
Light fuel oil (see Notes 8 and 23)	<b>73,809,557</b>	29,793,383	25,789,479
Materials and supplies (see Note 8)	<b>56,899,469</b>	52,403,387	—
Professional fees (see Note 16e)	<b>49,278,808</b>	14,798,981	30,146,029
Insurance	<b>38,401,046</b>	27,178,734	28,525,355
Royalty fees (see Note 24)	<b>26,044,774</b>	20,001,905	24,465,978
Lube oil (see Note 8)	<b>23,942,491</b>	10,108,628	21,749,482
Rent (see Note 24)	<b>17,440,475</b>	10,346,285	—
Supply and metering charges	<b>16,267,814</b>	14,222,742	13,884,475
Transportation	<b>4,859,003</b>	1,166,851	905,330
Taxes and licenses	<b>2,903,725</b>	1,459,817	1,093,043
Repairs and maintenance	<b>2,355,746</b>	1,017,463	3,124,664
Light and power	<b>1,210,909</b>	269,272	1,152,199
Market fees	<b>781,797</b>	496,226	2,067,802
Others	<b>14,967,299</b>	5,617,201	4,819,166
	<b>₱1,858,069,711</b>	₱1,013,869,594	₱2,333,545,525

Amounts recognized related to the Group's participation in WESM trading, are presented as "Purchased power" and "Market fees" aggregating to ₱46.6 million, ₱15.3 million, and ₱230.0 million in 2021, 2020 and 2019, respectively.

### Other Operating Expenses

	2021	2020	2019
Corporate social responsibility	<b>₱32,764,293</b>	₱33,268,233	₱14,565,162
Directors' per diem (see Note 18)	<b>11,460,000</b>	10,076,666	5,596,500
Stand-by letter of credit	<b>5,294,523</b>	9,879,327	4,119,043
Dues and subscriptions	<b>7,567,361</b>	4,815,005	4,508,335
Office supplies	<b>6,385,302</b>	2,885,516	7,679,550
Repairs and maintenance	<b>5,653,240</b>	3,799,176	3,814,972
Insurance expense	<b>2,585,963</b>	2,687,804	4,089,108
Marketing expenses	<b>2,327,909</b>	6,455,567	5,633,320
Regulatory expenses	<b>2,013,037</b>	4,187,940	13,285,981
Stockholders' meeting expenses	<b>293,119</b>	181,689	1,325,744
Others	<b>5,428,634</b>	96,211	6,339,269
	<b>₱81,773,381</b>	₱78,333,134	₱70,956,984

Regulatory expenses include payments of administrative fees charged by the PSE and SEC and other charges.



Others include sponsorships and contributions, brokerage fees, insurance expenses, medical and health expenses, outing expenses, and bank charges, among others.

Other Income - Net

	2021	2020	2019
Gain (loss) in disposal of property, plant and equipment (see Note 11)	<b>₱3,101,818</b>	₱330,357	(₱96,818)
Intercompany services	<b>2,880,462</b>	4,062,808	4,531,325
Other service income	<b>2,237,464</b>	461,364	6,509,021
Rent income (see Note 12)	<b>1,102,620</b>	1,667,566	2,187,532
Insurance claims	—	44,878,062	—
Recovery of previously written-off receivables	—	—	28,800,000
Others	<b>15,475,020</b>	5,011,837	—
	<b>₱24,797,384</b>	₱56,411,994	₱41,931,060

Recovery of previously written-off receivables in 2019 pertains to recovery by VEC and VREC of its receivables from the sale of VSNRGC.

In 2020, insurance claims pertain to DPI's insurance claims for damages brought by the fire in 2019.

Others include reversal of allowance for impairment losses, reimbursements from third parties for equipment station use, and billings to related parties for the shared expenses initially paid by the Group on behalf of related parties (see Note 16).

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**18. Personnel Expenses**

	2021	2020	2019
Salaries, wages and employee benefits	<b>₱399,860,946</b>	₱345,155,222	₱257,667,976
Pension expense (see Note 19)	<b>22,223,302</b>	15,961,646	11,987,522
Directors' compensation and benefits (see Note 17)	<b>11,460,000</b>	10,076,666	5,596,500
	<b>₱433,544,248</b>	₱371,193,534	₱275,251,998

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**19. Retirement Plans**

The Group has a funded, noncontributory, defined benefit pension plan covering all regular, permanent employees of the Parent Company, 1590 EC and VEC. Both plans provide lump sum benefits upon a member's normal retirement. The benefits are based on the member's final monthly salary and length of service with the Group.

The Fund for the Group's employees is administered by a trust and investment entity in the Philippines under the supervision of a trustee. The trustee is responsible for the investment strategy of the plan.



The existing regulatory framework, Republic Act 7641, *The Retirement Pay Law*, requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee's 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 following tables summarize the components of pension expense recognized in the consolidated statements of comprehensive income and the funded status and amounts recognized in the consolidated statements of financial position for the pension plan.

The components of the pension expense recognized under "Generation costs" and "Operating expenses" in the consolidated statements of comprehensive income follow:

	2021	2020	2019
Current service cost	<b>₱18,902,166</b>	₱12,703,706	₱9,109,532
Past service cost	—	—	652,062
Net interest cost	<b>3,321,136</b>	3,257,940	2,225,928
Pension expense	<b>₱22,223,302</b>	₱15,961,646	₱11,987,522

Remeasurement effects recognized in the consolidated statements of comprehensive income follow:

	2021	2020	2019
Remeasurement gain (loss) on defined benefit plan	<b>₱18,982,444</b>	(₱6,953,225)	(₱26,653,847)
Return on assets excluding amount included in net interest cost	<b>(1,531,102)</b>	(504,122)	(302,515)
	<b>₱17,451,342</b>	(₱7,457,347)	(₱26,956,362)

The pension liability pertaining to the Parent Company's funded retirement plan and VEC's unfunded retirement plan as of December 31, 2021 and 2020 follows:

	2021	2020
Present value of defined benefit obligation	<b>₱134,859,953</b>	₱130,239,046
Fair value of plan assets	<b>(73,399,945)</b>	(42,697,740)
Pension liability	<b>₱61,460,008</b>	₱87,541,306

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

	2021	2020
At January 1	<b>₱130,239,046</b>	₱107,174,551
Remeasurement loss (gain) due to:		
Changes in financial assumptions	<b>(28,166,707)</b>	7,234,442
Experience adjustments	<b>9,184,263</b>	(281,217)
Current service cost	<b>18,902,166</b>	12,703,706
Interest cost on defined benefit obligation	<b>5,084,112</b>	4,515,228
Benefits paid	<b>(382,927)</b>	(1,130,167)
Net acquired obligation due to employees	—	22,503
At December 31	<b>₱134,859,953</b>	₱130,239,046



Changes in the fair value of plan assets representing the funded retirement plan of the Group follow:

	2021	2020
At January 1	<b>₱42,697,740</b>	₱39,952,118
Contributions to the retirement fund	<b>30,853,258</b>	3,122,623
Interest income included in net interest cost	<b>1,762,976</b>	1,257,288
Return on assets excluding amount included in net interest cost	<b>(1,531,102)</b>	(504,122)
Benefits paid	<b>(382,927)</b>	(1,130,167)
At December 31	<b>₱73,399,945</b>	₱42,697,740

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

	2021	2020
At January 1	<b>₱87,541,306</b>	₱67,222,433
Pension expense for the year	<b>22,223,302</b>	15,961,646
Contributions to retirement fund	<b>(30,853,258)</b>	(3,122,623)
Remeasurement loss (gain) recognized for the year	<b>(17,451,342)</b>	7,457,347
Net acquired obligation due to employee transfer	—	22,503
At December 31	<b>₱61,460,008</b>	₱87,541,306

The major categories of the plan assets as a percentage of the fair value of the total plan assets are as follows:

	2021	2020
Fixed income securities:		
Unitized investment trust funds	<b>59.14%</b>	36.68%
Time certificate of deposit	<b>38.85%</b>	58.35%
Savings deposit	<b>0.01%</b>	0.03%
Investment in government securities	<b>1.96%</b>	4.94%
Accrued interest receivable	<b>0.04%</b>	—
Total plan assets	<b>100.00%</b>	100.00%

All equity instruments held have quoted prices in active market. The remaining plan assets do not have quoted market prices in active market.

The control and administration of the fund vest on the trustee. The trustee shall have the full and complete power and authority to hold, manage, administer, convert, sell, assign, alter, divide, invest and reinvest the fund without distinction between principal and income, to the same extent and with the same effect as might be lawfully done by persons who own and control property and may thus exercise every power and right with respect to each item of property in this trust authority specified in the agreement and expressly conferred upon it by law.

The overall investment policy and strategy of the Group's defined benefit plan is guided by the objective of providing the necessary funding for the benefits payable under the plan and achieving such liquidity as the trustee shall, in its discretion, deem appropriate in the circumstances. The Group's current investment strategy consists substantially of fixed income securities.



The principal assumptions used in determining pension obligation for the Group's pension plan as of December 31 follow:

	2021	2020
Discount rate	5.09%-5.15%	3.85%-5.00%
Future salary increase rate	5.00%-7.00%	7.00%

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the present value of the defined benefit obligation of the most recent actuarial valuation report, as of December 31, 2021 and 2020, assuming all other assumptions were held constant:

		Present Value Change of Defined Benefit Obligation	
		2021	2020
	Increase (Decrease)		
Discount rate	+100 basis points	(P11,590,804)	(P11,007,027)
	-100 basis points	13,605,889	14,218,112
Future salary increase rate	+100 basis points	14,028,859	15,156,411
	-100 basis points	(12,180,012)	(12,042,473)

Each sensitivity analysis on the significant actuarial assumptions was prepared by remeasuring the defined benefit obligation at the reporting date after first adjusting one of the current assumptions according to the applicable sensitivity increment or decrement (based on changes in the relevant assumption that were reasonably possible at the valuation date), while all other assumptions remained unchanged.

The average duration of the defined benefit obligation is 15.68–19.64 years and 17.0–20.0 years as of December 31, 2021 and 2020, respectively.

The Group does not expect to contribute to the defined benefit plan in 2020.

The expected benefit payment assumes that all actuarial assumptions will materialize. Shown below is the maturity analysis of the undiscounted benefit payments as of December 31, 2020 and 2019:

	2021	2019
Less than one year	P35,998,088	P40,718,367
More than one year to five years	13,904,028	13,551,581
More than five years to 10 years	59,218,126	56,472,092
More than 10 years to 15 years	151,094,992	150,868,432
More than 15 years to 20 years	144,624,594	152,888,581
More than 20 years	246,798,850	245,369,079
Total	P651,638,678	P659,868,132



## 20. Income Taxes

	2021	2020	2019
Current	<b>₱146,282,516</b>	₱160,916,114	₱180,657,456
Final	—	7,976,966	—
	<b>146,282,516</b>	168,893,080	180,657,456
Deferred	<b>24,875,024</b>	(14,480,460)	91,005,719
	<b>₱171,157,540</b>	₱154,412,620	₱271,663,175

The reconciliation of income tax expense computed at the applicable statutory rates to income tax expense follows:

	2021	2020	2019
Income before income tax	<b>₱2,144,007,667</b>	₱1,861,233,256	₱2,943,413,925
Tax calculated at statutory rate (2021: 25%; 2020 and 2019: 30%)	<b>₱536,001,917</b>	₱558,369,974	₱883,024,178
Adjustments for the tax effects of:			
Equity in net earnings of associates and joint ventures	<b>(442,490,025)</b>	(459,267,602)	(650,195,246)
Unrecognized deferred income tax assets on NOLCO and MCIT	<b>189,915,551</b>	124,818,148	125,381,714
Difference of OSD over deductible expenses	<b>(67,560,411)</b>	(77,900,467)	(80,866,487)
Non-taxable gain	<b>(26,590,350)</b>	—	—
Impact of CREATE Law	<b>(13,481,090)</b>	—	—
Interest income subject to final tax	<b>(4,784,876)</b>	(17,976,977)	(46,023,589)
Non-deductible expenses	<b>3,108,337</b>	7,263,629	48,202,025
Non-deductible impairment loss	—	—	(66,899)
Others	<b>(2,961,513)</b>	19,105,915	(7,792,521)
	<b>₱171,157,540</b>	₱154,412,620	₱271,663,175

