

First Gen Corporation and Subsidiaries

Consolidated Financial Statements
December 31, 2020 and 2019
and Years Ended December 31, 2020, 2019
and 2018
(In U.S. Dollars)

and

Independent Auditor's Report



INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
First Gen Corporation

Opinion

We have audited the consolidated financial statements of First Gen Corporation (the Company) and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statements of financial position as at December 31, 2020 and 2019, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2020, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2020 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

Key Audit Matters

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



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

Recoverability of Goodwill Associated with the Acquisition of Energy Development Corporation (EDC)

Under PFRSs, the Group is required to annually test the recoverability of goodwill. As at December 31, 2020, the Group has goodwill amounting to US\$1,004.9 million, of which US\$941.6 million resulted from its acquisition of EDC in 2007. This annual recoverability test of goodwill is significant to our audit because the amount of goodwill is material to the consolidated financial statements. In addition, management's assessment process requires significant judgment and is based on assumptions which are subject to higher level of estimation uncertainty due to the current economic conditions that have been impacted by the coronavirus pandemic, specifically the budgeted gross margin, economic growth rate and discount rate.

The related disclosures on the Group's goodwill are included in Notes 3 and 11 to the consolidated financial statements.

Audit Response

We involved our internal specialist in evaluating the assumptions and methodology used. These assumptions include budgeted gross margin, long-term growth rate and discount rate. We compared the forecasted cash flow assumptions used in the recoverability testing such as budgeted gross margin against the historical performance of EDC, taking into consideration the impact associated with the coronavirus pandemic. We also compared against historical information the estimated volume and price of electricity to be sold to contracted customers and to the spot market. In addition, we compared the long-term growth rate used with those reflected in published economic forecasts, as well as relevant industry outlook. Likewise, we evaluated the discount rate used and assessed whether this is consistent with market participant assumptions for similar assets. We also reviewed the Group's disclosures about those assumptions to which the outcome of the recoverability test is most sensitive, specifically those that have the most significant effect on the determination of the recoverable amount of goodwill.

Recoverability of Exploration and Evaluation Assets of EDC

The ability of the Group, through EDC, to recover its exploration and evaluation assets depends on the commercial viability of EDC's geothermal reserves. The carrying value of exploration and evaluation assets as at December 31, 2020 amounted to \$40.7 million. This matter is important to our audit because of the substantial amount of exploration and evaluation assets and the significant management judgment required in assessing whether there is any indication that these may not be recoverable.

The related disclosures on exploration and evaluation assets are included in Notes 3 and 12 to the consolidated financial statements.



Audit Response

We obtained management's assessment on whether there is any indication that the exploration and evaluation assets may not be recoverable. We obtained the status of each of the exploration projects as of December 31, 2020, as certified by EDC's technical group head, and compared those with the disclosures submitted to the regulatory agency. We reviewed the terms of contracts and agreements, and budget for exploration costs. We inspected the licenses and permits of each exploration project to determine that the period for which the Group has the right to explore in the specific area has not expired or is not expiring in the near future. We also inquired of management about the project areas that are expected to be abandoned or any exploration activities that are planned to be discontinued in those areas.

Other Information

Management is responsible for the other information. The other information comprises the SEC Form 17-A for the year ended December 31, 2020 but does not include the consolidated financial statements and our auditor's report thereon, which we obtained prior to the date of this auditor's report, and the SEC Form 20-IS (Definitive Information Statement) and Annual Report for the year ended December 31, 2020, which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and 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.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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



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

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

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

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

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

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



- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

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

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
Jhoanna Feliza C. Go.

SYCIP GORRES VELAYO & CO.



Jhoanna Feliza C. Go
Partner

CPA Certificate No. 0114122

SEC Accreditation No. 1414-AR-2 (Group A),
October 15, 2019, valid until October 14, 2022

Tax Identification No. 219-674-288

BIR Accreditation No. 08-001998-103-2019,
November 7, 2019, valid until November 6, 2022

PTR No. 8534302, January 4, 2021, Makati City

March 17, 2021



FIRST GEN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Amounts in U.S. Dollars and in Thousands)

| | December 31 | |
|--|--------------------|-------------|
| | 2020 | 2019 |
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents (Notes 5, 23 and 24) | \$772,230 | \$623,881 |
| Receivables (Notes 6, 17, 23, 24 and 25) | 445,293 | 434,689 |
| Inventories (Note 7) | 177,811 | 128,876 |
| Financial assets at fair value through profit or loss (FVPL) (Notes 8, 23 and 24) | 53,545 | 30,848 |
| Other current assets (Notes 2, 9, 14, 23 and 24) | 217,522 | 82,071 |
| Total Current Assets | 1,666,401 | 1,300,365 |
| Noncurrent Assets | | |
| Property, plant and equipment (Notes 10, 14 and 25) | 2,621,189 | 2,549,930 |
| Goodwill and intangible assets (Note 11) | 1,040,876 | 1,000,853 |
| Deferred income tax assets - net (Notes 2 and 21) | 25,982 | 24,383 |
| Other noncurrent assets (Notes 2, 12, 21, 23, 24 and 25) | 354,024 | 334,166 |
| Total Noncurrent Assets | 4,042,071 | 3,909,332 |
| TOTAL ASSETS | \$5,708,472 | \$5,209,697 |
| LIABILITIES AND EQUITY | | |
| Current Liabilities | | |
| Accounts payable and accrued expenses (Notes 13, 17, 18, 23, 24 and 25) | \$524,775 | \$462,122 |
| Dividends payable (Notes 16, 23 and 24) | 65,749 | 53,784 |
| Income tax payable (Note 21) | 22,243 | 9,335 |
| Loans payable (Notes 14, 23 and 24) | 20,000 | 12,493 |
| Current portion of: | | |
| Long-term debts (Notes 9, 10, 14, 23 and 24) | 444,265 | 300,100 |
| Lease liabilities (Notes 2 and 15) | 4,250 | 4,006 |
| Derivative liabilities (Notes 23 and 24) | 1,599 | 425 |
| Total Current Liabilities | 1,082,881 | 842,265 |
| Noncurrent Liabilities | | |
| Long-term debts - net of current portion (Notes 9, 10, 14, 23 and 24) | 1,480,029 | 1,621,969 |
| Retirement and other post-employment benefits (Note 20) | 52,048 | 38,437 |
| Derivative liabilities - net of current portion (Notes 23 and 24) | 12,116 | 5,125 |
| Deferred income tax liabilities - net (Note 21) | 16,814 | 23,062 |
| Other noncurrent liabilities (Notes 2 and 15) | 108,533 | 87,340 |
| Total Noncurrent Liabilities | 1,669,540 | 1,775,933 |
| Total Liabilities | \$2,752,421 | \$2,618,198 |

(Forward)



| | December 31 | |
|---|--------------------|-------------|
| | 2020 | 2019 |
| Equity Attributable to Equity Holders of the Parent Company | | |
| (Notes 2, 16 and 17) | | |
| Redeemable preferred stock (Note 1) | \$85,667 | \$77,926 |
| Common stock (Note 1) | 75,123 | 75,123 |
| Additional paid-in capital (Note 1) | 1,311,961 | 1,242,294 |
| Cumulative translation adjustments (Notes 16 and 24) | (65,656) | (151,094) |
| Accumulated unrealized gain on financial assets at fair value through other comprehensive income (FVOCI) (Note 12) | 726 | 617 |
| Equity reserve (Note 2) | (232,965) | (232,965) |
| Retained earnings (Note 16) | 1,695,641 | 1,478,179 |
| Cost of stocks held in treasury (Notes 1 and 16): | | |
| Redeemable preferred stock | (403,407) | (325,999) |
| Common stock | (43,609) | (39,102) |
| | 2,423,481 | 2,124,979 |
| Non-controlling Interests (Notes 2 and 16) | 532,570 | 466,520 |
| Total Equity | 2,956,051 | 2,591,499 |
| TOTAL LIABILITIES AND EQUITY | \$5,708,472 | \$5,209,697 |

See accompanying Notes to Consolidated Financial Statements.



FIRST GEN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Amounts in U.S. Dollars and in Thousands, Except Per Share Data)

| | Years Ended December 31 | | |
|---|-------------------------|-------------|-------------|
| | 2020 | 2019 | 2018 |
| REVENUES FROM SALE OF ELECTRICITY | | | |
| (Notes 2, 4, 10, 25 and 26) | \$1,830,300 | \$2,151,386 | \$1,978,689 |
| COSTS OF SALE OF ELECTRICITY | | | |
| (Notes 7, 10, 11, 18, 25 and 26) | (1,104,689) | (1,391,823) | (1,294,266) |
| GENERAL AND ADMINISTRATIVE EXPENSES | | | |
| (Notes 6, 7, 10, 11, 12, 18, 20 and 25) | (194,089) | (216,613) | (181,968) |
| FINANCIAL INCOME (EXPENSE) | | | |
| Interest income (Notes 5, 9, 12 and 19) | 8,025 | 17,279 | 18,207 |
| Interest expense and financing charges (Notes 14, 15, 19 and 25) | (103,691) | (119,448) | (135,320) |
| | (95,666) | (102,169) | (117,113) |
| OTHER INCOME (CHARGES) | | | |
| Proceeds from insurance claims (Note 25) | 36,732 | 43,564 | 43,966 |
| Foreign exchange gains (losses) - net | 8,784 | 3,045 | (24,880) |
| Mark-to-market gain (loss) on derivatives - net (Note 24) | (1,813) | 468 | (719) |
| Mark-to-market gain (loss) on financial assets at FVPL (Notes 8, 23 and 24) | 220 | 2,313 | (591) |
| Loss on extinguishment of long-term debts (Note 14) | - | (2,207) | (2,980) |
| Gain on modification of long-term debts (Note 14) | - | - | 3,480 |
| Others - net (Notes 10, 12 and 14) | (747) | (6,688) | (446) |
| | 43,176 | 40,495 | 17,830 |
| INCOME BEFORE INCOME TAX | 479,032 | 481,276 | 403,172 |
| PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 21) | | | |
| Current | 91,318 | 75,709 | 73,034 |
| Deferred | (6,020) | (8,661) | 10,653 |
| | 85,298 | 67,048 | 83,687 |
| NET INCOME | \$393,734 | \$414,228 | \$319,485 |
| Net income attributable to: | | | |
| Equity holders of the Parent Company | \$275,695 | \$296,208 | \$221,200 |
| Non-controlling interests | 118,039 | 118,020 | 98,285 |
| | \$393,734 | \$414,228 | \$319,485 |
| Basic/Diluted Earnings Per Share for Net Income Attributable to Equity Holders of the Parent Company (Note 22) | \$0.073 | \$0.078 | \$0.055 |

See accompanying Notes to Consolidated Financial Statements.



FIRST GEN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in U.S. Dollars and in Thousands)

| | Years Ended December 31 | | |
|--|-------------------------|-----------|-----------|
| | 2020 | 2019 | 2018 |
| NET INCOME | \$393,734 | \$414,228 | \$319,485 |
| OTHER COMPREHENSIVE INCOME (LOSS): | | | |
| <i>Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:</i> | | | |
| Exchange gains (losses) on foreign currency translation | 119,658 | 81,214 | (105,245) |
| Unrealized gains on debt instruments at FVOCI (Note 12) | 257 | 560 | 471 |
| Net gains (losses) on cash flow hedges - net of tax (Note 24) | (7,470) | (10,496) | 2,151 |
| | 112,445 | 71,278 | (102,623) |
| <i>Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:</i> | | | |
| Unrealized gain (loss) on equity instruments at FVOCI (Note 12) | (21) | 58 | (495) |
| Re-measurement of retirement and other post-employment benefits - net of tax (Note 20) | (2,945) | (7,886) | (1,934) |
| | (2,966) | (7,828) | (2,429) |
| Total other comprehensive income (loss) - net of tax | 109,479 | 63,450 | (105,052) |
| TOTAL COMPREHENSIVE INCOME | \$503,213 | \$477,678 | \$214,433 |
| Total comprehensive income attributable to: | | | |
| Equity holders of the Parent Company | \$360,334 | \$350,881 | \$143,061 |
| Non-controlling interests | 142,879 | 126,797 | 71,372 |
| | \$503,213 | \$477,678 | \$214,433 |

See accompanying Notes to Consolidated Financial Statements.