The components of the Group's net deferred income tax assets as of December 31 are as follows:

	2021	2020
Deferred income tax assets on:		
Net pension liability	<b>₱17,421,899</b>	₱17,892,846
Allowance for impairment losses	<b>11,602,774</b>	13,923,328
Unamortized debt issue costs	<b>525,694</b>	—
Unrealized foreign exchange loss	<b>60,697</b>	72,837
	<b>29,611,064</b>	31,889,011
Deferred income tax liabilities on:		
Unamortized debt issue costs	<b>6,546,245</b>	147,564
Unrealized UITF gain	—	671,908
Unrealized foreign exchange gain	<b>2,793,774</b>	37,916
	<b>9,340,019</b>	857,388
Deferred income tax asset (liability) at FVOCI recognized in other comprehensive income:		
Remeasurement loss on employee benefits	<b>788,212</b>	3,814,351
Unrealized valuation gain of financial assets	<b>(645,000)</b>	(832,500)
	<b>143,212</b>	2,981,851
Net deferred income tax assets	<b>₱20,414,257</b>	₱34,013,474





The components of the Group's net deferred income tax liabilities are as follows:

	2021	2020
Deferred income tax liabilities on:		
Unrealized fair value gain on investment property	<b>₱172,313,359</b>	₱177,278,532
Finance lease	<b>23,337,127</b>	15,517,582
Unrealized foreign exchange gain/loss- net	<b>11,542,253</b>	210,360
Accrued rent	<b>84,122</b>	70,396
	<b>207,276,861</b>	193,076,870
Deferred income tax asset on net pension liability	<b>(617,571)</b>	(639,210)
Deferred income tax asset on pension recognized in other comprehensive income	<b>(1,639,723)</b>	(2,605,236)
	<b>₱205,019,567</b>	₱189,832,424

In 2021 and 2020, the Group has deductible temporary differences and tax credits for which deferred tax assets have not been recognized since management believes that no sufficient taxable income will be available in the year these are expected to be reversed, settled or realized. These unrecognized deductible temporary differences and tax credits follow:

	2021	2020
NOLCO	<b>₱302,749,587</b>	₱409,112,926
MCIT	<b>94,515</b>	765,524

On September 30, 2020, BIR issued the RR No. 25-2020 to implement Section 4(bbbb) of Republic Act No. 11494, otherwise known as "Bayanihan to Recover as One Act". This RR provides that net operating loss of the business or enterprise for taxable years 2020 and 2021 to be carried over as a deduction from gross income for the next five (5) consecutive taxable years immediately following the year of such loss.

#### CREATE Law

President Rodrigo Duterte signed into law on March 26, 2021 the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act to attract more investments and maintain fiscal prudence and stability in the Philippines. Republic Act (RA) 11534 or the CREATE Act introduces reforms to the corporate income tax and incentives systems. It takes effect 15 days after its complete publication in the Official Gazette or in a newspaper of general circulation or April 11, 2021.

The following are the key changes to the Philippine tax law pursuant to the CREATE Act which have an impact on the Group:

- Effective July 1, 2020, regular corporate income tax (RCIT) rate is reduced from 30% to 25% for domestic and resident foreign corporations. For domestic corporations with net taxable income not exceeding Php5 million and with total assets not exceeding Php100 million (excluding land on which the business entity's office, plant and equipment are situated) during the taxable year, the RCIT rate is reduced to 20%.



- Minimum corporate income tax (MCIT) rate reduced from 2% to 1% of gross income effective July 1, 2020 to June 30, 2023.
- Imposition of improperly accumulated earnings tax (IAET) is repealed.

As clarified by the Philippine Financial Reporting Standards Council in its Philippine Interpretations Committee Q&A No. 2020-07, the CREATE Act was not considered substantively enacted as of December 31, 2020 even though some of the provisions have retroactive effect to July 1, 2020. The passage of the CREATE Act into law on March 26, 2011 was considered as a non-adjusting subsequent event. Accordingly, current and deferred taxes as of and for the year ended December 31, 2020 were computed and measured using the applicable income tax rates as of December 31, 2020 (i.e., 30% RCIT / 2% MCIT) for financial reporting purposes.

The impact of the lower tax rates of 20–25% from July 1, 2020 onwards have been reflected in the 2021 financial statements.

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## 21. Equity

### Capital Stock

There were no changes in the Parent Company's authorized, issued and outstanding common shares as of December 31, 2021 and 2020.

Authorized capital stock - ₱1 par value	2,000,000,000
Issued and outstanding shares	1,023,456,698
Unissued shares	976,543,302

The Parent Company's issued capital stock originally consists of 224,880,067 common shares and 600,000,000 preferred shares that were listed in the Philippine Stock Exchange (PSE) since 2003, and 198,576,631 preferred shares that were approved for listing by the PSE on June 29, 2004. In June 2005, the SEC approved the amendment to Article VII that relates to the conversion of the Parent Company's preferred shares to common shares. As of December 31, 2021 and 2020, the Parent Company's issued capital stock all consists of common shares.

The Parent Company has 1,415 stockholders as of December 31, 2021, 1,425 stockholders as of December 31, 2020, and 1,423 stockholders as of December 31, 2019, and has complied with the Minimum Public Ownership requirement of the PSE for listed entities as of the same dates.

### Dividends

The BOD declared cash dividends to its stockholders as follows:

	2021	2020	2019
Date of declaration	<b>May 19, 2021</b>	May 13, 2020	May 15, 2019
Date of record	<b>June 4, 2021</b>	May 27, 2020	May 29, 2019
Date of payment	<b>June 23, 2021</b>	June 23, 2020	June 24, 2019



	2021	2020	2019
Dividends declared:			
Regular dividends	<b>₱358,209,844</b>	₱467,822,060	₱346,133,060
Special dividends	—	—	—
	<b>₱358,209,844</b>	₱467,822,060	₱346,133,060
Dividends per share	<b>₱0.3500</b>	₱0.4571	₱0.3382

Appropriation of Retained Earnings for Business Expansion

Out of the 2016 retained earnings appropriation, the Parent Company made additional investment of ₱606.0 million in 2017 in two power plant projects in the Visayas and Mindanao, which amount was then reverted to unappropriated retained earnings in 2017.

In a BOD meeting held on December 21, 2017, the BOD has determined that the Parent Company's operation require to continue the existing appropriations amounting to ₱2.2 billion for the investment on the two ongoing power plants in Visayas and Mindanao and a rooftop solar installation project starting 2018. In the same BOD meeting, a resolution was approved allocating and restricting part of its retained earnings amounting to an additional ₱1.3 billion to be used for future investments in these projects which are expected to be completed starting 2018.

Out of the 2017 retained earnings appropriation, the Parent Company made additional investment of ₱1.2 billion in 2018 on the power plant projects in the Visayas and in the rooftop solar installation project, which amount was then reverted to unappropriated retained earnings in 2018.

In a BOD meeting held on December 12, 2018, the BOD has determined that the Parent Company's operation require to continue the existing appropriations amounting to ₱2.3 billion for the investments in the two on-going power plant projects in the Visayas, one on-going power plant project in Mindanao and a rooftop solar installation project. In the same BOD meeting, a resolution was approved allocating and restricting part of its retained earnings amounting to additional ₱1.7 billion to be used for the investment in one on-going power plant project in the Visayas estimated to start commercial operations in 2021, new power generation projects in Luzon and the Visayas, and for infrastructure projects in the Visayas starting 2019.

Out of the 2018 retained earnings appropriation, the Parent Company reverted its prior appropriations amounting to ₱2.1 billion on the power plant projects in the Visayas and Mindanao due to its completion in 2019 and made additional investment amounting ₱31.6 million in 2019 on the new power generation project in Luzon, rooftop solar installation project, and infrastructure projects in Visayas.

In a BOD meeting held on November 13, 2019, the BOD has determined that the Parent Company's operations require to continue the existing appropriations amounting to ₱1.8 billion to provide appropriations for the investment in the new power generation project in the Visayas, and the on-going solar installations projects and infrastructure projects in the Visayas. In the same BOD meeting, a resolution was approved allocating and restricting part of its retained earnings amounting to additional ₱2.6 billion to be used for the investment in the new power generation project in the Visayas estimated to start commercial operations in 2021, solar rooftop installations projects, on-going power plant project in Luzon, and on-going infrastructure projects in Visayas.



Out of the 2019 retained earnings appropriation, the Parent Company made additional investments of ₱1.5 billion in 2020 on the new power generation project in the Visayas, on-going solar installations projects, and infrastructure projects in the Visayas, which amount was then reverted to unappropriated retained earnings in 2020.

In a BOD meeting held on November 13, 2020, the BOD has determined that the Parent Company's operation require to continue the existing appropriations amounting to ₱3.0 billion to provide appropriations for the investment on the on-going power generation projects in the Visayas, solar installation projects, and infrastructure projects in Visayas. In the same BOD meeting, a resolution was approved allocating and restricting part of its retained earnings amounting to additional ₱2.3 billion to be used for the investment in the new power generation projects in Luzon and Mindanao, and on-going projects on power generation, solar rooftop installations, and infrastructure projects in Visayas.

Out of the 2020 retained earnings appropriation, the Parent Company made additional investments of ₱1.0 billion in 2021 on the new power generation project in Mindanao, and on-going power generation projects, solar installation projects and infrastructure projects in the Visayas, which amount was then reverted to unappropriated retained earnings in 2021.

In a BOD meeting held on November 12, 2021, the BOD has determined that the Parent Company's operation require to continue the existing appropriations amounting to ₱4.2 billion to provide appropriations for the investment on the new power generation projects in Luzon, on-going power generation projects in the Visayas, and solar installation projects and infrastructure projects in Luzon and the Visayas. In the same BOD meeting, a resolution was approved allocating and restricting part of its retained earnings amounting to additional ₱2.0 billion to be used for the investment in the on-going and new infrastructure projects in Luzon and the Visayas starting in 2022.

#### Unappropriated Retained Earnings

The balance of retained earnings includes the accumulated equity in net earnings of subsidiaries, associates and joint ventures, including unrealized fair value adjustments on investment properties, amounting to ₱7.3 billion and ₱6.6 billion as of December 31, 2021 and 2020, respectively. Such amounts are not available for dividend distribution until such time that the Parent Company receives the dividends from the respective subsidiaries, associates and joint ventures.

#### Non-controlling Interests

In 2019, VSC received cash amounting to ₱0.4 million for its non-controlling interest for the issuance of capital stock. In the same year, VEC and VREC purchased shares of VSC's non-controlling interest in exchange for a cash consideration with a total amount of ₱8.0 million. As a result of this transaction, the balance of non-controlling interest in VSC was reduced by ₱7.2 million. The difference between the consideration transferred and book value of non-controlling interest acquired amounting to ₱0.8 million was accounted for under "Equity reserve".

In June 2019, the Group acquired WMP and recognized non-controlling interest amounting ₱24.2 million representing proportionate share of its interest in WMP's identifiable net assets (see Note 13).



In November 2019, Vivant paid cash consideration amounting ₱23.0 million to WMP's non-controlling interest in relation to WMP's issuance of capital stock. Above consideration was considered additional investments to VIHI and VHII. The difference between the consideration transferred and book value of non-controlling interest acquired amounting to ₱24.3 million was accounted for under "Equity reserve". As a result of this transaction, the balance of non-controlling interest in WMP was increased by ₱1.3 million.

In 2019, INEC also received cash amounting to ₱12.3 million from its non-controlling stockholders for the issuance of capital stock.

In 2020, INEC and HDFE received cash amounting to ₱73.0 million and ₱16.0 million respectively, from its non-controlling stockholders for the issuance of capital stock.

In 2021, INEC received cash amounting to ₱55.3 million from its non-controlling stockholder for the issuance of capital stock. LPEC also received cash from GPI amounting to ₱0.5 million.

#### Material Partly-Owned Subsidiary - 1590 EC

The following are selected financial information of the material partly-owned subsidiary of the Group as of and for the years ended December 31, 2021, 2020 and 2019:

	2021	2020	2019
Total current assets	<b>₱993,023,145</b>	₱903,759,047	₱1,146,026,096
Total noncurrent assets	<b>2,154,054,662</b>	2,424,981,615	2,600,678,162
Total current liabilities	<b>933,323,365</b>	1,180,285,736	1,548,547,457
Total noncurrent liabilities	<b>995,414,558</b>	1,113,555,486	1,326,054,025
Total equity	<b>1,218,339,884</b>	1,034,899,440	872,102,776
Sale of power	<b>2,559,268,393</b>	1,702,132,252	2,720,283,002
Operating profit	<b>929,267,184</b>	809,866,283	997,299,782
Net income	<b>741,063,348</b>	595,917,766	718,036,557
Total comprehensive income	<b>743,338,604</b>	590,436,065	712,733,575
Net income attributable to non-controlling interests	<b>331,996,380</b>	328,946,606	321,680,378
Total comprehensive income attributable to non-controlling interests	<b>333,015,695</b>	266,971,159	319,304,642
Dividends paid to non-controlling interests	<b>250,880,000</b>	196,672,000	80,640,000
Accumulated non-controlling interest	<b>545,770,644</b>	463,634,949	390,702,044

## **22. Earnings Per Share (EPS)**

The amounts of EPS are computed as follows:

	2021	2020	2019
Net income attributable to shareholders of the parent	<b>₱1,777,031,392</b>	₱1,442,131,978	₱2,338,934,325
Weighted average number of outstanding common shares	<b>1,023,456,698</b>	1,023,456,698	1,023,456,698
Basic and diluted EPS	<b>₱1.736</b>	₱1.409	₱2.285

There are no potential dilutive shares as of December 31, 2021, 2020 and 2019.



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## 23. Contracts, Commitments and Contingencies

### Sale of Power

#### *Power Supply Agreements (PSA)*

- *INEC Interim PSA.* On April 22, 2020, INEC, a subsidiary, and Bantayan Electric Cooperative, Inc. (BANELCO), an electric cooperative engaged in the distribution of electricity, light, heat and power, entered into an Interim PSA. INEC shall provide a portion of the electricity requirements of BANELCO. The Interim PSA commenced on August 11, 2020 and ended on August 10, 2021.

On July 3, 2020, INEC and BANELCO filed a joint application to the Energy Regulatory Commission, docketed under ERC Case No. 2020-013 RC, entitled “In the Matter of the Application for Approval of the Interim Power Supply Agreement between Bantayan Island Electric Cooperative, Inc. (BANELCO) and Isla Norte Energy Corporation (INEC), with Motion for Provisional Authority”, dated April 29, 2020. The ERC issued a letter to INEC and BANELCO on July 19, 2021, informing that it has granted interim relief to the parties by virtue of an order issued on July 14, 2021, subject to the rates and conditions set forth in the letter.

Sale of power to BANELCO from this contract amounted to ₱10.1 million, ₱27.9 million and nil in 2021, 2020 and 2019, respectively.

- *INEC PSA.* On February 10, 2020, INEC and BANELCO entered into a PSA. Under the PSA, INEC shall provide the entire energy requirements of BANELCO and its franchise area. The agreement is for a period of 15 years, reckoned from commercial operations date. As of December 31, 2021, INEC has not yet entered commercial operations with respect to the PSA.
- *INEC 90-Day PSA.* The ERC issued a Notice of Resolution dated November 4, 2021 that contained a directive to BANELCO “to source out power from any supplier which it deems fit, to ensure the continuous and unhampered supply of power within its franchise area.” BANELCO entered into a PSA with the Company for a period of 90 days, reckoned from the date of the issuance of the resolution, to supply the whole of its energy requirement.

Sale of power to BANELCO from this contract amounted to ₱83.4 million in 2021.

- *INEC Subsidy Agreement (SA).* Due to the subsidized nature of the above PSAs, the subsidiary applied for Subsidy Agreement (SA) with NPC. This SA allows the entity to collect the difference of the Subsidized/Approved Generation Rate (SAGR) charged to BANELCO and True Cost Generation Rate (TCGR). SAGR charged to BANELECO amounted to ₱6.2552 per kilowatt-hour in 2021 and 2020. The subsidy agreement for the Interim PSA has been signed on December 28, 2021. The entity is still in the process of applying for the subsidy agreements of the PSA and the 90-day PSA with NPC.



In 2020, the Company received from BANELCO an advance deposit amounting to ₱15.0 million in relation to the subsidy agreement. In 2021, the Company received from the National Electrification Administration ₱20.0 million as addition to BANELCO's advance deposit in relation to the subsidy agreement. The amount is refundable to BANELCO upon approval of the application by the ERC, and collection of the subsidy from the National Power Corporation. These deposits are presented under "Others" as part of "Trade and other payables in the statement of financial position (see Note 14).

- *NBPC PSA.* On January 17, 2017, the Company entered into a Power Supply Agreement (PSA) with Bukidnon Second Electric Cooperative (BUSECO) to supply a maximum of 5 MW from its 2 x 3.1 MW power plant located at Barangay Bugcaon, Lantapan, Bukidnon at a specific contract rate for a period of 15 years commencing from commercial operation date in the second quarter of 2018, under a Build Operate Maintain (BOMT) scheme. With the BOMT agreement, NBPC's power plant will be transferred to BUSECO upon termination of the PSA.

ERC has granted a provisional approval on its rate application on August 31, 2017 effective for only twelve (12) months. Upon expiration of the provisional authority on August 31, 2018, ERC extended the provisional authority in an order dated September 21, 2019. NBPC and BUSECO filed a motion for reconsideration for rates adjustment from the provisionally approved amounts and was partially granted by ERC on October 8, 2019.

Total generation income from this agreement amounted to ₱41.5 million in 2021.

- *BPC PSA.* On October 16, 2014, the Company entered into a Power Supply Agreement (PSA) with First Bukidnon Electric Cooperative (FIBECO) to supply a maximum of 4.4 MW from its 2 x 2.4 MW power plant located at Barangay Barandas, Bukidnon at a specific contract rate for a period of 15 years commencing from March 15, 2015. ERC has granted a provisional approval on its rate application on August 3, 2015. The second power supply agreement was entered into with FIBECO on July 24, 2015 for a contracted capacity of 2 MW from its 2.5 MW Fuel power plant located at Barangay Mabuhay, San Fernando, Bukidnon, for a period of 15 years starting from April 15, 2016. ERC's final approval on its rate application was dated June 6, 2017.

Total generation income from this agreement amounted to ₱48.6 million in 2021.

#### *Power Purchase Agreements*

A subsidiary of the Group enters into power purchase agreements with various customers for the development, engineering, procurement, construction, operation and maintenance of solar generation facilities at the customers' premises. Revenue from these agreements amounted to ₱9.0 million, ₱6.6 million and ₱5.5 million in 2021, 2020 and 2019.

#### *Ancillary Services Procurement Agreement*

In January 2017, a subsidiary entered into an ASPA with NGCP to be its service provider, whereby the entity will provide dispatchable reserve to NGCP to maintain power quality, reliability, and security of the nationwide grid. The term of agreement is in force for five (5) years. Actual transactions such as nominations and scheduling started in November 2017 when the access and technical requirements were finally fulfilled. Revenue from ASPA with NGCP amounted to ₱1,174.7 million, ₱1,407.8 million and ₱1,009.8 million in 2021, 2020 and 2019, respectively.



#### *Retail Electricity Supply*

A subsidiary enters into various retail supply contracts with contestable customers for the supply of energy at an agreed price on a per kilowatt-hour basis. The contracts are for a period of 1–2 years and for a contracted capacity of 0.63–2.70 MW. Total retail electricity sales earned from these contracts amounted to ₱301.0 million, ₱120.2 million and ₱70.6 million in 2021, 2020 and 2019, respectively.

In connection with the contracts, the subsidiary received refundable deposits from customers amounting to ₱6.7 million and ₱5.5 million as of December 31, 2021 and 2020, respectively. These are presented as part of “Other noncurrent liabilities” in the statements of financial position (see Note 14).

#### *Participation in WESM*

To avail of the opportunities in the competitive electricity market, the Group registered as a direct participant of the wholesale electricity spot market (WESM) effective December 23, 2016. The revenue from sale of power on the WESM recognized by the Group amounting to ₱1,384.6 million, ₱294.4 million, ₱1,460.2 million in 2021, 2020 and 2019, respectively, were generated from its participation in the trading of electricity at the WESM.

On March 6, 2014, the ERC rendered an Order voiding the WESM prices for the supply months of November and December 2013 and in lieu thereof, substituting regulated prices. The Order came after the ERC formed an Investigating Unit to investigate the unusual increase in WESM prices and the seemingly simultaneous withholding of capacity by electric power generators during the supply months of November and December 2013.

On March 28, 2014, the Group filed its Motion for Reconsideration (MR) to the Order. In an Order dated October 15, 2014, the ERC denied the MR.

On December 10, 2014, as a result of the denial of the MR by the ERC, the Group filed a Petition for Review with Application for Injunction and Temporary Restraining Order with the CA requesting for the (a) issuance of a Temporary Restraining Order and Writ of Preliminary Injunction enjoining ERC and PEMC from implementing all orders, decisions, and resolutions in ERC Case No. 2014-021 MC and (b) reversal of the Order of the ERC in ERC Case No. 2014-021 MC and (c) reinstating the November and December 2013 WESM market prices.

On November 7, 2017 the CA in the consolidated Petitions for Review, rendered a decision declaring the Orders of the ERC dated March 3, 2014, March 27, 2014, May 9, 2014 and October 15, 2014 (the “ERC Orders”) for having been rendered without any factual and legal basis. Accordingly, the CA nullified the regulated prices imposed by the ERC in the ERC Orders that were to prevail in lieu of the WESM prices for the November and December 2013 supply months.

Thereafter, the ERC and Intervenor, filed their respective MRs to which the Company duly filed its respective Oppositions thereto. Moreover, as of March 14, 2018, twelve (12) entities who are not original parties to the consolidated Petitions for Review but claim legal interest in the consolidated Petitions for Review filed their respective Motions for Leave to file intervention and admit the attached MRs. In an Omnibus Resolution dated March 29, 2019, the MR of MERALCO was denied. MERALCO filed a Petition for Review on Certiorari to the March 29, 2019 Omnibus Resolution. On September 7, 2020, the Group received a Notice from the Supreme Court (Third Division) requiring it to comment. The Group was able to file its Comment and Opposition within the allowed extended period. The Petition for Review remains pending with the Supreme Court as of March 18, 2022.





In parallel with the MERALCO Petition for Review, the ERC also filed its Petition for Review on Certiorari with the Supreme Court (First Division). The Supreme Court issued a “Notice of the Resolution” dated September 11, 2019, which required 1590 EC to file its Comment to the Petition for Review. The subsidiary was able to file its Comment and Opposition within the allowed extended period. The Petition for Review also remains pending with the Supreme Court as of March 18, 2022.

### Costs of Generation

#### *Purchased Power*

- *Bilateral Agreements.* The Group entered into another PSA with KEPCO SPC Power Corporation to purchase power for a fixed fee per MW per hour. The PSA is for a period of one year starting January 13, 2020 to January 12, 2021 with a minimum and maximum contract capacity of 2MW and 5MW, respectively. In December 2020, the contract with KEPCO was extended for a period of one year from January 13, 2021 to January 12, 2022.

The Company entered into PSA with Southwest Luzon Power Generation Corporation to purchase power for a fixed fee per MW per hour. The PSA shall commence from July 15, 2021 to November 25, 2022 for a contracted capacity of 5MW.

The total cost of power purchased during the year from the above power supply agreements amounted to ₱179.2 million, ₱68.0 million and ₱48.4 million in December 2021, 2020 and 2019, respectively (see Note 17).