FIRST GEN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2020, 2019 AND 2018
(Amounts in U.S. Dollars and in Thousands)

Equity Attributable to Equity Holders of the Parent Company (Notes 2, 16 and 17)

| | Capital Stock | | Additional Paid-in Capital | Cumulative Translation Adjustments | Accumulated Unrealized Gain on Financial Assets at FVOCI | Equity Reserve (Note 2) | Re-measurement of Retirement and Other Post- Employment Benefits | Retained Earnings | Cost of Stocks Held in Treasury | | Subtotal | Non- controlling Interests | Total |
|---|----------------------------------|-----------------|----------------------------------|--|---|-------------------------------|---|----------------------|------------------------------------|-------------------|--------------------|----------------------------------|--------------------|
| | Redeemable Preferred Stock | Common Stock | | | | | | | Redeemable Preferred Stock | Common Stock | | | |
| BALANCES AT JANUARY 1, 2020 | \$77,926 | \$75,123 | \$1,242,294 | (\$151,094) | \$617 | (\$232,965) | \$- | \$1,478,179 | (\$325,999) | (\$39,102) | \$2,124,979 | \$466,520 | \$2,591,499 |
| Total comprehensive income (loss) | - | - | - | 85,438 | 109 | - | (908) | 275,695 | - | - | 360,334 | 142,879 | 503,213 |
| Re-measurement of retirement and other post-employment benefits closed to retained earnings | - | - | - | - | - | - | 908 | (908) | - | - | - | - | - |
| Issuance of Series "H" preferred stocks to subsidiaries | 7,741 | - | 69,667 | - | - | - | - | - | - | - | 77,408 | - | 77,408 |
| Realized fair value changes on financial assets at FVOCI closed to retained earnings | - | - | - | - | - | - | - | 43 | - | - | 43 | 51 | 94 |
| Purchase of treasury stocks by EDC (Notes 2 and 16) | - | - | - | - | - | - | - | - | - | - | - | (657) | (657) |
| Acquisition of Parent Company preferred stocks by subsidiaries | - | - | - | - | - | - | - | - | (77,408) | - | (77,408) | - | (77,408) |
| Purchase of common treasury stocks (Note 16) | - | - | - | - | - | - | - | - | - | (4,507) | (4,507) | - | (4,507) |
| Cash dividends on preferred stocks (Note 16) | - | - | - | - | - | - | - | (17,182) | - | - | (17,182) | - | (17,182) |
| Cash dividends on common stocks (Note 16) | - | - | - | - | - | - | - | (40,186) | - | - | (40,186) | - | (40,186) |
| Dividends to non-controlling shareholders of subsidiaries (Note 16) | - | - | - | - | - | - | - | - | - | - | - | (76,223) | (76,223) |
| BALANCES AT DECEMBER 31, 2020 | \$85,667 | \$75,123 | \$1,311,961 | (\$65,656) | \$726 | (\$232,965) | \$- | \$1,695,641 | (\$403,407) | (\$43,609) | \$2,423,481 | \$532,570 | \$2,956,051 |



Equity Attributable to Equity Holders of the Parent Company (Notes 2, 16 and 17)

| | Capital Stock | | Additional Paid-in Capital | Cumulative Translation Adjustments | Accumulated Unrealized Gain on Financial Assets at FVOCI | Equity Reserve (Note 2) | Re-measurement of Retirement and Other Post- Employment Benefits | Retained Earnings | Cost of Stocks Held in Treasury | | Subtotal | Non- controlling Interests | Total |
|---|----------------------------------|-----------------|----------------------------------|--|---|-------------------------------|---|----------------------|------------------------------------|-----------------|-------------|----------------------------------|-------------|
| | Redeemable Preferred Stock | Common Stock | | | | | | | Redeemable Preferred Stock | Common Stock | | | |
| BALANCES AT JANUARY 1, 2019 | \$69,345 | \$75,123 | \$1,165,366 | (\$210,556) | \$335 | (\$232,965) | \$- | \$1,241,728 | (\$223,448) | (\$29,782) | \$1,855,146 | \$415,781 | \$2,270,927 |
| Total comprehensive income (loss) | - | - | - | 59,462 | 282 | - | (5,071) | 296,208 | - | - | 350,881 | 126,797 | 477,678 |
| Re-measurement of retirement and other post-employment benefits closed to retained earnings | - | - | - | - | - | - | 5,071 | (5,071) | - | - | - | - | - |
| Issuance of Series "H" preferred stocks to subsidiaries | 8,581 | - | 77,233 | - | - | - | - | - | - | - | 85,814 | - | 85,814 |
| Transaction cost on deposits for future stock subscription | - | - | (305) | - | - | - | - | - | - | - | (305) | - | (305) |
| Purchase of treasury stocks by EDC (Notes 2 and 16) | - | - | - | - | - | - | - | - | - | - | - | (135) | (135) |
| Acquisition of Parent Company preferred stocks by subsidiaries | - | - | - | - | - | - | - | - | (85,814) | - | (85,814) | - | (85,814) |
| Buyback of Series "G" preferred stocks and common treasury stocks (Note 16) | - | - | - | - | - | - | - | - | (16,737) | (9,320) | (26,057) | - | (26,057) |
| Cash dividends on preferred stocks (Note 16) | - | - | - | - | - | - | - | (16,948) | - | - | (16,948) | - | (16,948) |
| Cash dividends on common stocks (Note 16) | - | - | - | - | - | - | - | (37,738) | - | - | (37,738) | - | (37,738) |
| Dividends to non-controlling shareholders of subsidiaries (Note 16) | - | - | - | - | - | - | - | - | - | - | - | (75,923) | (75,923) |
| BALANCES AT DECEMBER 31, 2019 | \$77,926 | \$75,123 | \$1,242,294 | (\$151,094) | \$617 | (\$232,965) | \$- | \$1,478,179 | (\$325,999) | (\$39,102) | \$2,124,979 | \$466,520 | \$2,591,499 |

See accompanying Notes to Consolidated Financial Statements.



FIRST GEN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2020, 2019 AND 2018
(Amounts in U.S. Dollars and in Thousands)

Equity Attributable to Equity Holders of the Parent Company (Notes 2, 16 and 17)

| | Capital Stock | | Additional Paid-in Capital | Deposits For Future Stock Subscriptions | Cumulative Translation Adjustments | Accumulated Unrealized Gain on Financial Assets at FVOCI (Note 12) | Accumulated Unrealized Gain on AFS Financial Assets | Equity Reserve (Note 2) | Re- measurement of Retirement and Other Post- Employment Benefits | Retained Earnings | Cost of Stocks Held in Treasury | | Subtotal | Non- controlling Interests | Total |
|---|----------------------------------|-----------------|----------------------------------|---|--|--|---|-------------------------------|---|----------------------|------------------------------------|-----------------|-------------|----------------------------------|-------------|
| | Redeemable Preferred Stock | Common Stock | | | | | | | | | Redeemable Preferred Stock | Common Stock | | | |
| BALANCES AT JANUARY 1, 2018 | \$69,345 | \$75,123 | \$1,165,366 | \$2,139 | (\$133,220) | \$346 | \$- | (\$237,884) | \$- | \$1,067,194 | (\$102,997) | (\$24,625) | \$1,880,787 | \$579,777 | \$2,460,564 |
| Total comprehensive income (loss) | - | - | - | - | (77,336) | (11) | - | - | (792) | 221,200 | - | - | 143,061 | 71,372 | 214,433 |
| Re-measurement of retirement and other post-employment benefits closed to retained earnings | - | - | - | - | - | - | - | - | 792 | (792) | - | - | - | - | - |
| Return of deposits for future stock subscription (Note 16) | - | - | - | (2,139) | - | - | - | - | - | - | - | - | (2,139) | - | (2,139) |
| Transaction cost on deposits for future stock subscription | - | - | - | - | - | - | - | - | - | (144) | - | - | (144) | - | (144) |
| Purchase of treasury stocks by EDC (Notes 2 and 16) | - | - | - | - | - | - | - | (2,329) | - | - | - | - | (2,329) | (275,267) | (277,596) |
| Common stock issuance of EDC (Notes 2 and 16) | - | - | - | - | - | - | - | 7,248 | - | - | - | - | 7,248 | 37,830 | 45,078 |
| Documentary stamp tax on common stocks of EDC | - | - | - | - | - | - | - | - | - | - | - | - | - | (62) | (62) |
| Share in employee trusts of EDC | - | - | - | - | - | - | - | - | - | - | - | - | - | 2,131 | 2,131 |
| Buyback of Series "F" and "G" preferred stocks and common treasury stocks (Note 16) | - | - | - | - | - | - | - | - | - | - | (120,451) | (5,157) | (125,608) | - | (125,608) |
| Cash dividends on preferred stocks (Note 16) | - | - | - | - | - | - | - | - | - | (22,201) | - | - | (22,201) | - | (22,201) |
| Cash dividends on common stocks (Note 16) | - | - | - | - | - | - | - | - | - | (23,529) | - | - | (23,529) | - | (23,529) |
| BALANCES AT DECEMBER 31, 2018 | \$69,345 | \$75,123 | \$1,165,366 | \$- | (\$210,556) | \$335 | \$- | (\$232,965) | \$- | \$1,241,728 | (\$223,448) | (\$29,782) | \$1,855,146 | \$415,781 | \$2,270,927 |



FIRST GEN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in U.S. Dollars and in Thousands)

| | Years Ended December 31 | | |
|--|-------------------------|-----------|-----------|
| | 2020 | 2019 | 2018 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Income before income tax | \$479,032 | \$481,276 | \$403,172 |
| Adjustments for: | | | |
| Depreciation and amortization (Notes 10, 11 and 18) | 233,421 | 224,894 | 212,755 |
| Interest expense and financing charges (Note 19) | 103,691 | 119,448 | 135,320 |
| Mark-to-market loss (gain) on derivatives - net (Note 24) | 1,813 | (468) | 719 |
| Provision for impairment of spare parts and supplies inventories (Notes 7 and 18) | 1,604 | 556 | 1,842 |
| Provision for impairment of goodwill and loss on direct write-off of exploration and evaluation assets (Note 11) | 1,058 | 50 | - |
| Loss on direct write-off of input VAT claims (Note 12) | 728 | 1,275 | 1,928 |
| Impairment loss on investment (Note 2) | 445 | - | - |
| Loss (gain) on sale of property and equipment | 34 | (104) | 570 |
| Interest income (Note 19) | (8,025) | (17,279) | (18,207) |
| Unrealized foreign exchange losses (gains) - net | (7,801) | (1,925) | 9,709 |
| Mark-to-market loss (gain) on financial assets at FVPL (Note 8) | (220) | (2,313) | 591 |
| Loss on extinguishment of long-term debts (Note 14) | - | 2,207 | - |
| Gain on modification of long-term debts (Note 14) | - | - | (3,480) |
| Income before working capital changes | 805,780 | 807,617 | 744,919 |
| Decrease (increase) in: | | | |
| Receivables | (13,134) | (25,278) | (44,770) |
| Inventories | (33,142) | (10,708) | (15,374) |
| Other current assets | (142,928) | 19,246 | (13,199) |
| Increase in: | | | |
| Accounts payable and accrued expenses | 47,958 | 30,996 | 45,678 |
| Retirement and other post-employment benefits | 8,535 | 3,359 | 7,402 |
| Cash generated from operations | 673,069 | 825,232 | 724,656 |
| Interest received | 8,025 | 17,279 | 18,207 |
| Income taxes paid | (78,632) | (79,547) | (70,251) |
| Net cash flows from operating activities | 602,462 | 762,964 | 672,612 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Proceeds from: | | | |
| Redemption of financial assets at FVPL (Note 8) | 57,832 | 59,663 | 42,247 |
| Disposal of property and equipment (Note 10) | 518 | 364 | 402 |
| Redemption of financial assets at FVOCI (Note 12) | 130 | - | - |
| Decrease in debt service reserve account (DSRA) (Notes 9 and 14) | 13,860 | 14,639 | 85,711 |
| Additions to: | | | |
| Property, plant and equipment (Note 10) | (146,991) | (115,295) | (94,346) |
| Financial assets at FVPL (Note 8) | (77,702) | (69,719) | (34,731) |
| Other noncurrent assets | (34,223) | (840) | (12,179) |
| Intangible assets (Note 11) | (1,627) | (2,586) | (1,182) |
| Exploration and evaluation assets (Note 12) | (327) | (1,955) | (249) |
| Net cash flows used in investing activities | (188,530) | (115,729) | (14,327) |

(Forward)



| | Years Ended December 31 | | |
|---|--------------------------------|-----------|-----------|
| | 2020 | 2019 | 2018 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from: | | | |
| Availment of long-term debt - net of debt issuance costs (Note 14) | \$259,507 | \$- | \$160,284 |
| Issuance of Series "H" preferred stocks to subsidiaries (Note 16) | 77,408 | 85,814 | - |
| Availment of loans payable (Note 14) | 20,000 | 23,682 | - |
| Issuance of common shares of EDC to NCI (Note 2) | - | - | 45,078 |
| Payments of: | | | |
| Long-term debts (Note 14) | (307,102) | (341,419) | (409,093) |
| Interest expense and financing charges (Note 19) | (95,186) | (112,386) | (122,342) |
| Acquisition of Parent Company preferred stocks held by subsidiaries (Note 16) | (77,408) | (85,814) | - |
| Dividends to non-controlling shareholders of subsidiaries (Note 16) | (67,522) | (31,902) | - |
| Dividends to common shareholders (Note 16) | (40,186) | (37,738) | (23,529) |
| Dividends to preferred shareholders (Note 16) | (16,860) | (17,363) | (27,817) |
| Loans payable (Note 14) | (12,493) | (11,189) | - |
| Lease liabilities (Note 15) | (4,833) | (7,395) | - |
| Purchase of Parent Company common treasury stocks (Note 16) | (4,507) | (9,320) | (5,157) |
| Purchase of treasury stocks by EDC (Note 16) | (657) | (135) | (277,596) |
| Buyback of Series "F" and "G" preferred stocks (Note 16) | - | (16,737) | (120,451) |
| Increase (decrease) in other noncurrent liabilities | 5,096 | (15,079) | 9,432 |
| Transaction costs paid related to deposits for future stock subscriptions | - | (305) | (144) |
| Return of deposits for future stock subscription (Note 16) | - | - | (2,139) |
| Net cash flows used in financing activities | (264,743) | (577,286) | (773,474) |
| EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | | | |
| | (840) | (829) | (1,301) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 148,349 | 69,120 | (116,490) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | 623,881 | 554,761 | 671,251 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5) | \$772,230 | \$623,881 | \$554,761 |

See accompanying Notes to Consolidated Financial Statements.



FIRST GEN CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in U.S. Dollars and in Thousands, Unless Otherwise Stated)

1. Corporate Information and Authorization for Issuance of the Consolidated Financial Statements

Corporate Information

First Gen Corporation (the Parent Company or First Gen) is incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on December 22, 1998. The Parent Company and its subsidiaries (collectively referred to as “First Gen Group”) are involved in the power generation business. All subsidiaries, except for certain subsidiaries of Energy Development Corporation (EDC), are incorporated in the Philippines. These certain subsidiaries of EDC are incorporated in BVI, Hong Kong, Peru, Chile and Indonesia (see Note 2).

On February 10, 2006, the Parent Company successfully completed the Initial Public Offering (IPO) in the Philippines of 193,412,600 common stocks, including the exercised greenshoe option of 12,501,700 common stocks, at an IPO price of ₱47.00 per share. The common stocks of the Parent Company are currently listed and traded on the First Board of the Philippine Stock Exchange, Inc. (PSE). First Gen is considered a public company under Section 17.2 of the Securities Regulation Code (SRC).

On January 22, 2010, the Parent Company likewise completed the Stock Rights Offering (the Rights Offering) of 2,142,472,791 rights shares in the Philippines at the proportion of 1.756 rights shares for every one existing common stock held as of the record date of December 29, 2009 at the offer price of ₱7.00 per rights share. The total proceeds from the Rights Offering amounted to ₱15.0 billion (\$319.2 million).