#### *Fuel Supply Agreements*

- *Supply Agreement for Heavy Fuel.* On April 1, 2012, the Group entered into a Supply Agreement (Consignment) with Pilipinas Shell Petroleum Corporation (PSPC) for the supply of the Group’s petroleum product requirements. Under the agreement, PSPC shall sell and deliver, or procure to be delivered, and the Group shall purchase the petroleum products exclusively from PSPC. The agreement is in force for a period of two (2) years commencing April 1, 2012 to April 30, 2014. Upon expiration of the previous agreement, the contract was renewed starting May 1, 2014 to April 30, 2016 and was further renewed from May 1, 2016 to April 30, 2018. On May 1, 2018, the contract was renewed again until April 30, 2020. The contract was further renewed from May 1, 2020 to April 30, 2021 and from June 1, 2021 to May 31, 2022.

Heavy fuel oil expense recognized in the consolidated statements of comprehensive income amounted to ₱783.8 million, ₱271.0 and ₱806.1 million in 2021, 2020 and 2019, respectively (see Note 17).

- *Supply Agreement for Light Fuel Oil.* On June 10, 2020, the Group entered into a three-year supply agreement with Pilipinas Shell Petroleum Corporation for the supply of the Group’s petroleum product requirements. The agreement is effective on July 1, 2020 until May 31, 2023.

Light fuel oil recognized in the statements of comprehensive income amounted to ₱73.8 million, ₱29.8 million, and ₱25.8 million in 2021, 2020, and 2019, respectively (see Note 17).

#### *Distribution Wheeling Services*

A subsidiary of the Group enters into Distribution Wheeling Service Agreements (DWSA) with various distribution utilities to tap their distribution services for the conveyance of electricity, through its distribution system, to the Company’s contestable customers.



Based on the DWSA, the Company shall pass on all applicable distribution wheeling services charges namely distribution, transmission, system loss, metering, ancillary, universal and other charges, including applicable taxes, as billed by the distribution utility to the CC. Total costs incurred for distribution wheeling services amounted to ₱107.2 million, ₱39.2 million and ₱22.2 million in December 2021, 2020 and 2019, respectively (see Note 17).

A bill deposit equivalent to one month of the estimated billing is usually paid to the distribution utility prior to the commencement wheeling services to the contestable customer. As at December 31, 2021 and 2020, security deposit under this agreement amounted to ₱11.7 million and ₱5.4 million, respectively, and is presented as “Others” under “Prepayments and other current assets” (see Note 9).

#### *Open Access Transmission Service*

Pursuant to the provision on Credit Support under Section A8.1 of the Open Access Transmission Service Rules as well as the condition set under Billing and Payments of the Transmission Service Agreement, 1590 EC provided additional credit support in the form of a security deposit presented as “Other noncurrent assets” in the consolidated statements of financial position amounting to ₱2.3 million as of December 31, 2021 and 2020 (see Note 13).

#### Contingencies

The Group is a party to certain proceedings and assessments in the normal course of business. The ultimate outcome of these proceedings cannot be presently determined. The Group’s position has been developed in consultation with outside counsel handling the Group’s defense in these matters and is based upon an analysis of potential results. As allowed by PAS 37, no further disclosures were provided as this might prejudice the Group’s position on this matter. Management believes, based on information currently available and professional legal advice, that the ultimate resolution of these proceedings would not likely have a material, adverse effect on the results of operations, financial position or liquidity of the Group. Existing circumstances and assumptions about future developments related to these proceedings may still change. Such changes are reflected in the assumptions when they occur.

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## **24. Lease Agreements**

The Group has lease contracts for various items of land and office space used in its operations. Leases of land has a lease term of 17 years, while office space generally have lease terms between 2 and 5 years. The Group’s obligations under its leases are secured by the lessor’s title to the leased assets. Generally, the Group is restricted from assigning and subleasing the leased assets. There are several lease contracts that include extension and termination options.

On May 11, 2012, a MOA was entered into between the 1590 EC and the PGLU for the right to preserve, maintain and operate the BDPP, including the right to use and sell the power generated therefrom. The MOA commenced on May 26, 2012 until June 25, 2013, but subject to yearly renewal unless otherwise terminated by a mutual agreement, for a monthly consideration of ₱10.5 million.



On March 22, 2013, a new MOA was executed between 1590 EC and PGLU for a period of one year commencing immediately after the expiration of the first MOA or on June 26, 2013, for a monthly consideration of ₱12.5 million. On April 2, 2014, an amendment to the MOA was executed extending the agreement to December 31, 2015. In February 2015, the parties executed a Second Amendment to the MOA extending its term until December 31, 2018. The Second Amendment provides for a monthly consideration of ₱13.2 million. All other terms and conditions remained.

In addition, the MOA stipulates for the payment by the Company to PGLU of royalty fees equivalent to 1590EC's one and one-half percent (1.5%) of monthly gross profit, the latter computed as 1590 EC's monthly revenues less monthly costs related to heavy fuel, light fuel and lube oil.

On January 19, 2018, the Group entered into a lease contract with the PGLU over the BDPP after emerging as the winning Proponent during the bidding for the lease thereof. Under the lease contract, the Group can use, possess, man, operate, and maintain the BDPP for its sole account and expense, for a term of five (5) years commencing on January 1, 2019. The lease is in consideration for a monthly rental of ₱14.1 million, royalty payment at 1.5% of monthly net profit, and the infusion of total capital investment of at least ₱600.0 million over the five-year term.

Total depreciation expense on the right-of-use asset recognized under "Costs of Services" amounted to ₱209.6 million, ₱215.8 million and ₱200.7 million in 2021, 2020 and 2019, respectively, and total interest expense on the lease liability recognized as "Finance costs on lease liabilities" in the statement of comprehensive income amounted to ₱50.3 million, ₱73.1 million and ₱83.6 million in 2021, 2020 and 2019, respectively. Total royalty fees recognized under "Costs of Services" amounted to ₱26.0 million, ₱20.0 million and ₱24.5 million in 2021, 2020 and 2019, respectively (see Note 17).

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 December 31, 2021 and December 31, 2020:

	Right-of-use Assets			Lease Liabilities
	Office Space	Plant and Equipment	Total	
As at January 1, 2021	₱43,346,356	₱628,876,558	₱672,222,914	₱663,178,304
Remeasurement of lease liability	4,268,864	(9,755,374)	(5,486,510)	(5,486,510)
Depreciation expense	(14,750,479)	(209,625,519)	(224,375,998)	—
Interest expense	—	—	—	52,513,071
Payments	—	—	—	(351,485,057)
As at December 31, 2021	₱32,864,741	₱409,495,665	₱442,360,406	₱358,719,808

	Right-of-use Assets			Lease Liabilities
	Office Space	Plant and Equipment	Total	
As at January 1, 2020	₱62,025,063	₱863,254,230	₱925,279,293	₱876,440,288
Remeasurement of lease liability	(981,954)	(18,564,115)	(19,546,069)	(19,546,069)
Depreciation expense	(17,696,753)	(215,813,557)	(233,510,310)	—
Interest expense	—	—	—	75,347,137
Payments	—	—	—	(269,063,052)
As at December 31, 2020	₱43,346,356	₱628,876,558	₱672,222,914	₱663,178,304



In 2021, 2020 and 2019, the Group remeasured its lease liabilities to consider the impact of change in the timing of incurrence of capital investments which are in-substance lease payments to PGLU. The remeasurement resulted to a decrease in right-of-use assets and lease liabilities by ₱9.8 million in 2021 and ₱19.5 million in 2020, and an increase in right-of-use assets and lease liabilities by ₱60.6 million in 2019.

In 2021, there were modifications to the Parent Company's leases which increased the lease term, reduced rent payments and provided rent concessions. The remeasurement resulted to a net increase in right-of-use assets and lease liabilities by ₱4.3 million.

Set out below are the amounts recognized in the consolidated statements of comprehensive income for the years ended December 31, 2021 and 2020:

	2021	2020
Depreciation expense of right-of-use assets		
Costs of services (see Note 17)	<b>₱209,625,519</b>	₱215,813,557
Operating expenses	<b>14,750,479</b>	17,696,753
Interest expense on lease liabilities	<b>52,513,071</b>	75,347,137
Variable lease payments (see Note 17)	<b>26,044,774</b>	20,001,905
Rent expense - short-term leases	<b>22,143,009</b>	10,701,383
	<b>₱325,076,852</b>	₱339,560,735

Variable lease payments are presented as Royalty fees under "Costs of Services" in the consolidated statements of comprehensive income.

Shown below is the maturity analysis of the undiscounted lease payments as of December 31:

	2021	2020
Within one year	<b>₱223,008,091</b>	₱403,668,508
After one year but not more than five years	<b>171,728,372</b>	331,436,958
	<b>₱394,736,463</b>	₱735,105,466

## 25. Financial Risk Management Objectives and Policies

The Group's principal financial instruments consist of cash and cash equivalents, trade and other receivables, advances to associates and stockholders, financial assets at FVOCI, trade and other payables, notes payable and advances from related parties. The main purpose of these financial instruments is to raise funds for the Group's operations.

The main risks from the Group's financial instruments are credit risk, liquidity risk and foreign currency risk. The BOD reviews and agrees policies for managing each of these risks and these policies are summarized below.

### Credit Risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily for trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.



With respect to cash investments, the risk is mitigated by the short-term and/or liquid nature of its investments mainly in bank deposits and placements, which are placed with financial institutions of high credit standing. Receivable balances are actively monitored on an ongoing basis and acted upon regularly to avoid significant concentrations of credit risk.

Except for the trade receivables of 1590 EC from an electric cooperative and other receivables which were provided with allowance (see Note 7), management evaluated that the Group's consolidated financial assets as summarized below are of high grade and of good credit quality.

The maximum exposure to credit risk, net of allowance for impairment losses, amounted to ₱7,457.3 million and ₱6,644.5 million as of December 31, 2021 and 2020, respectively.

There are no significant concentrations of credit risk within the Group.

The Group writes-off a financial asset, in whole or in part, when the asset is considered uncollectible, it has exhausted all practical recovery efforts and has concluded that it has no reasonable expectations of recovering the financial asset in its entirety or a portion thereof. The Group writes off an account when all of the following conditions are met:

- the asset is in past due for over 90 days, or is already an item-for-forfeiture
- contract restructuring is no longer possible

The Group may also write-off financial assets that are still subject to enforcement activity. The Group has not written off outstanding loans and receivables that are still subject to enforcement activity as of December 31, 2021 and 2020.

The following are the details of the Group's assessment of credit quality and the related ECLs as at December 31, 2021 and 2020:

- *General Approach*
  - *Cash and Cash Equivalents.* As of December 31, 2021 and 2020, the ECL relating to the cash and cash equivalents of the Group is minimal as these are deposited in reputable banks which have good bank standing, and is considered to have low credit risk.
  - *Advances to Associates, Joint Ventures, and Stockholders, Receivables from Related Parties and Other Receivables and Security Deposits.* No ECL is recognized for related party receivables since there were no history of default payments. As of December 31, 2021 and 2020, allowance for impairment losses pertain to individually impaired accounts of other receivables. This assessment is undertaken each financial year through examining the financial position of the related parties and the markets in which the related parties operate.
- *Simplified Approach*
  - *Trade and Accounts Receivable* - The Group applied the simplified approach under PFRS 9, using a 'provision matrix'. As of December 31, 2021 and 2020, the allowance for impairment losses as a result from performing collective impairment test amounted to ₱0.7 million. Management evaluated that the Group's trade receivables are of high grade and of good credit quality.



The tables below show the maximum exposure to credit risk based on the Group's year-end stage classification.