On July 25, 2011, the Parent Company issued ₱10.0 billion Series “F” Preferred Shares at a dividend rate of 8.0%. The Parent Company approved and authorized the issuance by way of private placement or issuance to Qualified Buyers of One Hundred Million (100,000,000) of its Series “F” Preferred Shares with a par value of ₱10.0 a share and an issue price of ₱100.0 a share. The Series “F” Preferred Shares were listed and traded on the First Board of the PSE until its full redemption in July 2018. Total proceeds of the issuance of the Series “F” Preferred Shares amounted to ₱10.0 billion (\$235.7 million). Transaction costs amounting to ₱53.0 million (\$1.2 million) were incurred and deducted against additional paid-in capital.

On May 28, 2012, the Parent Company completed the Public Offering of the 100,000,000 Series “G” Preferred Shares in the Philippines at an issue price of ₱100.0 per share. The Series “G” Preferred Shares are currently listed and traded on the First Board of the PSE. The total proceeds from the issuance of the Series “G” Preferred Shares amounted to ₱10.0 billion (\$234.4 million), net of transaction costs amounting to ₱95.2 million (\$2.2 million).

On January 20, 2015, the Parent Company authorized the issuance and sale of an aggregate of 297,029,800 common stocks to be taken from its unissued capital stock and treasury stock at an identical issue price of ₱25.25 per share (the “Offer Price”). The price represents a 2.9% discount to the last traded price of ₱26.00 per share. The placement was conducted via an accelerated bookbuilding process. First Gen’s parent company, First Philippine Holdings Corporation (FPH), which has a 66.2% stake in First Gen’s issued and outstanding common stocks, agreed to subscribe to its pro-rata share in the transaction. The Parent Company issued to FPH 179,127,900 common stocks from treasury stock, as well as 17,623,100 common stocks from unissued capital stock, at the Offer Price. The total proceeds from the issuance of the common stocks amounted to ₱7.4 billion (\$166.5 million), net of transaction costs amounting to ₱62.1 million (\$1.4 million). Following the subscription, FPH maintained its 66.2%



stake in the Parent Company's issued and outstanding common stock. On May 11, 2016, the Board of Directors (BOD) of the Parent Company approved a two-year extension of the buy-back programs from June 1, 2016 to May 31, 2018. The two-year extension covers the: (i) common stock buy-back program covering up to 300.0 million of the Parent Company's common stocks; and (ii) Series "F" and "G" Preferred Shares buyback program covering up to ₱10.0 billion worth of said redeemable preferred stocks.

In 2016 and 2017, the Parent Company purchased from the open market a total of 432,840 and 6,894,480 Series "F" and Series "G" redeemable preferred stocks, respectively. Total payments for the buyback of the Series "F" and Series "G" redeemable preferred stocks amounted to ₱46.9 million (\$0.92 million) and ₱810.5 million (\$16.4 million), respectively.

On June 14, 2018, the BOD of the Parent Company approved during its board meeting the two-year extension of the buy-back programs from June 15, 2018 to June 14, 2020. The two-year extension covers the: (i) common stock buy-back program covering up to 300.0 million of the Parent Company's common stocks; and (ii) Series "G" Preferred Shares buyback program covering up to ₱10.0 billion worth of said redeemable preferred stocks.

On the same date, the BOD of the Parent Company approved during its board meeting, in accordance with the terms and condition of the Parent Company's Series "F" Preferred Shares, the redemption of all outstanding Series "F" Preferred Shares on July 25, 2018 at the applicable redemption value of ₱100.0 per share. On July 25, 2018, the Parent Company redeemed all outstanding Series "F" Preferred Shares amounting to ₱6,320.2 million (\$119.1 million).

In 2018, the Parent Company purchased from the open market 659,720 Series "G" redeemable preferred stocks and 17,981,000 common stocks. Total payments for the buyback of Series "G" redeemable preferred stocks and common stocks amounted to ₱69.5 million (\$1.3 million) and ₱270.3 million (\$5.2 million), respectively (see Note 16).

In 2019, the Parent Company purchased from the open market 8,045,000 Series "G" redeemable preferred stocks and 33,039,352 common stocks. Total payments for the buyback of Series "G" redeemable preferred stocks and common stocks amounted to ₱871.8 million (\$16.7 million) and ₱813.8 million (\$15.7 million), respectively. From the total common stocks purchased from the open market, a total of 16,429,352 common stocks are held by subsidiaries (see Note 16).

On April 15, 2020, the BOD of the Parent Company approved during its board meeting the two-year extension of the buy-back programs from June 14, 2020 to June 14, 2022. The two-year extension covers the: (i) common stock buy-back program covering up to 300.0 million of the Parent Company's common stocks; and (ii) Series "G" Preferred Shares buyback program covering up to ₱10.0 billion worth of said redeemable preferred stocks.

In 2020, the Parent Company purchased from the open market 12,008,700 common stocks for ₱228.9 million (\$4.5 million) (see Note 16).

On July 1, 2020, the global investment firm KKR acquired 427,041,291 common stocks of First Gen for a total investment value of ₱9.6 billion (\$192.2 million), representing an approximate 11.9% economic interest, or an 8.4% voting interest in First Gen. These shares represent all of the shares that were tendered by the public to Valorous Asia Holdings ("Valorous"), an entity controlled by KKR investment funds. The acquisition follows the completion of a voluntary tender offer for First Gen's common stocks filed with the Philippine SEC last May 26, 2020 by Valorous. The tender offer period ran from May 27 to June 24, 2020 at an offer price of ₱22.50 per share. As of December 31, 2020, KKR owns and holds 452,917,691 common stocks of the Parent Company, representing approximately 12.6% of the Parent Company's outstanding common stocks.



On February 15, 2021, the Parent Company purchased from the open market 51,546,960 Series “G” redeemable preferred stocks for ₱5,572.1 million (\$115.9 million) (see Notes 16 and 29).

As of December 31, 2020 and 2019, FPH directly and indirectly owns 67.82% and 67.59%, respectively, of the common stocks of First Gen and 100% of First Gen’s voting preferred stocks. FPH is 51.04% and 50.60%-owned by Lopez Holdings Corporation (Lopez Holdings), a publicly-listed Philippine-based entity, as of December 31, 2020 and 2019, respectively. Majority of Lopez Holdings is owned by Lopez, Inc. Lopez, Inc. is the ultimate parent of First Gen. FPH, Lopez Holdings and Lopez, Inc. are all incorporated in the Philippines. As of December 31, 2020 and 2019, there are 344 common stockholders of record of First Gen. As of December 31, 2020 and 2019, there are 3,552,180,957 and 3,564,189,657 common stocks issued and outstanding, respectively (see Note 16).

Corporate Address

The registered principal office address of the Parent Company is 6th Floor, Rockwell Business Center Tower 3, Ortigas Avenue, Pasig City.

Authorization for Issuance of the Consolidated Financial Statements

The consolidated financial statements of First Gen Group were reviewed and recommended for approval by the Audit Committee to the BOD on March 17, 2021. The same consolidated financial statements were approved and authorized for issuance by the BOD on March 17, 2021.

2. **Summary of Significant Accounting and Financial Reporting Policies**

Basis of Preparation

The consolidated financial statements are prepared on a historical cost basis, except for derivative instruments, financial assets through profit or loss (FVPL) and financial assets at fair value through other comprehensive income (FVOCI) that are measured at fair value. The consolidated financial statements are presented in United States (U.S.) dollar, which is the Parent Company’s functional currency, and are rounded to the nearest thousands, except when otherwise indicated.

Statement of Compliance

The consolidated financial statements of First Gen Group are prepared in compliance with Philippine Financial Reporting Standards (PFRSs) as issued by the Philippine Financial Reporting Standards Council and adopted by the Philippine SEC.

Significant Accounting and Financial Reporting Policies

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of new standards effective as at January 1, 2020.

- Amendments to PFRS 3, *Business Combinations, Definition of a Business*

The amendments to PFRS 3 clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs.

The amendments may impact future periods should First Gen Group enter into any business combinations.



- Amendments to PFRS 7, *Financial Instruments: Disclosures* and PFRS 9, *Financial Instruments, Interest Rate Benchmark Reform*

The amendments to PFRS 9 provide a number of reliefs, which apply to all hedging relationships that are directly affected by the interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument.

The amendments have no material impact on First Gen Group's consolidated financial statements.

- Amendments to Philippine Accounting Standards (PAS) 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*

The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

The amendments have no material impact on First Gen Group's consolidated financial statements.

- Conceptual Framework for Financial Reporting issued on March 29, 2018

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the standard-setters in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards.

The revised Conceptual Framework includes new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts.

The revised Conceptual Framework has no material impact on First Gen Group's consolidated financial statements.

- Amendments to PFRS 16, *COVID-19-related Rent Concessions*

The amendments provide relief to lessees from applying the PFRS 16 requirement on lease modifications to rent concessions arising as a direct consequence of the COVID-19 pandemic.



A lessee may elect not to assess whether a rent concession from a lessor is a lease modification if it meets all of the following criteria:

- The rent concession is a direct consequence of COVID-19;
- The change in lease payments results in a revised lease consideration that is substantially the same as, or less than, the lease consideration immediately preceding the change;
- Any reduction in lease payments affects only payments originally due on or before June 30, 2021; and
- There is no substantive change to other terms and conditions of the lease.

A lessee that applies this practical expedient will account for any change in lease payments resulting from the COVID-19 related rent concession in the same way it would account for a change that is not a lease modification, i.e., as a variable lease payment.

The amendments are effective for annual reporting periods beginning on or after June 1, 2020. Early adoption is permitted.

The amendments have no impact on First Gen Group's consolidated financial statements.

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as of December 31 each year.

First Gen Group controls an investee if, and only if, First Gen 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 First Gen Group has less than a majority of the voting or similar rights of an investee, First Gen 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
- First Gen Group's voting rights and potential voting rights.

First Gen Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when First Gen Group obtains control over the subsidiary and ceases when First Gen Group loses control over the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date First Gen Group gains control until First Gen Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the Parent Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with First Gen Group's accounting policies. All significant intra-group assets and liabilities, equity, income and expenses, and cash flows relating to transactions between members of First Gen Group are eliminated in full on consolidation.



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

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. All intercompany balances and transactions, including intercompany profits and losses, are eliminated.

Non-controlling Interests

Non-controlling interests represent the portion of total comprehensive income or loss and net assets not held by First Gen Group. Non-controlling interests are presented separately in the consolidated statement of income, consolidated statement of comprehensive income and within equity in the consolidated statement of financial position and consolidated statement of changes in equity, separate from equity attributable to equity holders of the Parent Company.

The acquisition of an additional ownership interest in a subsidiary without a change of control is accounted for as an equity transaction in accordance with PAS 27. In transactions where the non-controlling interest is acquired or sold without loss of control, any excess or deficit of consideration paid over the carrying amount of the non-controlling interest is recognized as part of "Equity reserve" account in the equity attributable to the equity holders of the Parent Company.

For the years ended December 31, 2020, 2019 and 2018, the non-controlling interests arise from the total comprehensive income or loss and net assets not held by First Gen Group in EDC and Subsidiaries.

Subsidiaries

The following is a list of the companies on which the Parent Company has control:

| | Percentage of Voting Interest | | |
|---|-------------------------------|------|------|
| | 2020 | 2019 | 2018 |
| First Gen Renewables, Inc. (FGRI) | 100 | 100 | 100 |
| Unified Holdings Corporation (Unified) | 100 | 100 | 100 |
| AlliedGen Power Corp. (AlliedGen) | 100 | 100 | 100 |
| First Gen Mindanao Hydro Power Corporation (FG Mindanao) | 100 | 100 | 100 |
| First Gen Ecopower Solutions, Inc. (FG Ecopower) ¹ | 100 | 100 | 100 |
| First Gen Energy Solutions Inc. (FGES) | 100 | 100 | 100 |
| First Gen Prime Energy Corporation (FG Prime) | 100 | 100 | 100 |
| First Gen Visayas Energy, Inc. (FG Visayas Energy) | 100 | 100 | 100 |
| FG Bukidnon Power Corporation (FG Bukidnon) ² | 100 | 100 | 100 |
| Northern Terracotta Power Corp. | 100 | 100 | 100 |
| Blue Vulcan Holdings Corporation (Blue Vulcan) | 100 | 100 | 100 |
| Prime Meridian Powergen Corporation (Prime Meridian) ³ | 100 | 100 | 100 |
| Gold silk Holdings Corporation ⁷ | 100 | 100 | 100 |
| Dualcore Holdings Inc. ⁷ | 100 | 100 | 100 |
| Onecore Holdings Inc. ⁷ | 100 | 100 | 100 |