2021					
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Lifetime ECL Simplified Approach	Total
Gross carrying amount	₱6,577,302,815	₱—	₱99,617,163	₱880,779,640	₱7,557,699,618
Loss allowance	—	—	(99,617,163)	(732,935)	(100,350,098)
Carrying amount	₱6,577,302,815	₱—	₱—	₱880,046,705	₱7,457,349,520

2020					
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Lifetime ECL Simplified Approach	Total
Gross carrying amount	₱5,830,429,996	₱—	₱99,617,163	₱814,836,767	₱6,744,883,926
Loss allowance	—	—	(99,617,163)	(732,935)	(100,350,098)
Carrying amount	₱5,830,429,996	₱—	₱—	₱814,103,832	₱6,644,533,828

The following tables set out the aging analysis per class of financial assets as of December 31, 2021 and 2020:

2021							
	Not Past Due	Past Due				Impaired	Total
		Less than 30 Days	31-60 Days	61-90 Days	Over 90 days		
<b>Financial Assets at Amortized Cost</b>							
Cash and cash equivalents (excluding cash on hand)	P4,381,506,785	P1,268,518,154	P–	P–	P–	P–	P5,650,024,939
Trade and other receivables	507,327,475	281,478,586	6,505,325	3,893,954	80,841,365	54,272,035	934,318,740
Advances to associates, joint ventures and stockholders	262,631,869	89,129	10,032	1,465	13,832,382	–	276,564,877
Advances to a supplier (under “Other noncurrent assets”)	636,974,713	–	–	–	–	–	636,974,713
Due from RFM Corporation (under “Other noncurrent assets”)	–	–	–	–	–	46,078,063	46,078,063
Restricted cash (under “Other current assets”)	2,003,311	–	–	–	–	–	2,003,311
Security deposits (under “Other noncurrent assets”)	11,734,975	–	–	–	–	–	11,734,975
	P5,802,179,128	P1,550,085,869	P6,515,357	P3,895,419	P94,673,747	P100,350,098	P7,557,699,618
2020							
	Not Past Due	Past Due				Impaired	Total
		Less than 30 Days	31-60 Days	61-90 Days	Over 90 days		
<b>Financial Assets at Amortized Cost</b>							
Cash and cash equivalents (excluding cash on hand)	P4,871,771,464	P–	P–	P–	P–	P–	P4,871,771,464
Trade and other receivables	610,651,931	188,070,522	195,899	573,134	14,612,346	54,272,035	868,375,867
Advances to associates, joint ventures and stockholders	237,833,625	261,974	193,342	55,541	14,715,900	–	253,060,382
Advances to a supplier (under “Other noncurrent assets”)	698,308,703	–	–	–	–	–	698,308,703
Due from RFM Corporation (under “Other noncurrent assets”)	–	–	–	–	–	46,078,063	46,078,063
Restricted cash (under “Other current assets”)	2,002,202	–	–	–	–	–	2,002,202
Security deposits (under “Other noncurrent assets”)	5,287,245	–	–	–	–	–	5,287,245
	P6,425,855,170	P188,332,496	P389,241	P628,675	P29,328,246	P100,350,098	P6,744,883,926

### Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.



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 and the Group's trade receivables are maintained to meet maturing obligations. The Group, in general, matches the appropriate long-term funding instruments with the general nature of its equity instruments.

The following tables summarize the Group's financial assets that can be used to manage its liquidity risk and the maturity profile of the Group's financial liabilities based on contractual undiscounted payments as of December 31:

2021					
Contractual Undiscounted Payments					
	Total	On Demand	Less than 1 Year	1 to 5 Years	More than 5 Years
<b>Financial Assets</b>					
At amortized cost:					
Cash and cash equivalents	₱5,650,024,939	₱4,381,506,785	₱1,268,518,154	₱-	₱-
Trade and other receivables	880,046,705	67,403,225	739,610,872	73,032,608	-
Advances to associates, joint ventures, and stockholders	276,564,877	276,564,877	-	-	-
Advances to a supplier (under "Other noncurrent assets")	636,974,713	-	-	636,974,713	-
Restricted cash (under "Other current assets")	2,003,311	-	-	2,003,311	-
Security deposit (under "Other current assets")	11,734,975	-	-	11,734,975	-
At FVOCI	8,000,000	8,000,000	-	-	-
	7,465,349,520	4,733,474,887	2,008,129,026	723,745,607	-
<b>Financial Liabilities</b>					
Trade and other payables*	429,937,513	-	394,937,513	35,000,000	-
Long-term notes payable**	4,535,018,070	-	335,499,517	4,199,518,553	-
Lease liabilities***	358,719,808	-	200,707,787	158,012,021	-
Advances from related parties	5,869,112	5,869,112	-	-	-
	5,329,544,503	5,869,112	931,144,817	4,392,530,574	-
<b>Net Financial Assets (Liabilities)</b>	<b>₱2,135,805,017</b>	<b>₱4,727,605,775</b>	<b>₱1,076,984,209</b>	<b>(₱3,668,784,967)</b>	<b>₱-</b>

2020					
Contractual Undiscounted Payments					
	Total	On Demand	Less than 1 Year	1 to 5 Years	More than 5 Years
<b>Financial Assets</b>					
At amortized cost:					
Cash and cash equivalents	₱4,872,331,464	₱3,928,599,744	₱943,731,720	₱-	₱-
Trade and other receivables	814,100,832	592,969,308	221,088,411	43,113	-
Advances to associates, joint ventures, and stockholders	253,060,382	253,060,382	-	-	-
Advances to a supplier (under "Other noncurrent assets")	698,308,703	-	-	698,308,703	-
Restricted cash (under "Other current assets")	2,002,202	2,002,202	-	-	-
Security deposit (under "Other current assets")	5,287,245	5,287,245	-	-	-
At FVOCI	7,400,000	7,400,000	-	-	-
	6,652,490,828	4,789,318,881	1,164,820,131	698,351,816	-
<b>Financial Liabilities</b>					
Trade and other payables*	519,830,797	480,613,119	36,975,270	-	2,242,408
Short-term notes payable	749,300,741	-	749,300,741	-	-
Long-term notes payable**	5,834,318,401	-	2,834,318,401	1,200,000,000	1,800,000,000
Lease liabilities***	583,928,197	-	266,134,115	317,794,082	-
Advances from related parties	5,869,112	5,869,112	-	-	-
	7,693,247,248	486,482,231	3,886,728,527	1,517,794,082	1,802,242,408
<b>Net Financial Assets (Liabilities)</b>	<b>(₱1,040,756,420)</b>	<b>₱4,302,836,650</b>	<b>(₱2,721,908,396)</b>	<b>(₱819,442,266)</b>	<b>(₱1,802,242,408)</b>

\*Excluding nonfinancial liabilities

\*\*Including contractual interest to maturity

\*\*\*Contractual undiscounted lease payments

### Foreign Currency Risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities when revenue or expense is denominated in a different currency from the Group's functional currency.



The foreign-currency-denominated monetary assets and their Philippine Peso equivalents follow:

2021			
	USD	EUR	Php Equivalent
<b>Financial Asset</b>			
Cash	US\$7,650,760	€1,545,354	₱477,317,847
2020			
	USD	EUR	Php Equivalent
<b>Financial Asset</b>			
Cash	US\$16,564	€1,521	₱885,002
<b>Financial Liability</b>			
Trade and other payables	US\$5,500,000	–	264,220,000
	(US\$5,483,436)	€1,521	(₱263,334,998)

The December 31 exchange rates used follows:

	2021	2020
US Dollar	₱50.77 to US\$1	₱48.04 to US\$1
Euro Dollar	₱57.52 to €1	₱58.69 to €1

The Group recognized net foreign exchange gain of ₱16.1 million and ₱4.3 million in 2021 and 2020, respectively and net foreign exchange loss of ₱4.4 million in 2019.

The Group manages the timing of settlements or payments to ensure that the Group is not unfavourably exposed to fluctuations of foreign exchange rates. Likewise, the Group maintains adequate PHP, US, and EUR bank deposits to fund major expenditures or payments in foreign currencies.

The tables below demonstrate the sensitivity to a reasonably possible change in the Philippine Peso, with all other variables held constant, of the Group's income before income tax (due to changes in the fair value of monetary assets and liabilities) as of December 31, 2021 and 2020.

Change in Philippine Peso to US Dollar		
	Appreciation	Depreciation
Effect in income before income tax:		
<b>2021 (at 2.86% appreciation and 2.85% depreciation)</b>	<b>₱11,109,072</b>	<b>(₱11,070,229)</b>
2020 (at 2.25% appreciation and 2.25% depreciation)	(₱5,927,046)	₱5,927,046
Change in Philippine Peso to Euro		
	Appreciation	Depreciation
Effect in income before income tax:		
<b>2021 (at 3.38% appreciation and 2.97% depreciation)</b>	<b>₱3,004,006</b>	<b>(₱2,639,615)</b>
2020 (at 3.24% appreciation and 3.24% depreciation)	₱2,893	(₱2,893)

There is no other impact on the Group's equity other than those already affecting the consolidated income before income tax.





#### Interest Rate Risk

The Group is not exposed to interest rate risk since its loans are subject to fixed interest rates and are therefore not subject to interest rate risk. Accounts receivable and other significant liabilities are noninterest-bearing. The Group has achieved a balanced mix of cash balances with various deposit rates.

#### Fair Value Measurement

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

#### Fair Value Hierarchy

The Group uses the following hierarchy for determining the fair value of assets and liabilities:

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

As of December 31, 2021 and 2020, the carrying values of the Group's financial instruments, except for the FRCN and the Project Financing Facility, approximate fair values due to their relatively short-term maturity. The carrying amount of variable-rate loans approximate their fair values due to the annual and quarterly repricing of the variable interest rate (see Note 15).

The Group considers the FRCN and Project Financing Facility with fair value of ₱4.3 billion and ₱3.0 billion as of December 31, 2021 and 2020, respectively, as under Level 3 classification. The fair values were determined by discounting future cash flows using the applicable rates of similar types of instruments plus a certain spread. This spread is the unobservable input and the effect of changes to this is that the higher the spread, the lower the fair value.

The Group's financial assets at FVOCI and investment properties, which are classified under Level 2 and 3, respectively, are measured at fair value.

As of December 31, 2021 and 2020, there were no transfers into and out of Level 3 fair value measurements.

#### Changes in Valuation Techniques

There were no changes in the valuation techniques used by the Group in determining the fair value of its financial assets at FVOCI and investment properties during the year.

#### Highest and Best Use

As at December 31, 2021 and 2020, the current use of the Group's investment properties is considered its highest and best use.



### Fair Value Hierarchy

The following tables show an analysis of the Group's assets measured at fair value recognized in the consolidated statements of financial position by level of the fair value hierarchy as of December 31, 2020 and 2019:

2021				
	Total	Fair Value Measurement Using		
		Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets Measured at Fair Value</b>				
Financial assets at FVOCI	₱102,000,000	₱—	₱102,000,000	₱—
Investment properties (see Note 12):				
Land	838,460,268	—	—	838,460,268
Condominium units	25,181,733	—	—	25,181,733
2020				
	Total	Fair Value Measurement Using		
		Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets Measured at Fair Value</b>				
Financial assets at FVOCI	₱7,400,000	₱—	₱7,400,000	₱—
Investment properties (see Note 12):				
Land	733,195,868	—	—	733,195,868
Condominium units	24,084,733	—	—	24,084,733

### Valuation Techniques Used to Derive Level 3 Fair Values

The following tables show an analysis of the Group's long-term notes payable for which fair values are disclosed at Level 3 of the fair value hierarchy as at December 31:

Description	Carrying Value as of December 31, 2021	Fair Value as of December 31, 2020	Valuation Technique	Key Observable Inputs	Range (Weighted Average)
FRCN	₱2,934,581,579	₱3,059,496,945	Discounted Cash Flow Approach	Risk-free interest rate	1.01%-5.08% (2.90%)
Project Financing Facility	₱1,243,527,742	₱1,268,398,095	Discounted Cash Flow Approach	Risk-free interest rate	1.18%-5.03% (4.03%)
Description	Carrying Value as of December 31, 2020	Fair Value as of December 31, 2019	Valuation Technique	Key Observable Inputs	Range (Weighted Average)
FRCN	₱2,819,508,120	₱2,966,026,459	Discounted Cash Flow Approach	Risk-free interest rate	0.99%-3.95% (1.72%)

The table below presents the following for each class of the Group's investment properties as of December 31, 2021 and 2020:

2021				
Class of Property	Fair Value	Valuation Technique	Key Unobservable Inputs	Range
Investment properties (see Note 12):				
Land	₱838,460,268	Sales Comparison Approach	Price per square meter	₱4,000-₱77,000
Condominium units	25,181,733	Sales Comparison Approach	Price per square meter	₱170,734-₱195,000



2020				
Class of Property	Fair Value	Valuation Technique	Key Unobservable Inputs	Range
Investment properties (see Note 12):				
Land	₱733,195,868	Sales Comparison Approach	Price per square meter	₱2,460–₱74,400
Condominium units	24,084,733	Sales Comparison Approach	Price per square meter	₱170,734–₱195,000

Unrealized gain on fair value remeasurement of investment properties, recognized in the consolidated statements of comprehensive income amounted to ₱106.4 million in 2021, nil in 2020, and ₱235.3 million in 2019 (see Note 12). All gains and losses recorded in the consolidated statements of comprehensive income for recurring fair value measurement categorized within Level 3 of the fair value hierarchy are attributable to changes in unrealized gain on fair value remeasurement of investment properties held at the end of the reporting period.