(Forward)



| | Percentage of Voting Interest | | |
|--|-------------------------------|------|------|
| | 2020 | 2019 | 2018 |
| FG Mindanao Renewables Corp. (FMRC) ⁸ | 100 | 100 | 100 |
| FGen Northern Mindanao Holdings, Inc. (FNMHI) ⁸ | 100 | 100 | 100 |
| FGen Tagoloan Hydro Corporation (FG Tagoloan) ⁹ | 100 | 100 | 100 |
| FGen Tumalaong Hydro Corporation (FG Tumalaong) ⁹ | 100 | 100 | 100 |
| FGen Puyo Hydro Corporation (FG Puyo) ¹⁰ | 100 | 100 | 100 |
| FGen Bubunawan Hydro Corporation (FG Bubunawan) ¹⁰ | 100 | 100 | 100 |
| FGen Cabadbaran Hydro Corporation (FG Cabadbaran) ¹⁰ | 100 | 100 | 100 |
| First Gas Holdings Corporation (FGHC) | 100 | 100 | 100 |
| FGP ⁴ | 100 | 100 | 100 |
| First NatGas Power Corp. (FNPC) ⁵ | 100 | 100 | 100 |
| First Gas Power Corporation (FGPC) ⁶ | 100 | 100 | 100 |
| First Gas Pipeline Corporation (FG Pipeline) ⁶ | 100 | 100 | 100 |
| FGLand Corporation (FG Land) ⁶ | 100 | 100 | 100 |
| FGEN LNG Corporation (FGEN LNG) ¹¹ | 100 | 100 | 100 |
| First Gen LNG Holdings Corporation (LNG Holdings) | 100 | 100 | 100 |
| First Gen Meridian Holdings, Inc. (FGEN Meridian) | 100 | 100 | 100 |
| FGen Power Ventures, Inc. (FGEN Power Ventures) | 100 | 100 | 100 |
| FGen San Isidro Hydro Power Corporation (FGEN San Isidro), formerly FGen Power Holdings, Inc. ^{15, 17} | 100 | 100 | 100 |
| FGen Prime Holdings, Inc. (Prime Holdings) | 100 | 100 | 100 |
| FGen Eco Solutions Holdings, Inc. (FGESHI) | 100 | 100 | 100 |
| FGen Liquefied Natural Gas Holdings, Inc. (Liquefied Holdings) | 100 | 100 | 100 |
| FGen Reliable Energy Holdings, Inc. (FG Reliable Energy) | 100 | 100 | 100 |
| FGen Power Solutions, Inc. (FG Power Solutions) | 100 | 100 | 100 |
| FGen Vibrant Blue Sky Holdings, Inc. (FGVBSHI) | 100 | 100 | 100 |
| FGen Aqua Power Holdings, Inc. (FG Aqua Power) | 100 | 100 | 100 |
| FGen Natural Gas Supply, Inc. (FGen NatGas Supply) ¹³ | 100 | 100 | 100 |
| FGen Power Operations, Inc. (FPOI) | 100 | 100 | 100 |
| FGen Fuel Line Systems, Inc. (FGen Fuel Line) | 100 | 100 | 100 |
| Prime Terracota Holdings Corp. (Prime Terracota) | 100 | 100 | 100 |
| FGen Northern Power Corp. (FGen Northern Power) ¹⁶ | 100 | 100 | – |
| First Gen Hydro Power Corporation (FG Hydro) ¹² | 40 | 40 | 40 |
| First Gen Premier Energy Corp. (FG Premier) ¹⁴ | – | 100 | 100 |
| First Gen Luzon Power Corp. (FG Luzon) ¹⁴ | – | 100 | 100 |
| First Gen Visayas Hydro Power Corporation (FG Visayas) ¹⁴ | – | 100 | 100 |
| FGen Casecnan Hydro Power Corp. (FGEN Casecnan) ¹⁴ | – | 100 | 100 |

¹Through FGESHI

²Through FGRI

³Through FGEN Meridian

⁴60% through Unified and 40% through Onecore

⁵Through AlliedGen

⁶Through FGHC

⁷Through Blue Vulcan

⁸Through FG Mindanao

⁹Through FMRC

¹⁰Through FNMHI

¹¹Through LNG Holdings

¹²The Parent Company has 40% direct voting interest in FG Hydro while its effective economic interest through Prime Terracota is 67.4% as of December 31, 2020 and 2018, and 65.0% as of December 31, 2019.

¹³Through Liquefied Holdings

¹⁴On September 19, 2018, FGEN Casecnan's BOD and stockholders approved a resolution to amend the Articles of Incorporation changing the corporate term from "fifty (50) years from and after the date of issuance of the certificate of incorporation" to "until March 31, 2020". On November 19, 2018, FG Luzon, FG Visayas and FG Premier's BOD and stockholders approved a resolution to amend the Articles of Incorporation changing the corporate term from "fifty (50) years from and after the date of issuance of the certificate of incorporation" to "until March 31, 2020".

¹⁵On June 24, 2019, the BOD and stockholders approved the amendment of the corporate name of FGen Power Holdings, Inc. to FGEN San Isidro Hydro Power Corporation. The Philippine SEC approved the change of the corporate name on December 17, 2019.

¹⁶On July 7, 2015, Conal Holdings Corp. (Conal) subscribed to 37,500 common stocks of FGen Northern Power at par value of P1.00 per share. As a result of the subscription, Conal now owns 60% economic and voting interest in FGen Northern Power while the Parent Company's interest was reduced from 100% to 40%. On September 27, 2019, Conal and the Parent Company executed a Deed of Sale for the purchase of the 37,500 common stocks owned by Conal at par value of P1.00 per share. As a result, the Parent Company now owns 100% of FGEN Northern Power.

¹⁷On July 1, 2020, the Parent Company and FMRC executed a Deed of Sale to purchase 25,000 common shares of FGEN San Isidro with par value of P1.00 per share.

All of the foregoing subsidiaries are incorporated in the Philippines.



As of December 31, 2020 and 2019, FG Luzon, FG Visayas, FG Mindanao, FG Ecopower, FG Premier, FG Prime, FG Visayas Energy, Northern Terracotta, FMRC, FNMHI, FG Tagoloan, FG Tumalaong, FG Puyo, FG Bubunawan, FG Cabadbaran, FG Pipeline, FG Land, FGEN LNG, LNG Holdings, FGen Northern Power, FGEN Power Ventures, FGEN Casecanan, FGEN San Isidro, Prime Holdings, FGESHI, Liquefied Holdings, FG Reliable Energy, FG Power Solutions, FGVBSHI, FG Aqua Power, FGen NatGas Supply, FPOI, and FGen Fuel Line have not started commercial operations.

Prime Terracota

On June 18, 2015, the Parent Company purchased 16.0 million and 13.0 million Series “B” voting preferred stocks of Prime Terracota owned by Quialex Realty Corp. (QRC) and the Employees Retirement Plan of Lopez, Inc. (Lopez, Inc. Retirement Fund) [LIRF], respectively, for a total consideration of \$1.1 million. The amount of equity reserve pertaining to the acquisition of the non-controlling stakes of QRC and LIRF in Prime Terracota amounted to \$0.2 million.

The Parent Company’s acquisition of non-controlling interest in Prime Terracota was accounted for as an equity transaction, whereby the carrying amounts of the controlling and non-controlling interests were adjusted to reflect the changes in their relative interests in Prime Terracota and any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid is recognized directly in equity, under “Equity reserve” account, and attributed to the owners of the Parent Company.

As of December 31, 2020 and 2019, the Parent Company has a 100% direct voting interest in Prime Terracota.

As of December 31, 2020, 2019 and 2018, Prime Terracota’s subsidiaries include the following companies:

| | Percentage of Voting Interest | | |
|--|-------------------------------|------|------|
| | 2020 | 2019 | 2018 |
| Red Vulcan Holdings Corporation (Red Vulcan) | 100 | 100 | 100 |
| EDC ¹ | 64 | 64 | 64 |
| First Gen Hydro Power Corporation (FG Hydro) | 38 | 38 | 38 |
| EDC Geothermal Corp. (EGC) ³ | 64 | 64 | 64 |
| Green Core Geothermal Inc. (GCGI) | 64 | 64 | 64 |
| Bac-Man Geothermal Inc. (BGI) | 64 | 64 | 64 |
| Unified Leyte Geothermal Energy Inc. (ULGEI) | 64 | 64 | 64 |
| Southern Negros Geothermal, Inc. (SNGI) ^{2/4} | 64 | 64 | 64 |
| Bac-Man Energy Development Corporation (BEDC) ² | 64 | 64 | 64 |
| EDC Wind Energy Holdings, Inc. (EWEHI) ² | 64 | 64 | 64 |
| EDC Burgos Wind Power Corporation (EBWPC) | 64 | 64 | 64 |
| EDC Pagudpud Wind Power Corporation (EPWPC) ² | 64 | 64 | 64 |
| EDC Bayog Burgos Wind Power Corporation (EBBWPC) ² | 64 | 64 | 64 |
| EDC Pagali Burgos Wind Power Corporation (EPBWPC) ² | 64 | 64 | 64 |
| Matnog 1 Renewable Energy Corporation (M1REC) ^{2/4} | 64 | 64 | 64 |
| Matnog 2 Renewable Energy Corporation (M2REC) ^{2/4} | 64 | 64 | 64 |
| Matnog 3 Renewable Energy Corporation (M3REC) ^{2/4} | 64 | 64 | 64 |
| Iloilo 1 Renewable Energy Corporation (I1REC) ² | 64 | 64 | 64 |
| Negros 1 Renewable Energy Corporation (N1REC) ^{2/4} | 64 | 64 | 64 |
| EDC Bright Solar Energy Holdings, Inc. (EBSEHI) ³ | 64 | 64 | 64 |
| EDC Siklab Power Corporation (EDC Siklab) ² | 64 | 64 | 64 |
| EDC Sinag Power Corporation (Sinag) ² | 64 | 64 | 64 |
| EDC Sinag Iloilo Power Corporation (EDC Sinag Iloilo) ^{2/4} | 64 | 64 | 64 |
| EDC Siklab Iloilo Power Corporation (Siklab Iloilo) ^{2/4} | 64 | 64 | 64 |
| EDC Cleansolar Visayas Power Corporation (ECSVPC) ^{2/4} | 64 | 64 | 64 |
| EDC Chile Limitada ² | 64 | 64 | 64 |
| EDC Holdings International Limited (EHIL) ³ | 64 | 64 | 64 |
| Energy Development Corporation Hong Kong International Investment Limited (EDC HKIIL) ² | 64 | 64 | 64 |

(Forward)



| | Percentage of Voting Interest | | |
|---|-------------------------------|------|------|
| | 2020 | 2019 | 2018 |
| Energy Development Corporation Hong Kong Limited (EDC HKL) ³ | 64 | 64 | 64 |
| EDC Chile Holdings SPA ² | 64 | 64 | 64 |
| EDC Geotermica Chile ² | 64 | 64 | 64 |
| EDC Peru Holdings S.A.C. ² | 64 | 64 | 64 |
| EDC Geotermica Peru S.A.C. ² | 64 | 64 | 64 |
| Energy Development Corporation Peru S.A.C. ² | 64 | 64 | 64 |
| EDC Geotermica Del Sur S.A.C. ² | 64 | 64 | 64 |
| EDC Energia Azul S.A.C. ² | 64 | 64 | 64 |
| Geotermica Crucero Peru S.A.C. ² | 45 | 45 | 45 |
| EDC Energía Perú S.A.C. ² | 64 | 64 | 64 |
| Geotermica Tutupaca Norte Peru S.A.C. ² | 45 | 45 | 45 |
| EDC Energía Geotérmica S.A.C. ² | 64 | 64 | 64 |
| EDC Progreso Geotérmica Perú S.A.C. ² | 64 | 64 | 64 |
| Geotermica Loriscota Peru S.A.C. ² | 45 | 45 | 45 |
| EDC Energía Renovable Perú S.A.C. ² | 64 | 64 | 64 |
| EDC Soluciones Sostenibles Ltd | 64 | 64 | 64 |
| EDC Energia Verde Chile SpA | 64 | 64 | 64 |
| EDC Energia de la Tierra SpA | 64 | 64 | 64 |
| EDC Desarrollo Sostenible Ltd. | 64 | 64 | 64 |
| EDC Energia Verde Peru SAC | 64 | 64 | 64 |
| PT EDC Indonesia ³ | 61 | 61 | 61 |
| PT EDC Panas Bumi Indonesia ³ | 61 | 61 | 61 |
| EDC Wind Energy Holdings 2 Inc. (EWEHI2) ^{2/3} | 64 | 64 | 64 |
| Calaca Renewable Energy Corporation (CREC) ^{2/4} | 64 | 64 | 64 |
| Burgos 3 Renewable Energy Corporation (BREC3) ^{2/4} | 64 | 64 | 64 |
| Burgos 4 Renewable Energy Corporation (BREC4) ^{2/4} | 64 | 64 | 64 |

¹ The Parent Company's economic interest in EDC is 45.7% as of December 31, 2020 and 2019 while its voting interest in EDC is 65.0% as of December 31, 2020 and 2019.

² Incorporated before 2020 and has not yet started commercial operations as of December 31, 2020.

³ Serves as an investment holding company

⁴ Shortened corporate life in 2019

EDC

On August 3, 2017, the Parent Company entered into an Implementation Agreement with Philippines Renewable Energy Holdings Corporation (“PREHC”), Red Vulcan and Northern Terracotta. PREHC is a company incorporated in the Philippines.

Under the Implementation Agreement, PREHC will conduct a voluntary tender offer for a minimum of 6.6 billion common stocks and up to a maximum of 8.9 billion common stocks of EDC, representing approximately up to 31.7% of the total outstanding voting shares of EDC, from the shareholders of EDC at a price of ₱7.25 per share. The tender offer began on August 10, 2017 and ended on September 18, 2017.

On September 29, 2017, Red Vulcan entered into a Shareholders' Agreement with Philippine Energy Markets B.V. (PEMBV), PREHC and EDC. PEMBV is a private company existing under the laws of the Netherlands and is the parent company of PREHC. The agreement sets out the agreement of the parties with respect to the management of EDC.

The Parent Company and Northern Terracotta tendered to PREHC their 991.8 million and 986.3 million common stocks, respectively, subject to scale-back provisions under applicable regulations.

Following the implementation of the scale back announced by PREHC, the tendered shares were 842.9 million and 838.2 million common stocks for the Parent Company and Northern Terracotta, respectively. Red Vulcan did not participate in the tender offer process and retained its existing common stocks and voting preferred stocks, which correspond to a 60.0% voting stake in EDC. The Parent Company continues to consolidate EDC given its current controlling stake. However, the Parent Company's economic interest in EDC was reduced from 50.6% as of December 31, 2016 to 41.6% after the transaction. The amount of equity reserve pertaining to the sale of EDC common stocks amounted to \$140.9 million.



On August 7, 2018, the BOD of EDC approved the petition for voluntary delisting (the Delisting) of its common stocks from the Main Board of the PSE and, in accordance with the PSE's delisting rules and regulations, to conduct a tender offer (the Tender Offer) for up to 2.04 billion common stocks held collectively by all shareholders of EDC other than Red Vulcan, the Parent Company, Northern Terracotta, and PREHC, at a price of ₱7.25 per common stock (the Tender Offer Price).

On September 19, 2018, EDC filed a petition for the Delisting with the PSE. The Tender Offer began on September 25, 2018 and ended on October 22, 2018.

Following the completion of the Tender Offer, a total of 2.0 billion common stocks, representing approximately 10.72% of EDC's outstanding voting shares were tendered pursuant to the Tender Offer, accepted and thereafter purchased by EDC via a block sale through the facilities of the PSE on November 5, 2018. The shares were purchased at the Tender Offer Price with a total transaction value of \$277.6 million (₱14,566.0 million). The amount of reduction in equity reserve and non-controlling interests pertaining to the Delisting amounted to \$2.3 million and \$275.3 million, respectively.

On November 14, 2018, the BOD of the PSE granted the petition for voluntary delisting filed by EDC, and accordingly, ordered the delisting of EDC's common stocks from the official registry of the PSE (electronic board and ticker) effective on November 29, 2018.

On December 3, 2018, the BOD of EDC approved the issuance of additional 326.3 million non-preemption common stocks to PREHC out of its existing unissued capital stock for a total consideration of \$45.1 million (₱2,365.3 million) or at an issue price of ₱7.25 per common stock. The amount of increase in equity reserve and non-controlling interests pertaining to the issuance of EDC common stocks amounted to \$7.2 million and \$37.8 million, respectively.

As of December 31, 2020 and 2019, PREHC owns 34.9% of EDC's outstanding voting stocks. Red Vulcan still holds the controlling voting interest with 63.9% ownership of EDC's outstanding voting stocks. The Parent Company continues to consolidate EDC given its current controlling stake.

As of December 31, 2020 and 2019, the Parent Company has 65.0% effective voting interest in EDC through Prime Terracota.

EDC Subsidiaries

On May 9, 2019, the BOD and the stockholders of M1REC, M2REC, M3REC and N1REC approved the amendment of their articles of incorporation to shorten their corporate existence from 50 years to 5 years from the date of incorporation. The Amended Articles of Incorporation of M1REC, M2REC, M3REC and N1REC were approved by the Philippine SEC on August 23, 2019.

As of December 31, 2020, M1REC, M2REC, M3REC and N1REC remained non-operating.

On May 9, 2019, the BOD and the stockholders of SNGI, Sinag Iloilo, Siklab Iloilo and ECSVPC approved the amendment of the articles of incorporation of these companies which shorten the corporate existence of SNGI, Sinag Iloilo and Siklab Iloilo from 50 years to 10 years from the date of their incorporation and from 50 years to 7 years for ECSVPC. The Amended Articles of Incorporation of SNGI, Sinag Iloilo, Siklab Iloilo and ECSVPC were approved by the Philippine SEC on August 30, 2019, August 23, 2019, September 10, 2019 and March 12, 2020, respectively.

As of December 31, 2020, SNGI, Sinag Iloilo, Siklab Iloilo and ECSVPC remained non-operating.



On May 9, 2019, the BOD and the stockholders of CREC, BREC4 and BREC3 approved the amendment of the articles of incorporation of these companies which shorten their corporate existence from 50 years to 4 years from the date of their incorporation. The Amended Articles of Incorporation of SNGI, Sinag Iloilo, Siklab Iloilo and ECSVPC were approved by the Philippine SEC on August 30, 2019.

As of December 31, 2020, CREC, BREC4 and BREC3 remained non-operating.

In February 2020, the Internal Revenue Services authorized the closure of EDC Energia Verde Chile SpA and EDC Energia de la Tierra SpA.

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 fair value on acquisition date 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 either at fair value or at its proportionate share in the acquiree's identifiable net assets. Acquisition-related costs incurred are expensed and included in general and administrative expenses.

When First Gen Group acquires a business, it assesses the financial assets and financial 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 any.

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 and any gain or loss on remeasurement is recognized in the consolidated statement of income.

Any contingent consideration to be transferred by the acquirer is 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, is recognized in accordance with PAS 39, either in the consolidated statement of income or charged to other comprehensive income. If the contingent consideration is classified as equity, it is not to 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 and any previous interest held, over the net fair value of identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, First Gen Group reassesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts recognized at the acquisition date. If this consideration still results in an excess of the fair value of the net assets of the subsidiary acquired over the aggregate consideration transferred, the difference is recognized in the consolidated statement of 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 First Gen 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.



Joint Venture

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 the unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control is similar to those necessary to determine control over subsidiaries. First Gen Group's investment in joint venture is initially recognized at cost and subsequently measured using the equity method.

Under the equity method, the investment in a joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in First Gen Group's share of net assets of the joint venture since the acquisition date.

The consolidated statement of income reflects First Gen Group's share of the results of operations of the joint venture. Any change in other comprehensive income of the investee is presented as part of the First Gen Group's other comprehensive income. In addition, when there has been a change recognized directly in the equity of the joint venture, First Gen 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 First Gen Group and the joint venture are eliminated to the extent of the interest in the joint venture.

The financial statements of the joint venture are prepared for the same reporting period as First Gen Group. When necessary, adjustments are made to bring the accounting policies in line with those of First Gen Group.

After application of the equity method, First Gen Group determines whether it is necessary to recognize an impairment loss on its investment on joint venture. At each reporting date, the First Gen Group determines whether there is objective evidence that the investment in the joint venture is impaired. If there is such evidence, First Gen Group calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value, and then recognizes the loss within profit or loss.

Upon loss of joint control over the joint venture, First Gen Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the joint venture upon loss of joint control and the fair value of the retained investment and proceeds from disposal is recognized in the consolidated statement of income.

Fair Value Measurement

The fair value of an asset or liability 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 market or the most advantageous market must be accessible to First Gen 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.

First Gen 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) 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.

First Gen Group has financial assets at FVPL and FVOCI, and derivative financial instruments as of December 31, 2020 and 2019 that are measured at fair value on a recurring basis. First Gen Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, First Gen 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.

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 cash with original maturities of three months or less from date of placement and that are subject to an insignificant risk of changes in value.

Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

First Gen Group has the following financial assets and liabilities:

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, FVOCI, and FVPL.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and First Gen Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component, First Gen Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs. Trade receivables that do not contain a significant financing component are measured at the transaction price determined under PFRS 15 (refer to the Revenue recognition policy). In order for a



financial asset to be classified and measured at amortized cost or FVOCI, it needs to give rise to cash flows that are ‘solely payments of principal and interest (SPPI)’ on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

First Gen Group’s business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortized cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows while financial assets classified and measured at FVOCI are held within a business model with the objective of both holding to collect contractual cash flows and selling.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the trade date, i.e., the date that First Gen Group commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four (4) categories:

- Financial assets at amortized cost (debt instruments)
- Financial assets at FVOCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at FVOCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at FVPL

Financial assets at amortized cost (debt instruments)

Financial assets at amortized cost are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Gains and losses are recognized in the consolidated statement of income when the asset is derecognized, modified or impaired.

First Gen Group’s financial assets at amortized cost are cash and cash equivalents, trade and other receivables (included under “Receivables” account), DSRA and short-term investments (included under “Other current assets” account), long-term receivables and special deposits and funds (included under “Other noncurrent assets” account) as of December 31, 2020 and 2019 (see Notes 5, 6, 9, 12, 17, 23 and 24).

Financial assets at FVOCI (debt instruments)

For debt instruments at FVOCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognized in the consolidated statement of income and computed in the same manner as for financial assets measured at amortized cost. The remaining fair value changes are recognized in OCI. Upon derecognition, the cumulative fair value change recognized in OCI is recycled to consolidated statement of income.

First Gen Group’s debt instruments at FVOCI include quoted debt instruments recorded as part of “Other noncurrent assets” account as of December 31, 2020 and 2019 (see Notes 12, 23 and 24).

Financial assets designated at FVOCI (equity instruments)

Upon initial recognition as at January 1, 2018, First Gen Group can elect to classify irrevocably its equity investments as equity instruments designated at FVOCI when they meet the definition of equity under PAS 32, *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.



Gains and losses on these financial assets are never recycled to the consolidated statement of income. Dividends are recognized as other income in the consolidated statement of income when the right of payment has been established, except when First Gen Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at FVOCI are not subject to impairment assessment.

First Gen Group's financial assets designated at FVOCI are investments in proprietary club membership and quoted equity securities which are recorded as part of "Other noncurrent assets" account as of December 31, 2020 and 2019 (see Notes 12, 23 and 24).

Financial assets at FVPL

Financial assets at FVPL include financial assets held for trading, financial assets designated upon initial recognition at FVPL, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. 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. Notwithstanding the criteria for debt instruments to be classified at amortized cost or at FVOCI, as described above, debt instruments may be designated at FVPL on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at FVPL are carried in the consolidated statement of financial position at fair value with net changes in fair value recognized in the consolidated statement of income. Gains or losses on investments held for trading are recognized in the consolidated statement of income as part of "Mark-to-market gain (loss) on derivatives - net" account.

This category includes unquoted equity instruments which First Gen Group has not irrevocably elected to classify at FVOCI as of December 31, 2020 and 2019 (see Notes 8, 23 and 24).

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at FVPL, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at FVPL

Financial liabilities at FVPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as at FVPL.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by First Gen 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.



Financial liabilities designated upon initial recognition at FVPL are designated at the initial date of recognition, and only if the criteria in PFRS 9 are satisfied. First Gen Group has not designated any financial liability as at FVPL.

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Amortized cost is calculated by taking into account any related issue costs, discount or premium. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the amortization process.

Debt issuance costs incurred in connection with availments of long-term debts and issuances of Notes are deferred and amortized using the EIR method over the term of the long-term debts and Notes. The amortization is recognized under the “Interest expense and financing charges” account in the consolidated statement of income. Debt issuance costs are included in the measurement of the related long-term debts, and are allocated accordingly to the respective current and noncurrent portions.

First Gen Group’s loans and borrowings include accounts payable and accrued expenses, dividends payable, due to a related party, lease liabilities (current and noncurrent portions), loans payable and long-term debts as of December 31, 2020 and 2019 (see Notes 13, 14, 15, 17, 23 and 24).

Derivative Financial Instruments and Hedge Accounting

First Gen Group enters into derivative and hedging transactions, primarily interest rate swaps, cross-currency swaps, and foreign currency forwards, as needed, for the sole purpose of managing the risks that are associated with First Gen Group’s borrowing activities or as required by the lenders in certain cases.

Derivative financial instruments (including bifurcated embedded derivatives) are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Any gain or loss arising from changes in fair value on derivatives that do not qualify for hedge accounting is taken directly to the consolidated statement of income for the current year under the “Mark-to-market gain (loss) on derivatives - net” account.

For purposes of hedge accounting, derivatives can be designated either as cash flow hedges or fair value hedges depending on the type of risk exposure it hedges. At the inception of a hedge relationship, First Gen Group formally designates and documents the hedge relationship to which First Gen Group opts to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how First Gen Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined).

A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is ‘an economic relationship’ between the hedged item and the hedging instrument.
- The effect of credit risk does not ‘dominate the value changes’ that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that First Gen Group actually hedges and the quantity of the hedging instrument that First Gen Group actually uses to hedge that quantity of hedged item.



Cash flow hedges

Cash flow hedges are hedges of the exposure to variability in cash flows that are attributable to a particular risk associated with a recognized asset, liability or a highly probable forecast transaction and could affect the consolidated statement of comprehensive income. The effective portion of the gain or loss on the hedging instrument if any, is recognized as other comprehensive income (loss) in the “Cumulative translation adjustments” account in the consolidated statement of financial position, while the ineffective portion is recognized as “Mark-to-market gain (loss) on derivatives - net” account in the consolidated statement of income.

Amounts taken to other comprehensive income (loss) are transferred to the consolidated statement of income when the hedged transaction affects profit or loss, such as when hedged financial income or expense is recognized or when a forecast sale or purchase occurs. Where the hedged item is the cost of a non-financial asset or liability, the amounts taken to other comprehensive income (loss) are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction is no longer expected to occur, amounts previously recognized in other comprehensive income (loss) are transferred to the consolidated statement of income. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognized in other comprehensive income (loss) remain in equity until the forecast transaction occurs. If the related transaction is not expected to occur, the amount is recognized in the consolidated statement of income.

First Gen Group accounts for its interest rate swap, cross currency swap, foreign currency forwards and call spread swap agreements as cash flow hedges (see Note 24).

Embedded derivatives

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.

First Gen Group assesses whether embedded derivatives are required to be separated from the host contracts when First Gen Group first becomes a party to the contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Embedded derivatives are bifurcated from their host contracts, when the following conditions are met:

- (a) the entire hybrid contracts (composed of both the host contract and the embedded derivative) are not accounted for as financial assets and liabilities at FVPL;
- (b) when their economic risks and characteristics are not closely related to those of their respective host contracts; and
- (c) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative.

Embedded derivatives that are bifurcated from the host contracts are accounted for either as financial assets or financial liabilities at FVPL. Changes in fair values are included in the consolidated statement of income. First Gen Group has no bifurcated embedded derivatives as of December 31, 2020 and 2019.



Derecognition of Financial Assets and Financial Liabilities

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of financial assets) is derecognized when:

- the right to receive cash flows from the asset has expired; or
- First Gen 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 and either (a) First Gen Group has transferred substantially all the risks and rewards of the asset, or (b) First Gen Group has neither transferred nor retained the risks and rewards of the asset but has transferred the control of the asset.

Where First Gen Group has transferred its right to receive cash flows from an asset or has entered into a “pass-through” arrangement, 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 First Gen 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 First Gen Group could be required to repay.

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 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 income.

Impairment of Financial Assets

First Gen Group recognizes an allowance for ECLs for all financial assets except debt instruments held at FVPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that First Gen Group expects to receive, discounted at an approximation of the original EIR. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables that do not contain significant financing component, First Gen Group applies a simplified approach in calculating ECLs. Therefore, First Gen Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. First Gen Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For debt instruments at FVOCI, First Gen Group applies the low credit risk simplification. At every reporting date, First Gen Group evaluates whether the debt instrument is considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, First Gen Group reassesses the internal credit rating of the debt instrument.



For financial assets at amortized costs being individually assessed for ECLs, First Gen Group applied lifetime ECL calculation. This involves determination of probability of default and loss-given default based on available data, adjusted for forward-looking factors specific to the debtors and the economic environment.