The fair values of financial assets at FVOCI is determined based on the available selling price in the market for identical assets under Level 2 as of December 31, 2020 and 2019. The Group recognized an unrealized gain on financial assets at FVOCI under “Other comprehensive income” in the consolidated statements of comprehensive income amounting to ₱2.7 million in 2021, ₱0.03 million in 2020, and ₱1.8 million in 2019.

There were no transfers between Levels 1 and 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

#### Descriptions and Definitions

The table above includes the following descriptions and definitions relating to valuation techniques and key unobservable inputs made in determining the fair values:

*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.

The fair value of the investment properties was based on valuations performed by an accredited independent appraiser, with a recognized and relevant professional qualification and with recent experience in the locations and categories of the investment properties being valued, conducted on various dates in 2021. The valuation models in accordance with those recommended by the International Valuation Standards Committee have been applied.



Significant increases (decreases) in price per square meter in isolation would result in a significantly higher (lower) fair value measurement.

#### 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.

No changes were made in the objectives, policies or processes during the years ended 2021, 2020 and 2019.

The Parent Company and certain subsidiaries are required to maintain financial ratios, such as current ratio, debt-to-equity ratio and debt service coverage ratio, as part of the covenants on their notes payable (see Note 15). As of December 31, 2021 and 2020, the Parent Company and these subsidiaries have complied with the requirements.

The Parent Company is also subject to the Minimum Public Ownership requirement of the PSE. As of December 31, 2021 and 2020, this requirement has been complied with.

The Parent Company and other entities in the Group are not subject to other externally imposed capital requirements.

The Group monitors capital using a gearing ratio, which is net debt divided by equity plus net debt. The Group determines net debt as the sum of short-term and long-term notes payable less cash and cash equivalents.

Gearing ratios of the Group as of December 31 are as follows:

	2021	2020
Notes payable	<b>₱4,473,540,840</b>	₱3,568,808,861
Less cash and cash equivalents	<b>5,650,024,939</b>	4,872,331,464
Net cash and cash equivalents (a)	<b>(1,176,484,099)</b>	(1,303,522,603)
Equity attributable to equity holders of the parent	<b>16,995,363,158</b>	15,447,613,922
Equity and net cash and cash equivalents (b)	<b>₱15,818,879,059</b>	₱14,144,091,319
Gearing ratio (a/b)	<b>(0.07):1.00</b>	(0.09):1.00



## 26. Notes to the Consolidated Statement of Cash Flows

### Changes in Liabilities arising from Financing Activities (in thousands)

2021							
	Long-term Notes Payable	Advances from Related Parties	Lease Liabilities	Dividends Payable	Short-term Notes Payable	Others	Total Liabilities from Financing Activities
January 1, 2021	₱2,819,508	₱5,689	₱663,178	₱6,062	₱749,300	₱84,123	₱4,327,860
Non-cash changes:							
Dividends declared	—	—	—	634,274	—	—	634,274
Acquired notes payables from business combination	333,069	—	—	—	—	—	333,069
Amortization of debt issue cost	10,587	—	—	—	—	—	10,587
Additional advances to related parties	—	23,504	—	—	—	—	23,504
Additions and modifications	—	(54,800)	—	—	—	—	(54,800)
Remeasurement	—	—	(5,487)	—	—	—	(5,487)
Cash flows	1,310,377	31,296	(298,972)	(632,912)	(749,300)	55,849	(283,662)
December 31, 2021	₱4,473,541	₱5,689	₱358,719	₱7,424	₱—	₱139,972	₱4,985,345

2020							
	Long-term Notes Payable	Advances from Related Parties	Lease Liabilities	Dividends Payable	Short-term Notes Payable	Others	Total Liabilities from Financing Activities
January 1, 2020	₱2,844,727	₱18,310	₱876,440	₱87,464	₱—	(₱4,886)	₱3,822,055
Non-cash changes:							
Dividends declared	—	—	—	664,494	—	—	664,494
Amortization of debt issue cost	4,781	—	—	—	—	—	4,781
Additional advances to related parties	—	147,789	—	—	—	—	147,789
Additions and modifications	—	—	—	—	—	—	—
Remeasurement	—	—	(19,546)	—	—	—	(19,547)
Cash flows	(30,000)	(160,410)	(193,716)	(745,896)	749,300	89,009	(291,712)
December 31, 2020	₱2,819,508	₱5,689	₱663,178	₱6,062	₱749,300	₱84,123	₱4,327,860

2019							
	Long-term Notes Payable	Advances from Related Parties	Lease Liabilities	Dividends Payable	Others	Total Liabilities from Financing Activities	
January 1, 2019	₱2,870,155	₱18,412	₱1,021,297	₱140,876	₱13,368	₱4,064,108	
Non-cash changes:							
Dividends declared	—	—	—	426,773	—	426,773	
Amortization of debt issue cost	4,572	—	—	—	—	4,572	
Pre-termination of lease	—	—	(2,485)	—	—	(2,485)	
Additional advances to related parties	—	13,010	—	—	—	13,010	
Additions and modifications	—	—	56,548	—	—	56,548	
Remeasurement	—	—	60,611	—	—	60,611	
Cash flows	(30,000)	(13,112)	(259,531)	(480,185)	(18,254)	(801,082)	
December 31, 2019	₱2,844,727	₱18,310	₱876,440	₱87,464	(₱4,886)	₱3,822,055	

Others include cash received from non-controlling interest for its share of investment.

### Non-cash Changes in Investing Activities

- In 2020, advances to PEI amounting to ₱1.5 million was converted to equity.
- Additions to property, plant and equipment include unpaid portion purchased on account amounting to nil in 2021 and 2020 and ₱380.3 million in 2019 (see Note 11).



## 27. Operating Segment Information

The Group is currently organized into three operating segments: (1) power generation and distribution operations, (2) infrastructure and water treatment and desalination and (3) investing in shares of stock. These operating segments are consistent with those reported to the BOD, the Group's Chief Operating Decision Maker (CODM).

The operating segments and their corresponding principal activities are as follows:

### Power Generation and Distribution

1590 EC operates a diesel power plant wherein power generated is primarily traded at WESM. Core also started its operation in 2018 as a retail electricity supplier with five customers. INEC entered into an Interim Power Supply Agreement with BANELCO. VMHI is on its pre-operating stage of building a hydro power plant in Silay, Negros Occidental (see Note 1). VII and VGPC were incorporated in 2014, and VIDC was incorporated in 2015, which companies are intended to undertake various power generation activities of the Group. CSSC started its commercial operations in January 2019 wherein CSSC will provide the entire energy output to a customer for 15 years.

### Infrastructure and Water Treatment and Desalination

WMP is a water treatment engineering company. IMCC is on its pre-operating stage of building a water desalination plant in Cordova, Cebu. NMCWC is also on its pre-operating stage of building a water treatment plant.

### Investing in Shares of Stock

As disclosed in Note 1, except for 1590 EC, INEC, VMHI, Core, VII, VGPC, VIDC, CSSC, VEII, IMCC, and WMP, the Parent Company and all other subsidiaries are operating as holding and investing companies. Aside from operating as a power generation company, VEC also operates as a holding and investing company. Revenue from this segment principally comes from equity in net earnings and management fees from investee companies.

VECO, an associate of the Group, is involved in the distribution and sale of electricity, while the other associates and joint ventures are engaged in the generation and supply of power to various entities and parties.

The segment results for the years ended December 31 follow:

	2021				
	Power Generation and Distribution	Infrastructure and Water Treatment and Desalination	Investing in Shares of Stock	Eliminations	Consolidated
Revenues from external customers	₱3,053,244,151	₱42,037,953	₱-	₱-	₱3,095,282,104
Equity in net earnings of associates and joint ventures	-	-	1,769,960,102	-	1,769,960,102
Revenue from inter-segment, associates and affiliates	54,680,531	132,921,602	3,938,731,566	(4,023,744,073)	102,589,626
Interest income	1,513,500	121,818	21,326,267	-	22,961,585
Inter-segment revenues	(54,680,531)	(132,921,602)	(3,836,141,940)	4,023,744,073	-
	3,054,757,651	42,159,771	1,893,875,995	-	4,990,793,417
Income from operations	771,537,408	13,386,380	1,594,007,331	-	2,378,931,119
Finance costs on loans	(34,431,129)	(1,242,751)	(129,631,781)	-	(165,305,661)
Finance costs on lease liabilities	(50,304,024)	(110,160)	(2,098,887)	-	(52,513,071)
Foreign exchange gains	2,516,541	5,108	13,608,113	-	16,129,762
Other income/ (charges)	(2,343,054)	542,607	139,723,505	-	137,923,058
Income before income tax	686,975,742	12,581,184	1,615,608,281	-	2,315,165,207
Income tax expense	(161,869,322)	(6,671,197)	(2,617,021)	-	(171,157,540)
Net income	₱525,106,420	₱5,909,987	₱1,612,991,260	₱-	₱2,144,007,667



2020					
	Power Generation and Distribution	Infrastructure and Water Treatment and Desalination	Investing in Shares of Stock	Eliminations	Consolidated
Revenues from external customers	₱1,856,892,272	₱99,240,682	₱—	₱—	₱1,956,132,954
Revenue from inter-segment, associates and affiliates	11,435,877	31,607,142	3,812,708,898	(3,633,734,802)	222,017,115
Equity in net earnings of associates and joint ventures	—	—	1,530,892,007	—	1,530,892,007
Interest income	2,038,942	120,388	60,082,861	—	62,242,191
Inter-segment revenues	(11,435,877)	(31,607,142)	(3,590,691,783)	3,633,734,802	—
	1,858,931,214	99,361,070	1,812,991,983	—	3,771,284,267
Income from operations	798,044,965	4,540,809	1,246,176,500	—	2,048,762,274
Finance costs on loans	(3,406,968)	(150,796)	(169,354,172)	—	(172,911,936)
Finance costs on lease liabilities	(72,106,738)	(188,962)	(3,046,437)	—	(75,342,137)
Foreign exchange gains	3,820,287	(1,312)	494,086	—	4,313,061
Other income	824,550	—	55,587,444	—	56,411,994
Income before income tax	727,176,096	4,199,739	1,129,857,421	—	1,861,233,256
Income tax expense	(145,585,904)	(3,451,707)	(5,375,009)	—	(154,412,620)
Net income	₱581,590,192	₱748,032	₱1,124,482,412	₱—	₱1,706,820,636

2019					
	Power Generation and Distribution	Infrastructure and Water Treatment and Desalination	Investing in Shares of Stock	Eliminations	Consolidated
Revenues from external customers	₱2,547,108,140	—	₱10,531,392	₱—	₱2,557,639,532
Revenue from inter-segment, associates and affiliates	2,647,857,345	—	1,860,001,244	(3,422,666,670)	1,085,191,919
Equity in net earnings of associates and joint ventures	—	—	2,183,383,722	—	2,183,383,722
Interest income	36,905,413	276,923	116,229,628	—	153,411,964
Inter-segment revenues	(2,726,055,473)	—	(696,611,197)	3,422,666,670	—
	2,505,815,425	276,923	3,473,534,789	—	5,979,627,137
Income from operations	2,181,889,826	(21,558,382)	766,796,492	—	2,927,127,936
Gain on fair value remeasurement of investment properties	—	—	235,326,709	—	235,326,709
Finance costs on loans	(502)	(32,854)	(170,888,745)	—	(170,922,101)
Finance costs on lease liabilities	(83,352,610)	(78,960)	(2,230,131)	—	(85,661,701)
Foreign exchange losses	(4,146,366)	(178)	(241,434)	—	(4,387,978)
Other income	36,308,556	—	5,622,504	—	41,931,060
Income before income tax	2,130,698,904	(21,670,374)	834,385,395	—	2,943,413,925
Income tax expense	(204,931,810)	—	(66,731,365)	—	(271,663,175)
Net income	₱1,925,767,094	(₱21,670,374)	₱767,654,030	₱—	₱2,671,750,750

The CODM monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on profit or loss and is measured consistently with profit or loss in the consolidated financial statements.