First Gen Group's debt instruments at FVOCI comprise solely of quoted bonds that are graded in the top investment category (Very Good and Good) by credit rating agencies such as Moody's Corporation (Moody's) and/or Standard & Poor's Financial Services LLC (S&P), and, therefore, are considered to be low credit risk investments. It is First Gen Group's policy to measure ECLs on such instruments on a 12-month basis. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. First Gen Group uses the ratings from Moody's and/or S&P both to determine whether the debt instrument has significantly increased in credit risk and to estimate ECLs.

First Gen Group considers a financial asset to be in default when a counterparty fails to pay its contractual obligations, or there is a breach of other contractual terms, such as covenants. In certain cases, First Gen Group may also consider a financial asset to be in default when internal or external information indicates that First Gen Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by First Gen Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount 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. First Gen Group assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of First Gen Group and all of the counterparties.

Inventories

Inventories are carried at the lower of cost and net realizable value (NRV). The costs of fuel inventories are determined using the weighted average cost method, while the costs of spare parts and supplies are determined using the moving average method. The NRV for fuel inventories of FGP and FGPC is the fuel cost charged to Manila Electric Company (Meralco), under the respective PPAs of FGP and FGPC with Meralco [see Note 25(a)], which is based on weighted average cost of actual fuel consumed. The cost of spare parts and supplies includes the invoice amount, net of trade and cash discounts. The NRV for spare parts and supplies is the current replacement cost.

DSRA

DSRA pertains to the restricted peso and dollar-denominated interest bearing accounts opened and established by certain subsidiaries of First Gen Group in accordance with the loan agreements that will serve as a cash reserve or deposit to service the principal and/or interest payments due on the loans. DSRA is presented under "Other current assets" account in the consolidated statement of financial position.

Prepaid Expenses

Prepaid expenses (included under "Other current assets" and "Other noncurrent assets" accounts in the consolidated statement of financial position) are expenses paid in advance and recorded as asset before these are utilized. This account comprises prepaid expenses, creditable withholding tax certificates and advances to contractors. The prepaid expenses are apportioned over the period covered by the payment and charged to the appropriate accounts in the consolidated statement of income when incurred; creditable withholding tax certificates are deducted from income tax payable on the same year the



revenue was recognized; and the advances to contractors are reclassified to the proper asset or expense accounts and deducted from the contractor’s billings as specified on the provision of the contract.

Prepaid Taxes

Prepaid taxes (included under “Other current assets” account in the consolidated statement of financial position) are carried at cost less any impairment in value. Prepaid taxes consist mainly of tax credits that can be used by First Gen Group in the future. Tax credits represent unapplied certificates for claims from input value-added tax (VAT) credits received from the Bureau of Internal Revenue (BIR) and the Bureau of Customs (BOC). Such tax credits may be used for payment of internal revenue taxes or customs duties.

Investments in Associates

An associate is an entity over which First Gen Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but does not control or jointly control those policies.

The following is a list of the companies on which the Parent Company has significant influence:

| | Percentage of Voting Interest | | |
|--|-------------------------------|------|------|
| | 2020 | 2019 | 2018 |
| Buang Private Power Corporation (BPPC) ¹ | – | – | 37 |
| FGen Northern Power Corp. (FGen Northern Power) ² | – | – | 40 |

¹First Private Power Corporation (FPPC) has 93.25% voting and economic interest in BPPC. By virtue of the merger, FPPC transferred its assets and liabilities at their carrying values to BPPC on December 15, 2010. On November 24, 2017, BPPC’s BOD and stockholders approved a resolution to amend BPPC’s articles of incorporation shortening the term of the Company’s existence from “fifty (50) years from the date of incorporation hereof” to “until June 30, 2019”.

²On July 7, 2015, Conal subscribed to 37,500 common stocks of FGen Northern Power at par value of ₱1.00 per share. As result of the subscription, Conal now owns 60% economic and voting interest in FGen Northern Power while the Parent Company’s interest was reduced from 100% to 40%. As a result, the Parent Company lost control of FGen Northern Power but retained significant influence. On September 27, 2019, Conal and the Parent Company executed a Deed of Sale for the purchase of the 37,500 common stocks owned by Conal at par value of ₱1.00 per share. As a result, the Parent Company now owns 100% of FGEN Northern Power.

As of December 31, 2020 and 2019, the Parent Company has no investment in associates.

Under the equity method, such investments in associates are carried in the consolidated statement of financial position at cost plus post-acquisition changes in First Gen Group’s share in net assets of the associate. First Gen Group’s share in its associates’ post-acquisition profits or losses is recognized in the consolidated statement of income, and its share in post-acquisition movements in the associates’ other comprehensive income (loss) is recognized directly in the consolidated statement of comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When First Gen Group’s share in losses of an associate equals or exceeds its interest in the associate, including any other unsecured receivables, First Gen Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associates.

Unrealized intercompany profits or losses arising from the transactions with the associates are eliminated to the extent of First Gen Group’s interest in the associates.

The reporting dates of the associates and First Gen Group are identical and the associates’ accounting policies conform to those used by First Gen Group for like transactions and events in similar circumstances.

Upon loss of significant influence over the associate, First Gen Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognized in the consolidated statement of income.



Property, Plant and Equipment

Property, plant and equipment, except land, are stated at cost less accumulated depreciation, amortization and impairment in value, if any. Land is stated at cost less any impairment in value. The initial cost of property, plant and equipment consists of the purchase price including import duties, borrowing costs (during the construction period) and other costs directly attributable to bringing the asset to its working condition and location for its intended use. Cost also includes the cost of replacing part of such property, plant and equipment when the recognition criteria are met and the estimated present value of the cost of dismantling and removing the asset and restoring the site.

Property, plant and equipment also include the estimated rehabilitation and restoration costs. Under their respective Environmental Compliance Certificate (ECCs), FGP, FGPC, FNPC and Prime Meridian have legal obligations to dismantle their respective power plant assets at the end of their useful lives. FG Bukidnon, on the other hand, has legal obligation under the Hydropower Service Contract (HSC) to dismantle its power plant asset at the end of its useful life. EDC also has legal obligations to dismantle the steam fields and power plants located in the contract areas for which EDC is legally and constructively liable (see Notes 10 and 15).

Construction in progress represents structures under construction and is stated at cost less any impairment of value, if any. This includes costs of construction and other direct costs. Costs also include interest and financing charges on borrowed funds and the amortization of deferred financing costs on these borrowed funds incurred during the construction period. Construction in progress is not depreciated until such time that the assets are put into operational use.

The income generated wholly and necessarily as a result of the process of bringing the asset into the location and condition for its intended use (i.e., net proceeds from selling any items produced while testing whether the asset is functioning properly) is credited to the cost of asset up to the extent of cost of testing capitalized during the testing period. Any excess of net proceeds over costs is recognized in the consolidated statement of income, and not against the cost of the property, plant and equipment. When the incidental operations are not necessary to bring an item to the location and condition necessary for it to be capable of operating in the manner intended by management, the income and related expenses of incidental operations are not offset against the cost of the property, plant and equipment but are recognized in the consolidated statement of income, and included in their respective classifications of income and expense.

Expenditures incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance, are normally charged to the consolidated statement of income in the year the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of property, plant and equipment.

First Gen Group divided the power plant assets into significant parts. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated and amortized separately.



Depreciation and amortization are computed using the straight-line method over the following estimated useful lives of the assets:

| <u>Asset Type</u> | <u>Number of Years</u> |
|---|--|
| Power plants | 15-30 |
| Buildings, improvements and other structures | 5-35 |
| Fluid Collection and Recycling System (FCRS) and production wells | 10-25 |
| Exploration, machinery and equipment | 2-25 |
| Furniture, fixtures and office equipment | 3-10 |
| Transportation equipment | 5-10 |
| Leasehold improvements | 5 or lease term with no renewal option, whichever is shorter |

The useful lives and depreciation and amortization method are reviewed at each financial reporting date to ensure that the years and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

Depreciation of an item of property, plant and equipment begins when it becomes available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation ceases at the earlier of the date that the item is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with PFRS 5 and the date the asset is derecognized. Leasehold improvements are amortized over the lease term or the economic life of the related asset, whichever is shorter.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising from derecognition of the assets (calculated as the difference between the net disposal proceeds and carrying amount of the asset) is included in the consolidated statement of income in the year the asset is derecognized.

Prepaid Major Spare Parts

Prepaid major spare parts (included in the “Other noncurrent assets” account in the consolidated statement of financial position) are stated at cost less any impairment in value. Prepaid major spare parts pertain to the advance payments made to Siemens Energy, Inc. (SEI) [formerly Siemens Power Operations, Inc. or SPOI] for the major spare parts that will be replaced during the scheduled maintenance outage.

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as of the date of acquisition. The intangible assets arising from the business combination are recognized initially at fair values.

Following initial recognition, intangible assets are carried at cost less accumulated amortization and any impairment losses. Internally-generated intangible assets, if any, excluding capitalized development costs, are not capitalized and expenditures are reflected in the consolidated statement of income in the year the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized using the straight-line method over the estimated useful economic life, and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization shall begin when the asset is available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. The amortization



period and method for an intangible asset with a finite useful life are reviewed at least each financial reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the said intangible asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated statement of income in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, either individually or at the cash generating unit (CGU) level. Such intangibles are not amortized. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made prospectively.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds, if any, and the carrying amount of the asset and are recognized in the consolidated statement of income in the year the asset is derecognized.

Water Rights

The cost of water rights of FG Hydro is measured on initial recognition at cost. Following initial recognition of the water rights, the cost model is applied requiring the asset to be carried at cost less any accumulated amortization and accumulated impairment losses, if any. Water rights are amortized using the straight-line method over 25 years, which is the term of the agreement with the National Irrigation Administration (NIA).

Pipeline Rights

Pipeline rights represent the construction cost of the natural gas pipeline facility connecting the natural gas supplier's refinery to FGP's power plant including incidental transfer costs incurred in connection with the transfer of ownership of the pipeline facility to the natural gas supplier. The cost of pipeline rights is amortized using the straight-line method over 22 years, which is the term of the Gas Sale and Purchase Agreement (GSPA).

Rights to Use Transmission Line

Rights to use transmission line pertain to the substation improvements donated to the National Transmission Corporation (TransCo) pursuant to the Substation Interconnection Agreement (SIA) dated September 2, 1997 entered into among FGPC, National Power Corporation (NPC) and Meralco. The transferred substation improvements were accounted for as intangible assets since FGPC still maintains the right to use these assets under the provisions of the PPA with Meralco and the SIA. The cost of rights to use transmission line is amortized using the straight-line method over the remaining life of related power plant assets.

Computer Software and Licenses

The costs of acquisition of computer software and licenses are capitalized as intangible asset if such costs are not integral part of the related hardware.

These intangible assets are initially measured at cost. Subsequently, these are measured at cost less accumulated amortization and allowance for impairment losses, if any. Amortization of computer software is computed using the straight-line method of over five (5) years.

Exploration and Evaluation Assets

EDC follows the full cost method of accounting for its exploration costs determined on the basis of each service contract area. Under this method, all exploration costs relating to each service contract are accumulated and deferred in "Exploration and evaluation assets" under "Other noncurrent assets"



account in the consolidated statement of financial position pending the determination of whether the wells have proved reserves. Capitalized expenditures include costs of license acquisition, technical services and studies, exploration drilling and testing, and appropriate technical and administrative expenses. General overhead or costs incurred prior to having obtained the legal rights to explore an area are recognized as expense in the consolidated statement of income when incurred. Once the legal rights to explore has been acquired, costs directly associated with an exploration well are capitalized as exploration and evaluation assets until the drilling of the well is complete and the results have been evaluated. Capitalized exploration and evaluation expenditures are considered to be intangible assets until the commencement of drilling of exploratory wells.

If tests conducted on the drilled exploratory wells reveal that these wells cannot produce proved reserves, the capitalized costs are charged to expense except when management decides to use the unproductive wells, for recycling or waste disposal. Once the technical feasibility and commercial viability of the project to produce proved reserves are established, the exploration and evaluation assets are reclassified to “Property, plant and equipment” account.

Exploration and evaluation assets also include the estimated rehabilitation and restoration costs of EDC that are incurred as a consequence of having undertaken the exploration for and evaluation of geothermal resources.

Impairment of Non-financial Assets

Property, plant and equipment, water rights, pipeline rights, rights to use transmission line, computer software and licenses, input VAT, prepaid expenses, prepaid major spare parts, prepaid taxes and right-of-use assets

At each financial reporting date, First Gen Group assesses whether there is any indication that its non-financial assets may be impaired. When an indicator of impairment exists, First Gen Group makes a formal estimate of an asset’s recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs to sell and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent from other assets or groups of assets, in which case the recoverable amount is assessed as part of the CGU to which it belongs. Where the carrying amount of an asset (or CGU) exceeds its recoverable amount, the asset (or CGU) 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 assessment of the time value of money and the risks specific to the asset (or CGU). An impairment loss is recognized in the consolidated statement of income in the year in which it arises.

An assessment is made at each financial 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, First Gen Group estimates the asset’s or CGU’s recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset’s recoverable amount since the last impairment loss was recognized. In such instance, the carrying amount of the asset is increased to its recoverable amount. However, the reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of income.

Exploration and Evaluation Assets

Exploration and evaluation assets are tested for impairment when facts and circumstances suggest that the carrying amount of the exploration and evaluation asset may exceed its recoverable amount.



When facts and circumstances suggest that the carrying amount exceeds the recoverable amount, First Gen Group makes a formal estimate of an asset's recoverable amount. The recoverable amount is the higher of exploration and evaluation asset's fair value less costs to sell and its value in use. Recoverable amount is determined for an individual exploration and evaluation asset, unless the exploration and evaluation asset does not generate cash inflows that are largely independent from other assets or groups of assets, in which case the recoverable amount is assessed as part of the cash-generating unit to which it belongs. Where the carrying amount of an exploration and evaluation asset (or CGU) exceeds its recoverable amount, the exploration and evaluation asset (or CGU) 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 assessment of the time value of money and the risks specific to the asset (or CGU). An impairment loss is recognized in the consolidated statement of income in the year in which it arises.

Goodwill

Goodwill is reviewed for impairment annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the CGU (or group of CGUs) to which the goodwill relates. Where the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount of the cash-generating unit (or group of CGUs) to which goodwill has been allocated, an impairment loss is recognized immediately in the consolidated statement of income. Impairment loss relating to goodwill cannot be reversed for subsequent increases in its recoverable amount in future years. First Gen Group performs its annual impairment test of goodwill as of December 31 for Red Vulcan, FGHC, FG Hydro, and EDC HKL, and September 30 for GCGI or more frequently; if events or changes in circumstances indicate that the carrying value may be impaired.

Investments in associates

First Gen Group determines whether it is necessary to recognize an impairment loss on its investments in associates. First Gen Group determines at each financial reporting date whether there is any objective evidence that the investments in associates are impaired. If this is the case, First Gen Group calculates the amount of impairment as being the difference between the recoverable value of the associate and the carrying amount of investment, and recognizes the amount of impairment loss in the consolidated statement of income.

Current versus Non-current Classification

First Gen Group presents assets and liabilities in the consolidated statement of financial position based on current/non-current classification. An asset is classified as current when it is:

- Expected to be realized or intended to be sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the reporting period; or
- Cash or cash 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 non-current.

A liability is classified as current when:

- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.



All other liabilities are classified as non-current.

Deferred income tax assets and liabilities and net retirement assets and liabilities are classified as non-current assets and liabilities, respectively.

Provisions

Provisions are recognized when First Gen Group has a present obligation (legal or constructive) as a result of a past event and 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 as to the amount of the obligation. Where First Gen Group expects some or all of the provision will 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 recognized in the consolidated statement of income, net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to passage of time is recognized under the "Interest expense and financing charges" account in the consolidated statement of income.

FGP, FGPC, FNPC, Prime Meridian and FG Bukidnon recognized provisions arising from legal and/or constructive obligations associated with the cost of dismantling and removing an item of property, plant and equipment and restoring the site on which it is located. EDC likewise records the present value of estimated costs of legal and constructive obligation required to restore the sites upon termination of the cooperation period in accordance with its Geothermal Renewable Energy Service Contract (GRES-Cs). The nature of these activities includes plugging of drilled wells and restoration of pads and road networks. Similarly, under the Wind Energy Service Contract (WESC), EBWPC is responsible for the removal and the disposal of all materials, equipment and facilities installed in the contract area used for the wind energy project. In determining the amount of provisions for rehabilitation and restoration costs, assumptions and estimates are required in relation to the expected cost to rehabilitate and restore sites and infrastructure when such obligation exists. When the liability is initially recognized, the present value of the estimated costs is capitalized as part of the carrying amount of the related "FCRS and production wells" and "Power plants" under "Property, plant and equipment", and "Exploration and evaluation assets" accounts in the consolidated statement of financial position.

The obligation of FGP, FGPC, FNPC, Prime Meridian and FG Bukidnon occurs either when the asset is acquired or as a consequence of using the asset for the purpose of generating electricity during a particular year. Dismantling costs are provided at the present value of expected costs to settle the obligation using estimated cash flows. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the dismantling liability. The unwinding of the discount and the amount of provision for rehabilitation and restoration costs are expensed as incurred and recognized as an accretion under the "Interest expense and financing charges" account in the consolidated statement of income. The estimated future costs of dismantling are reviewed annually and adjusted, as appropriate. Changes in the estimated future costs or in the discount rate applied are added to or deducted from the cost of the asset.

Contingencies

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



Retirement and other post-employment benefits

The Parent Company and certain subsidiaries have distinct, funded, non-contributory, defined benefit retirement plans. The retirement plans of the companies cover all permanent employees, each administered by their respective retirement committees. EDC also maintains a funded, non-contributory defined benefit retirement plan, and it also provides post-employment medical and life insurance benefits which are unfunded.

First Gen Group recognizes the net defined benefit liability or asset which 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 retirement plans is 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 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 an expense or income in the consolidated statement of income.

Re-measurements 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 the consolidated statement of financial position with a corresponding debit or credit to retained earnings through other comprehensive income in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of First Gen Group, nor can they be paid directly to First Gen Group. The fair value of plan assets is based on market price information and 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.

First Gen Group's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.



Income Taxes

Current income tax

Current income tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the tax authority. The tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted as at financial reporting date.

Deferred income tax

Deferred income tax is provided, using the balance sheet method, on all temporary differences at financial 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. Deferred income tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits from the excess of minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT), and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient future taxable income will be available against which the deductible temporary differences, and carryforward benefits of unused tax credits from excess MCIT and unused NOLCO can be utilized. Deferred income tax, however, is not recognized on temporary differences that arise 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 income nor taxable income.

The carrying amount of deferred income tax assets is reviewed at each financial reporting date and reduced to the extent that it is no longer probable that sufficient future taxable income will become available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each financial reporting date and are recognized to the extent that it has become probable that sufficient future taxable income will allow the deferred income tax assets to be recovered.

Deferred income tax assets and liabilities are measured at the income tax rates that are applicable 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 at financial reporting date.

Deferred income tax liabilities are not provided on nontaxable temporary differences associated with investments in subsidiaries and associates.

Current and deferred income tax relating to items recognized directly in equity is also recognized in the consolidated statement of changes in equity and not in the consolidated statement of income.

Deferred income tax relating to items recognized directly in other comprehensive income is recognized in consolidated statement of comprehensive income.

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

Value-added tax (VAT)

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

- where the VAT incurred on a purchase of assets or services is not recoverable from the tax authority, in which case the VAT is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- where receivables and payables are stated with the amount of VAT included.



The net amount of VAT recoverable from the taxation authority is recorded as “Input VAT” under “Other current assets” account and as “Prepaid expenses” under “Other noncurrent assets” account in the consolidated statement of financial position. It is carried at cost less any impairment allowance.

Subject to approval of the taxation authority, input VAT can be claimed for refund or as tax credit for payment of certain types of taxes due by certain companies within First Gen Group. Input VAT claims granted by the taxation authority are separately presented as “Tax Credit Certificates” (TCCs) under the “Other noncurrent assets” account in the consolidated statement of financial position.

Leases

Under PFRS 16, applicable as of January 1, 2019

Right-of-use assets

Effective January 1, 2019, it is First Gen Group’s policy to classify right-of-use assets as part of “Other noncurrent assets”. Prior to adoption of PFRS 16, all of First Gen Group’s leases are accounted for as operating leases in accordance with PAS 17, hence, not recorded in the consolidated statement of financial position. First Gen 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 costs of right-of-use assets include the amount of lease liability recognized, and lease payments made at or before the commencement date. 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. Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, First Gen 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 over the lease term.

In calculating the present value of lease payments, First Gen 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 amounts of lease liabilities are increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amounts of lease liabilities are 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

First Gen Group applies the short-term lease recognition exemption to its short-term leases of (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

Under PAS 17, applicable prior to January 1, 2019

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

- a. there is a change in contractual terms, other than a renewal or extension of the arrangement;



- b. a renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
- c. there is a change in the determination of whether fulfillment is dependent on a specified asset; or
- d. there is a substantial change to the asset.

Where a reassessment is made, lease accounting will commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios a, c or d above, and at the date of renewal or extension period for scenario b.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. In cases where First Gen Group acts as a lessee, operating lease payments are recognized as expense in the consolidated statement of income on a straight-line basis over the lease term.

Capital Stock, Stock Rights and Additional Paid-in Capital

Capital stock is measured at par value and is classified as equity for all stocks issued. When First Gen Group issues more than one class of stock, a separate account is maintained for each class of stock and the number of stocks issued. A preferred stock is an equity instrument that is usually preferred as to claims on the entity's assets, earnings, or both. A common stock is an equity instrument that is subordinate to all other classes of equity instruments.

Stock rights that are given pro-rata to all of the existing owners of the same class of First Gen's non-derivative equity instruments in order to acquire a fixed number of its own equity instruments for a fixed amount in any currency are classified as equity instrument.

When the stocks are sold at a premium, the difference between the proceeds and the par value is credited to the "Additional paid-in capital" account. When stocks are issued for a consideration other than cash, the proceeds are measured by the fair value of the consideration received. In case the stocks are issued to extinguish or settle the liability of First Gen Group, the stocks shall be measured either at the fair value of the stocks issued or fair value of the liability settled, whichever is more reliably determinable.

Direct costs incurred related to the issuance of new capital stock, such as underwriting, accounting and legal fees, printing costs and taxes are shown in equity as deduction, net of tax, from the proceeds.

Common Stocks in Employee Trust Account

This account pertains to EDC's common stocks held in the employee trust account. This consist of common stocks irrevocably assigned to the Banco de Oro Trust and Investment Group (BDO Trust) account that are recognized at the amount at which such common stocks were reacquired by EDC for the purpose of its executive/employee stock grant or such similar plans, and proportionately reduced upon vesting of the benefit to the executive/employee grantee of the related number of common stocks. This account is shown as part of "Non-controlling Interests" in the equity section of the consolidated statement of financial position.

Treasury Stocks

Acquired treasury stocks are accounted for at weighted average cost and shown as a deduction in the equity section of the consolidated statement of financial position. No gain or loss is recognized in the consolidated statement of income on the purchase, sale, issuance or cancellation of the Parent Company's own equity instruments. Upon reissuance of treasury stocks, the "Cost of common and preferred stocks held in treasury" account is credited at cost. The excess of proceeds from reissuance over the cost of treasury stocks is credited to the "Additional paid-in capital" account. However, if the cost of treasury stocks exceeds the proceeds from reissuance, such excess is debited to the "Additional



paid-in capital” account but only to the extent of previously set-up additional paid-in capital for the same class of stock. Otherwise, this is debited against the “Retained earnings” account.

Own equity instruments which are held by subsidiaries are treated similar to treasury stocks and recognized and deducted from equity at cost in the consolidated financial statements. No gain or loss is recognized in the consolidated statement of income on the purchase, sale, issue or cancellation of the Parent Company’s own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized in additional paid-in capital.

Retained Earnings

The amount included in retained earnings includes profit or loss attributable to First Gen Group’s equity holders and reduced by dividends on capital stock. Dividends on capital stock are recognized as a liability and deducted from equity when they are declared by the Parent Company’s BOD. Dividends for the year that are approved after the financial reporting date are dealt with as an event after the financial reporting date. The remeasurement gains and losses on retirement benefits are also included in the amount of retained earnings.

Retained earnings may also include the effect of changes in accounting policies as may be required by the standards’ transitional provisions.

Portions of the retained earnings are restricted from being declared as dividend such as acquisition price of the treasury stocks and remeasurement gains on retirement benefits.

Dividends on Preferred and Common Stocks

First Gen Group may pay dividends in cash or by the issuance of shares of stock. Cash and property dividends are subject to the approval of the BOD, while stock dividends are subject to approval by the BOD, at least two-thirds of the outstanding capital stock of the shareholders at a shareholders’ meeting called for such purpose, and by the Philippine SEC. First Gen Group may declare dividends only out of its unrestricted retained earnings.

Cash and property dividends on preferred and common stocks are recognized as liability and deducted from equity when declared. Stock dividends are treated as transfers from retained earnings to additional paid-in capital.

Revenue Recognition

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

Revenue from sale of electricity under contracts

Revenue from sale of electricity (for EDC, FGP, FGPC and FNPC) is based on the respective Power Purchase Agreements (PPAs) of EDC, FGP and FGPC, and Power Supply Agreement (PSA) of FNPC. These agreements call for a take-or-pay arrangement where payment is made principally on the basis of the availability of the power plant and not on actual deliveries of electricity generated.

Revenue from these agreements is composed of fixed capacity fees, fixed and variable operating and maintenance fees, fuel, wheeling and pipeline charges, and supplemental fees (excluding fixed capacity fees, collectively referred to as the “non-lease components”).

Beginning 2019, all of these revenues are accounted under PFRS 15 as it was determined that the agreements no longer qualify as leases based on the requirements of PFRS 16.

In 2018, these agreements are determined to be operating leases where a significant portion of the risks and benefits of ownership of the assets are retained by EDC, FGP, FGPC and FNPC, as such, the



portion related to the fixed capacity fees is accounted as operating lease component and the same fees are recognized on a straight-line basis, based on the actual Net Dependable Capacity (NDC) tested or proven, over the terms of the respective PPAs and PSA. The non-lease components are accounted under PFRS 15, *Revenue from Contracts with Customers* in 2018.

Policy applicable in 2019 and 2018 applying PFRS 15

Revenue from sale of electricity under contracts such as variable operating and maintenance fees, fuel, wheeling and pipeline charges, and supplemental fees are recognized monthly based on the actual energy delivered. Fixed capacity fees and fixed operating and maintenance fees are recognized monthly based on NDC tested or proven, over the terms of the respective PPAs and PSA (in 2018, fixed capacity fees are considered as lease component).

Revenues from sale of electricity that are not covered by the long-term PPAs and PSA, particularly those that are using natural gas, geothermal, hydroelectric, wind and solar energy, are consummated whenever the electricity generated by these companies is transmitted through the transmission line designated by the buyer, for a consideration. Revenues from sale of electricity using natural gas, hydroelectric, and geothermal power are based on sales price and are composed of generation fees from spot sales to the WESM and PSAs with various electric companies. Revenue from sale of electricity using wind and solar power is based on the applicable FIT rate as approved by the Energy Regulatory Commission (ERC). Revenue from sale of electricity is recognized monthly based on the actual energy delivered.

Meanwhile, revenue from sale of electricity through ancillary services to the National Grid Corporation of the Philippines (NGCP) is recognized monthly based on the capacity scheduled and/or dispatched and provided. For FGES, revenue from sale of electricity is composed of generation charge from monthly energy supply with various contestable customers through Retail Supply Contract (RSC), and is recognized monthly based on the actual energy delivered. The basic energy charges for each billing period are inclusive of generation charge and retail supply charge.

Interest Income

Interest income is recognized as the interest accrues (using the EIR, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset), taking into account the effective yield on the asset.