Of the Group's total revenues, about 84% and 0% pertains to energy fees in 2021, 78% and 0% in 2020, and 46% and 17% in 2019, of 1590 EC and VEC, respectively.

In 2021, revenue from sale of power to two major customers amounted to ₱2.5 billion representing 82% of the total revenue from the sale of power and 78% of total revenues.

In 2020, revenue from sale of power to a major customer amounted to ₱1.4 billion representing 76% of the total revenue from the sale of power and 65% of total revenues.



In 2019, revenue from sale of power to two major customers amounted to ₱2.8 billion representing 79% of the total revenue from the sale of power and 77% of total revenues.

Geographical business information is not required since the Group has only one geographical segment as all of its assets are located in the Philippines, and it operates or derives all of its revenue from domestic operations.

Inter-segment revenues are eliminated upon consolidation and reflected in the 'inter-segment revenues' row.

Other segment information included in the consolidated statements of financial position as of December 31 is as follows:

2021				
	Power Generation	Infrastructure and Water Treatment and Desalination	Investing in Shares of Stock	Consolidated
Assets	₱14,061,931,482	₱629,595,810	₱10,325,501,276	₱25,017,028,568
Liabilities	3,609,142,478	373,998,751	2,995,836,200	6,978,977,429
Capital expenditures	620,235,607	74,834,098	26,258,144	721,327,849
2020				
	Power Generation	Infrastructure and Water Treatment and Desalination	Investing in Shares of Stock	Consolidated
Assets	₱4,741,993,259	₱1,713,949,659	₱16,125,018,689	₱22,580,961,607
Liabilities	3,354,775,130	199,513,876	2,711,189,182	6,265,478,188
Capital expenditures	928,731,613	34,575,003	47,413,299	1,010,719,915
2019				
	Power Generation	Investing in Shares of Stock	Investing in Shares of Stock	Consolidated
Assets	₱11,509,535,562	₱40,294,761	₱9,317,181,626	₱20,867,011,949
Liabilities	2,995,913,242	9,265,135	3,060,785,932	6,065,964,309
Capital expenditures	712,992,726	15,105,159	51,315,759	779,413,644

Other segment information included in the consolidated statements of comprehensive income for the years ended December 31, 2021, 2020 and 2019 is as follows:

	Power Generation	Infrastructure and Water Treatment and Desalination	Investing in Shares of Stock	Consolidated
Depreciation and amortization:				
<b>2021</b>	<b>₱298,697,369</b>	<b>₱3,895,412</b>	<b>₱42,008,991</b>	<b>₱344,601,772</b>
2020	258,649,331	4,040,697	43,432,569	306,122,597
2019	238,017,520	859,416	30,445,630	269,322,566

The Management Committee monitors the operating results of each business unit separately for the purpose of determining resource allocation and assessing performance. Performance is evaluated based on (i) net income for the year, (ii) consolidated earnings before interest, taxes, and depreciation and amortization ("consolidated EBITDA"); and (iii) consolidated core net income ("CCNI"). Net income for the year is measured consistent with reported net income in the consolidated statement of comprehensive income.





Consolidated EBITDA is measured as total net income excluding interest, provision for income taxes, depreciation and amortization, finance costs, foreign exchange gains and losses, and other one-off gains and losses.

CCNI for the year is measured as consolidated net income attributable to equity holders of the parent adjusted for foreign exchange gain or loss, impairment or reversal of impairment of noncurrent assets and certain other non-recurring gain or loss, if any, net of tax effect of the foregoing adjustments.

The following table shows the reconciliation of the EBITDA to net income:

	2021	2020	2019
EBITDA	<b>₹2,764,460,037</b>	₹2,415,609,926	₹3,238,381,562
Add (deduct):			
Depreciation and amortization (see Notes 11 and 13)	<b>(344,601,772)</b>	(306,122,597)	(269,322,566)
Finance costs on loans (see Note 15)	<b>(165,305,661)</b>	(172,911,936)	(170,922,101)
Gain on fair value remeasurement of investment properties (see Note 12)	<b>106,361,400</b>	—	235,326,709
Finance costs on lease liabilities (see Note 24)	<b>(52,513,071)</b>	(75,342,137)	(85,661,701)
Gain on disposal of investments	<b>6,764,274</b>	—	—
Foreign exchange gains (losses) - net		—	(4,387,978)
Income before income tax	<b>2,315,165,207</b>	1,861,233,256	2,943,413,925
Provision for income tax (see Note 20)	<b>(171,157,540)</b>	(154,412,620)	(271,663,175)
Net income	<b>₹2,144,007,667</b>	₹1,706,820,636	₹2,671,750,750

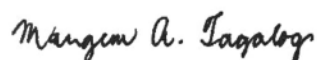


## **INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES**

The Board of Directors and the Stockholders  
Vivant Corporation  
9<sup>th</sup> Floor, Oakridge IT Center 3  
Oakridge Business Park, A.S. Fortuna Street  
Brgy. Banilad, Mandaue City  
Cebu, Philippines 6014

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Vivant Corporation and its subsidiaries (the Group) as at December 31, 2021 and 2020 and for each of the three years in the period ended December 31, 2021, included in this Form 17-A, and have issued our report thereon dated March 18, 2022. 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 the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Group's management. These schedules are presented for purposes of complying with the Revised Securities Regulation Code Rule 68 and are not part of the basic consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

**SYCIP GORRES VELAYO & CO.**



Margem A. Tagalog  
Partner

CPA Certificate No. 0098098

Tax Identification No. 206-544-506

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

SEC Partner Accreditation No. 98098-SEC (Group A)

Valid to cover audit of 2021 to 2025 financial statements of SEC covered institutions

SEC Firm Accreditation No. 0001-SEC (Group A)

Valid to cover audit of 2021 to 2025 financial statements of SEC covered institutions

BIR Accreditation No. 08-001998-138-2021, November 10, 2021, valid until November 9, 2024

PTR No. 8854370, January 3, 2022, Makati City

March 18, 2022

# VIVANT CORPORATION AND SUBSIDIARIES

## SCHEDULE A - FINANCIAL ASSETS

DECEMBER 31, 2021

Name of Issuing Entity and Description of Each Issue	Number of Shares or Principal Amount of Bonds and Notes	Amount Shown in the Balance Sheet/Notes	Value Based on Market Quotations at Balance Sheet Date	Income Received and Accrued
Financial assets at amortized cost:				
Cash and cash equivalents	—	₱5,650,024,939	₱5,650,024,939	₱22,961,586
Trade and other receivables:				
Trade receivables	—	713,951,493	713,951,493	3,197,871,730
Dividends receivable	—	39,400,000	39,400,000	—
Accounts receivable	—	35,226,207	35,226,207	—
Advances to officers and employees	—	8,179,942	8,179,942	—
Accrued interest	—	6,146,305	6,146,305	—
Others	—	77,142,758	77,142,758	—
		880,046,705	880,046,705	3,197,871,730
Advances to associates, joint ventures and stockholders	—	276,564,877	276,564,877	—
Advances to supplier and other parties	—	636,974,713	636,974,713	—
Restricted cash	—	2,003,311	2,003,311	—
Security deposits	—	11,734,975	11,734,975	—
		927,277,876	927,277,876	—
		7,457,349,520	7,457,349,520	3,220,833,316
Financial assets at fair value through other comprehensive income:				
Buskowitz Finance, Inc.	—	94,000,000	94,000,000	—
Cebu Country Club, Inc.	—	8,000,000	8,000,000	—
		102,000,000	102,000,000	—
<b>Total financial assets</b>	<b>—</b>	<b>₱7,559,349,520</b>	<b>₱7,559,349,520</b>	<b>₱3,220,833,316</b>

See Notes 6, 7, 9, 13 and 16 of the Consolidated Financial Statements.

## VIVANT CORPORATION AND SUBSIDIARIES

### SCHEDULE B - AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES, AND PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES) DECEMBER 31, 2021

Name and Designation of Debtor	Balance at Beginning of Period	Additions	Collections	Reversals	Write Offs	Balance at End of Period		
						Current	Noncurrent	Total
Faith Lived Out Visions 2								
Ventures Holdings, Inc.	P150,000,000	P—	P—	P—	P—	P150,000,000	P—	P150,000,000
Lunar Power Core Inc.	80,937,914	12,845,625	—	—	—	93,783,539	—	93,783,539
Cebu Energy Development Corp.	12,517,790	56,173,000	(34,819,446)	—	—	33,871,344	—	33,871,344
Delta P, Inc.	6,985,314	43,848,830	(23,948,111)	—	—	26,886,033	—	26,886,033
Calamian Islands Power Corp.	1,254,628	29,190,852	(10,650,662)	—	—	19,794,818	—	19,794,818
Culna Renewable Energy Corp.	10,000,258	7,500,000	—	—	—	17,500,258	—	17,500,258
Global Luzon Energy								
Development Corporation	8,277,620	4,962	(404,857)	—	—	7,877,725	—	7,877,725
Visayan Electric Company, Inc.	7,960,424	—	(3,142)	—	—	7,957,282	—	7,957,282
Minergy Power Corporation	133,600,000	239,999,995	(373,599,995)	—	—	—	—	—
Abovant Holdings, Inc.	—	510,400,000	(510,400,000)	—	—	—	—	—
Prism Energy, Inc.	—	17,200,000	(17,200,000)	—	—	—	—	—
Cebu Private Power Corporation	124,000,000	13,068,517	(137,068,517)	—	—	—	—	—
Advances to stockholders	2,142,749	13,810,413	(15,769,549)	—	—	183,613	—	183,613
	P537,676,697	P944,042,194	(P1,123,459,422)	P—	P—	P358,259,469	P—	P358,259,469

**VIVANT CORPORATION AND SUBSIDIARIES**

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**SCHEDULE C - AMOUNTS RECEIVABLE FROM RELATED PARTIES**

**WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2021**

	Balance at Beginning of Period	Additions	Collections	Conversion to Equity	Write Offs	Balance at End of Period		
						Current	Noncurrent	Total
Vivant Infracore Holdings Inc.	P1,205	P250,522,800	(P37,782,569)	P-	P-	P212,741,436	P-	P212,741,436
ET Energy Island Corp.	127,892,151	29,385,952	-	-	-	157,278,103	-	157,278,103
1590 Energy Corp.	3,676,047	474,385,887	(356,325,223)	-	-	121,736,711	-	121,736,711
Corenergy Inc.	28,964,408	34,835,418	(9,398,715)	-	-	54,401,111	-	54,401,111
Vivant Solar Corporation	23,174,285	515,353	(304,303)	-	-	23,385,335	-	23,385,335
Watermatic Philippines	1,991,308	21,005,477	(2,287,335)	-	-	20,709,450	-	20,709,450
Vivant Renewable Energy Corporation	10,000,000	9,611,392	-	-	-	19,611,392	-	19,611,392
Isla Norte Energy Corp.	169,469,776	6,112,667	(156,178,050)	-	-	19,404,393	-	19,404,393
Vivant Energy Corporation	12,306,533	755,344,496	(756,293,284)	-	-	11,357,745	-	11,357,745
Southern Grove Properties and Development Corp.	10,095,779	503,734	(447,034)	-	-	10,152,479	-	10,152,479
Isla Mactan Cordova Corporation	7,276,993	737,975	(7,548,948)	-	-	466,020	-	466,020
Hijos de F. Escaño, Inc.	471,786	840,000	(840,000)	-	-	471,786	-	471,786
Vivant Integrated Diesel Corporation	193,096	-	-	-	-	193,096	-	193,096
Vivant Realty Ventures Corp.	-	142,177	-	-	-	142,177	-	142,177
Vivant Hydrocore Holdings Inc.	2,320	200,589	(77,345)	-	-	125,564	-	125,564
Vivant -Malogo Hydropower, Inc.	106	521	(417)	-	-	210	-	210
Vivant Integrated Generation Corporation	4,472,054	1,180	(4,473,234)	-	-	-	-	-
	P399,987,847	P1,584,145,618	(P1,331,956,457)	P-	P-	P652,177,008	P-	P652,177,008

**VIVANT CORPORATION AND SUBSIDIARIES**

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**SCHEDULE D - INTANGIBLE ASSETS - OTHER ASSETS**

**DECEMBER 31, 2021**

Description	Beginning Balance	Additions of Cost	Charged to Cost and Expenses	Charged to Other Accounts	Other Changes	Ending Balance
Goodwill -As Restated	₱82,381,116	₱216,633,647	₱-	₱-	₱-	₱299,014,763
Software cost	902,260	574,654	(429,961)	-	-	1,046,953
	<u>₱83,283,376</u>	<u>₱217,208,301</u>	<u>(₱429,961)</u>	<u>₱-</u>	<u>₱-</u>	<u>₱300,061,716</u>

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**VIVANT CORPORATION AND SUBSIDIARIES****SCHEDULE E - LONG-TERM DEBT****DECEMBER 31, 2021**

Title of Issue and Type of Obligation	Amount Authorized by Indenture	Current Portion of Long-term Debt	Long-term Debt
Fixed Rate Corporate Notes (FRCN)	₱3,000,000,000	₱50,000,000	₱2,950,000,000
15-Year Project Financing Facility	1,213,020,999	—	1,213,020,999
Loans with Variable Rates	294,997,269	52,409,207	242,588,062
Unamortized debt issue cost	(34,477,428)	(10,332,309)	(24,145,119)
	₱4,473,540,840	₱92,076,898	₱4,381,463,942

**VIVANT CORPORATION AND SUBSIDIARIES****SCHEDULE F - INDEBTEDNESS TO RELATED PARTIES (LONG-TERM  
LOANS FROM RELATED COMPANIES)****DECEMBER 31, 2021**

Name of Related Party	Balance at Beginning of Period	Balance at End of Period
Faith Lived Out Visions 2 Ventures Holdings, Inc.	–	₱150,000,000



**VIVANT CORPORATION AND SUBSIDIARIES****SCHEDULE G - GUARANTEES OF SECURITIES OF OTHER ISSUERS****DECEMBER 31, 2021**

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

**VIVANT CORPORATION AND SUBSIDIARIES**

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**SCHEDULE H - CAPITAL STOCK**

**DECEMBER 31, 2021**

Title of Issue	Number of Shares Authorized	Number of Shares Issued and Outstanding as Shown under Related Consolidated Statement of Financial Position Caption	Number of Shares Reserved for Options, Warrants, Conversion and Other Rights	Number of Shares held by Related Parties	Directors, Officers and Employees	Others
Capital stock	2,000,000,000	1,023,456,698	—	892,911,763	—	130,544,935

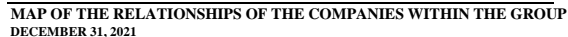
**VIVANT CORPORATION**

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**RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR  
DIVIDEND DECLARATION  
FOR THE YEAR ENDED DECEMBER 31, 2021**

Items	Amount
<b>Unappropriated Retained Earnings, Beginning</b>	₱1,027,947,280
<b>Adjustments:</b>	
Deferred income tax assets that reduced the amount of provision for income tax	(31,776,916)
Deferred income tax liabilities that increased the amount of provision for income tax	857,388
<b>Unappropriated Retained Earnings, as Adjusted, Beginning</b>	997,027,752
<b>Net Income Based on the Face of AFS</b>	1,142,082,795
<b>Less: Non-actual/Unrealized Income Net of Tax</b>	
Equity in net income of an associate/joint venture	—
Unrealized foreign exchange gain - net (except those attributable to cash and cash equivalents)	—
Unrealized actuarial gain	—
Fair value adjustment (M2M gains)	—
Fair value adjustment of investment property resulting to gain	—
Adjustment due to deviation from PFRS/GAAP - gain	—
Gain on reversal of impairment loss	(88,142,365)
Gain on pre-termination of lease	—
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under the PFRS	—
Deferred income tax assets that reduced the amount of provision for income tax	5,304,087
Deferred income tax liability that reduced the amount of provision for income tax	8,482,630
<b>Add: Non-actual Losses</b>	
Unrealized foreign exchange loss - net (except those attributable to cash and cash equivalents)	—
Equity in net loss of an associate/joint venture	—
Depreciation on revaluation increment (after tax)	—
Adjustment due to deviation from PFRS/GAAP - loss	—
Loss on fair value adjustment of investment property (after tax)	—
Impairment loss on investment	—
<b>Net Income Actual/Realized</b>	1,067,727,147
<b>Add (Less)</b>	
Dividend declarations during the period	(358,209,844)
Appropriations of retained earnings during the period	(1,950,000,000)
Reversals of appropriations	965,536,348
Effects of prior period adjustments	—
Treasury shares	—
<b>TOTAL RETAINED EARNINGS, END AVAILABLE FOR DIVIDEND DECLARATION</b>	₱722,081,403

**MAP OF THE RELATIONSHIPS OF THE COMPANIES WITHIN THE GROUP**  
**DECEMBER 31, 2021**

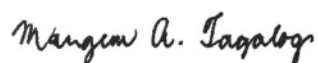


## **INDEPENDENT AUDITOR'S REPORT COMPONENTS OF FINANCIAL SOUNDNESS INDICATORS**

The Board of Directors and the Stockholders  
Vivant Corporation  
9<sup>th</sup> Floor, Oakridge IT Center 3  
Oakridge Business Park, A.S. Fortuna Street  
Brgy. Banilad, Mandaue City  
Cebu, Philippines 6014

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Vivant Corporation and its subsidiaries (the Group) as at December 31, 2021 and 2020 and for each of the three years in the period ended December 31, 2021, and have issued our report thereon dated March 18, 2022. Our audits were made for the purpose of forming an opinion on the basic consolidated 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 Group's management. These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRSs) and may not be comparable to similarly titled measures presented by other companies. This schedule is presented for the purpose of complying with the Revised Securities Regulation Code Rule 68 issued by the Securities and Exchange Commission, and is not a required part of the basic consolidated financial statements prepared in accordance with PFRSs. The components of these financial soundness indicators have been traced to the Group's consolidated financial statements as at December 31, 2021 and 2020 and for each of the three years in the period ended December 31, 2021 and no material exceptions were noted.

SYCIP GORRES VELAYO & CO.



Margem A. Tagalog

Partner

CPA Certificate No. 0098098

Tax Identification No. 206-544-506

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

SEC Partner Accreditation No. 98098-SEC (Group A)

Valid to cover audit of 2021 to 2025 financial statements of SEC covered institutions

SEC Firm Accreditation No. 0001-SEC (Group A)

Valid to cover audit of 2021 to 2025 financial statements of SEC covered institutions

BIR Accreditation No. 08-001998-138-2021, November 10, 2021, valid until November 9, 2024

PTR No. 8854370, January 3, 2022, Makati City

March 18, 2022

**VIVANT CORPORATION**
**SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS  
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

<b>Ratio</b>	<b>Formula</b>	<b>2021</b>	<b>2020</b>
Current Ratio	Total Current Assets divided by Total Current Liabilities  <div>                         Total Current Assets <span>₱7,289,884,817</span>                          Divide by: Total Current Liabilities <span>1,334,727,961</span>  <hr/>                         Current Ratio <span>5.46</span> </div>	<b>5.46</b>	1.33
Acid Test Ratio/Quick Ratio	Quick Assets ( <i>Total Current Assets less Inventories and Other Current Assets</i> ) divided by Total Current Liabilities  <div>                         Total Current Assets <span>₱7,289,884,817</span>                          Less: Inventories <span>152,675,459</span>                          Other Current Assets <span>330,572,837</span>  <hr/>                         Quick Assets <span>₱6,806,636,521</span>                          Divide by: Total Current Liabilities <span>1,334,727,961</span>  <hr/>                         Acid Test Ratio <span>5.10</span> </div>	<b>5.10</b>	1.23
Solvency Ratio/Debt-to-Equity Ratio	Total Liabilities divided by Total Equity  <div>                         Total Liabilities <span>₱6,978,977,430</span>                          Divide by: Total Equity <span>18,038,051,138</span>  <hr/>                         Debt-to-Equity Ratio <span>0.39</span> </div>	<b>0.39</b>	0.38
Net Debt-to-Equity Ratio	Net Debt ( <i>Total Debt less Cash and Cash Equivalents, Short-term investments and Financial Assets at FVTPL</i> ) divided by Total Equity  <div>                         Total Notes Payable <span>₱4,473,540,840</span>                          Less: Cash and Cash Equivalents <span>523,471,825</span>                          Short-term Investments <span>5,126,553,114</span>                          Financial Assets at FVTPL <span>–</span>  <hr/>                         Net Debt <span>(₱1,176,484,099)</span>                          Divide by: Total Equity <span>18,038,051,138</span>  <hr/>                         Net Debt-to-Equity Ratio <span>(0.07)</span> </div>	<b>(0.07)</b>	(0.08)
Asset-to-Equity Ratio	Total Assets divided by Total Equity  <div>                         Total Assets <span>₱25,017,028,568</span>                          Divide by: Total Equity <span>18,038,051,138</span>  <hr/>                         Asset-to-Equity Ratio <span>1.39</span> </div>	<b>1.39</b>	1.38

Ratio	Formula	2021	2020
Interest Rate Coverage Ratio	Earnings before Income Tax, Depreciation and Amortization ( <i>net Income plus provision for income tax, interest and other charges, depreciation and amortization</i> ) divided by Interest and Other Financing Charges  Net Income ₱2,144,007,667 Add: Provision for Income Tax 171,157,540 Interest and Other Financing Charges 217,818,732 EBIT ₱2,532,983,939 Add: Depreciation and Amortization 344,601,772 EBITDA ₱2,877,585,711 Interest and Other Financing Charges 217,818,732 Interest Expense Coverage Ratio 13.21	13.21	9.73
Return on Equity	Net Income divided by Average Total Equity ( <i>Total Equity PY + Total Equity CY divided by 2</i> )  Net Income ₱2,144,007,667 Total Equity CY ₱18,038,051,138 Total Equity PY 16,315,483,419 Average Total Equity ₱17,176,767,279 Return on Equity 12.48%	12.48%	10.97%
Return on Assets	Net Income divided by Average Total Assets ( <i>Total Assets PY + Total Assets CY divided by 2</i> )  Net Income ₱2,144,007,667 Total Assets CY ₱25,017,028,568 Total Assets PY 22,580,961,607 Average Total Assets ₱23,798,995,088 Return on Assets 9.01%	9.01%	7.86%
Net Income Margin	Net Income Attributable to Parent divided by Revenue  Net Income Attributable to Parent ₱1,777,031,392 Revenue 4,990,793,417 Net Income Margin 35.61%	35.61%	38.24%