Insurance Proceeds

Proceeds from insurance claims are recognized as part of “Other income (charges)” and are recognized only when receipt is virtually certain.

Costs of Sale of Electricity

These include expenses incurred by the departments directly responsible for the generation of revenues from sale of electricity (i.e., Plant Operations, Production, Maintenance, Transmission and Dispatch, Wells Drilling and Maintenance Department) at operating project locations in the case of EDC. This account also includes the costs incurred by FGPC, FGP, FNPC, and Prime Meridian, particularly fuel cost, power plant operations and maintenance, and depreciation and amortization, which are necessary expenses incurred to generate the revenues from sale of electricity. Costs of sale of electricity are expensed when incurred.

Expense Recognition

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, and are recognized when these are incurred.



General and Administrative Expenses

General and administrative expenses constitute cost of administering the business and normally include the expenses incurred by the departments in the Head Office (i.e., Management and Services, and Project Location's Administrative Services Department). General and administrative expenses are expensed when incurred.

Borrowing Costs

Borrowing costs are capitalized if they are directly attributable to the acquisition, construction or production of qualifying assets until such time that the assets are substantially ready for their intended use or sale, which necessarily takes a substantial period of time. Income earned on temporary investment of specific borrowings, pending the expenditure on qualifying assets, is deducted from the borrowing costs eligible for capitalization. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds, as well as exchange differences arising from foreign currency borrowings used to finance the project to the extent that they are regarded as an adjustment to interest costs. All other borrowing costs are expensed in the year they occur and are recognized in the consolidated statement of income in the period in which they are incurred.

Foreign Currency Translations

The consolidated financial statements are presented in U.S. dollar, which is the Parent Company's functional and presentation currency. Each entity in First Gen Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded using the weighted average functional currency rate prevailing at transaction date. Monetary assets and liabilities denominated in foreign currencies are restated using the functional currency rate of exchange at financial reporting date. All differences are taken to the consolidated statement of income. Nonmonetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as at the dates of the transaction. Nonmonetary items measured at fair value in a foreign currency are translated using the weighted average exchange rates as at the date when the fair value was determined. Foreign exchange differences between the rate at transaction date and the rate at settlement date or financial reporting date are recognized in the consolidated statement of income.

The functional currency of all the subsidiaries is the Philippine peso, except for the following:

| Subsidiaries: | Functional Currency |
|-------------------------|---------------------|
| Unified | U.S. dollar |
| FGP | - do - |
| FGPC | - do - |
| FGHC | - do - |
| Blue Vulcan | - do - |
| FGRI | - do - |
| Gold silk | - do - |
| Dualcore | - do - |
| Onecore | - do - |
| FNPC | - do - |
| EBWPC* | - do - |
| EDC HKL* | - do - |
| EDC HKIL* | - do - |
| EDC Chile Holdings SPA* | Chilean peso |

(Forward)



| Subsidiaries: | Functional Currency |
|---|---------------------|
| EDC Geotermica Chile* | - do - |
| EDC Chile Limitada* | - do - |
| EDC Peru Holdings S.A.C. * | Peruvian nuevo sol |
| EDC Geotermica Peru S.A.C. * | - do - |
| EDC Peru S.A.C. * | - do - |
| EDC Geotermica Del Sur S.A.C. * | - do - |
| EDC Energía Azul S.A.C. * | - do - |
| Geotermica Crucero Peru S.A.C. * | - do - |
| EDC Energía Perú S.A.C. * | - do - |
| Geotermica Tutupaca Norte Peru S.A.C. * | Peruvian nuevo sol |
| EDC Energía Geotermica S.A.C. * | - do - |
| EDC Progreso Geotermico Perú S.A.C. * | - do - |
| Geotermica Loriscota Peru S.A.C. * | - do - |
| EDC Energía Renovable Perú S.A.C. * | - do - |
| EDC Soluciones Sostenibles Ltd* | - do - |
| EDC Desarrollo Sostenible Ltd* | - do - |
| EDC Energia Verde Chile SpA* | - do - |
| EDC Energia de la Tierra SpA* | - do - |
| EDC Energia Verde Peru SAC* | - do - |
| PT EDC Indonesia* | Indonesian rupiah |
| PT EDC Panas Bumi Indonesia* | - do - |

**Translated and consolidated to EDC using Philippine Peso*

As at financial reporting date, the assets and liabilities of subsidiaries whose functional currency is different from the presentation currency are translated into the presentation currency of the Parent Company (the U.S. dollar) at the closing rate of exchange ruling at financial reporting date and, their statements of income are translated at the monthly weighted average exchange rates for the year. The exchange differences arising on the translation are taken to other comprehensive income (loss) as part of the “Cumulative translation adjustments” account, a separate component of equity. Upon disposal of any of these subsidiaries, the deferred cumulative amount recognized in equity relating to that particular subsidiary will be recognized in the consolidated statement of income proportionate to the equity interest disposed.

Foreign Currency-Denominated Transactions

Transactions in foreign currencies are initially recorded at the functional currency rate at the date of the transaction. Monetary assets and monetary liabilities denominated in foreign currencies are translated using the functional currency rate of exchange as at financial reporting date. All differences are taken to profit or loss as part of “Foreign exchange gains (losses) - net” account in the consolidated statement of income. Nonmonetary items that are measured at historical cost in a foreign currency are translated using the exchange rate as at the date of the transactions. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

Earnings Per Share (EPS) Attributable to the Equity Holders of the Parent

Basic EPS is computed by dividing net income (less cumulative preferred dividends, if any, whether declared or not) for the year attributable to common shareholders by the weighted average number of common stocks outstanding during the year, with retroactive adjustments for any stock dividends declared and stock split.

Diluted EPS is calculated in the same manner, adjusted for any effects of dilutive potential stocks (e.g., stock options, convertible preferred stocks). As of December 31, 2020, and 2019, First Gen Group does not have any dilutive potential stocks. Hence, diluted EPS is the same as the basic EPS.



Segment Reporting

For purposes of management reporting, First Gen Group's operating businesses are organized and managed separately on a per company basis, with each company representing a strategic business segment. First Gen's identified operating segments, which are consistent with the segments reported to the BOD which is First Gen's Chief Operating Decision Maker (CODM). Financial information on the operating segment is presented in Note 4.

Events After the Financial Reporting Date

Any event after the financial reporting date that provides additional information about First Gen Group's position at financial reporting date (adjusting event) is reflected in the consolidated financial statements. Events after financial reporting date that are not adjusting events, if any, are disclosed, in the notes to consolidated financial statements, when material.

Future Changes in Accounting Policies

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

Effective beginning on or after January 1, 2021

- Amendments to PFRS 9, PFRS 7, PFRS 4 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
- Relief from the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

First Gen Group shall also disclose information about:

- The about the nature and extent of risks to which the entity is exposed arising from financial instruments subject to IBOR reform, and how the entity manages those risks; and
- Their progress in completing the transition to alternative benchmark rates, and how the entity is managing that transition.

The amendments are effective for annual reporting periods beginning on or after January 1, 2021 and apply retrospectively, however, First Gen Group is not required to restate prior periods.

The amendments are not expected to have a material impact on First Gen Group's consolidated financial statements.



Effective beginning on or after January 1, 2022

- Amendments to PFRS 3, *Reference to the Conceptual Framework*

The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The amendments added an exception to the recognition principle of PFRS 3, *Business Combinations* to avoid the issue of potential ‘day 2’ gains or losses arising for liabilities and contingent liabilities that would be within the scope of PAS 37, *Provisions, Contingent Liabilities and Contingent Assets* or Philippine-IFRIC 21, *Levies*, if incurred separately.

At the same time, the amendments add a new paragraph to PFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

The amendments are effective for annual reporting periods beginning on or after January 1, 2022 and will be applied prospectively.

The amendments are not expected to have a material impact on First Gen Group’s consolidated financial statements.

- Amendments to PAS 16, *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 First Gen Group’s consolidated financial statements.

- 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.

First Gen 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. The amendments are not expected to have a material impact on First Gen Group’s consolidated financial statements.



- *Annual Improvements to PFRSs 2018-2020 Cycle*

- Amendments to PFRS 1, *First-time Adoption of Philippines 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 PFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of PFRS 1.

The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted.

The amendments are not expected to have a material impact on First Gen Group's consolidated financial statements.

- Amendments to PFRS 9, *Financial Instruments, Fees in the '10 per cent' test for derecognition of financial liabilities*

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted.

First Gen 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 First Gen Group's consolidated financial statements.

- 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 any impact on First Gen Group's consolidated financial statements.



Effective beginning on or after January 1, 2023

- Amendments to PAS 1, *Classification of Liabilities as Current or Non-current*

The amendments clarify paragraphs 69 to 76 of PAS 1, *Presentation of Financial Statements*, to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and must be applied retrospectively.

The amendments are not expected to have a material impact on First Gen Group's consolidated financial statements.

- PFRS 17, *Insurance Contracts*

PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

PFRS 17 is effective for reporting periods beginning on or after January 1, 2023, with comparative figures required. Early application is permitted.

The amendments are not expected to have any impact on First Gen Group's consolidated financial statements.

Deferred effectivity

- Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves



a business as defined in PFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

On January 13, 2016, the Financial Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board (IASB) completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

3. Significant Accounting Judgments and Estimates

The preparation of the consolidated financial statements in accordance with PFRSs require First Gen Group to make judgments and estimates that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. However, future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the consolidated financial statements as they become reasonably determinable.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

In the process of applying First Gen Group's accounting policies, management has made the following judgments and estimates which have the most significant effect on the amounts recognized in the consolidated financial statements:

Judgments

a. *Determination of functional currency*

Each entity within First Gen Group determines its own functional currency. The respective functional currency of each entity is the currency of the primary economic environment in which each entity operates. It is the currency that mainly influences the sale of services and the costs of providing services.

The presentation currency of First Gen Group is the U.S. dollar, which is the Parent Company's functional currency. The functional currency of each of the subsidiaries, as disclosed in Note 2 to the consolidated financial statements, is determined based on the economic substance of the underlying circumstances relevant to each subsidiary.

b. *Determination of control over an Investee Company*

Control is presumed to exist when an investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Parent Company has established that it has the ability to control its subsidiaries by virtue of either 100% or majority voting interest in the investee companies.

Parent Company's control over EDC

The Parent Company has indirect 40.0% economic interest in EDC through Prime Terracotta and Red Vulcan. Prior to September 30, 2017, the Parent Company also directly and indirectly owned 1.98 billion common stocks in EDC, of which 986.34 million common stocks were held through its wholly-owned subsidiary, Northern Terracotta. The 1.98 billion common stocks were



equivalent to a 10.6% economic interest in EDC. Following the successful tender offer conducted by PREHC, which was settled on September 29, 2017, to acquire up to 47.5% of EDC's common stocks, the Parent Company and Northern Terracotta participated and sold 9.0% of their combined 10.6% economic stake in EDC.

As of December 31, 2017, the Parent Company's total economic stake in EDC was 41.6%, of which 40.0% is held through Red Vulcan while the remaining 1.6% was held directly through the Parent Company and Northern Terracotta. Moreover, the Parent Company held a 61.1% voting interest in EDC, of which 60.0% is held through Red Vulcan.

On November 5, 2018, EDC completed its Delisting by acquiring a total of 2.0 billion common stocks, representing approximately 10.72% of EDC's outstanding voting stocks which were tendered pursuant to the tender offer. On December 3, 2018, the BOD of EDC approved the issuance of additional 326.3 million non-preemption common stocks to PREHC (see Note 2).

As of December 31, 2020 and 2019, the Parent Company's total economic stake in EDC is 45.7%, of which 44.0% is held through Red Vulcan while the remaining 1.7% is held directly through the Parent Company and Northern Terracotta. Moreover, the Parent Company holds a 65.0% voting interest in EDC, of which 63.9% is held through Red Vulcan. The Parent Company will continue to control and consolidate EDC given its controlling voting stake in EDC.

c. *Determination of whether non-controlling interest is material for purposes of PFRS 12*

PFRS 12 requires an entity to disclose certain information, including summarized financial information, for each of its subsidiaries that have non-controlling interests that are material to the reporting entity. The Parent Company has determined that the NCI in EDC and subsidiaries is material for purposes of providing the required disclosures under PFRS 12. EDC is one of the reportable segments of the Parent Company with significant assets and liabilities relative to the Parent Company's consolidated total assets and consolidated total liabilities. Also, dividends attributable to the NCI are considered significant relative to the total dividends declared by the Parent Company in the current and prior years (see Note 16).

d. *Effect of adoption of PFRS 16 on First Gen Group's PPAs and PSA*

First Gen Group has existing PPAs and PSA with customers. Prior to the adoption of PFRS 16, these arrangements were accounted as operating leases based on the requirements of Philippine Interpretation IFRIC 4 and PAS 17.

Upon adoption of PFRS 16, First Gen Group evaluated its PPAs and PSA applying the requirements of PFRS 16 and it was concluded that the arrangements do not contain a lease as the arrangements do not convey to the customers the right to direct the use of the identified assets. Accordingly, as of January 1, 2019, First Gen Group accounted the entire consideration received from these arrangements under PFRS 15.

e. *Operating leases in 2018 (Applicable prior to adoption of PFRS 16)*

First Gen Group as a Lessor

The respective PPAs of FGP and FGPC and the PSA of FNPC qualify as leases on the basis that FGP, FGPC and FNPC sell all of their output to Meralco and these agreements call for a take-or-pay arrangement where payment is made principally on the basis of the availability of the power plants and not on actual deliveries of electricity generated. These arrangements are determined to be operating leases where a significant portion of the risks and benefits of ownership of the assets are retained by FGP, FGPC and FNPC. Accordingly, the power plant assets are recorded as part of the cost of property, plant and equipment and the fixed capacity fees billed to



Meralco are recorded as revenue on a straight-line basis over the applicable terms of the PPAs and PSA (see Note 25).

For EDC, its PPAs qualify as a lease on the basis that EDC sells significant amount of its output to NPC/PSALM and, in the case of the SSAs, the agreement calls for a take-or-pay arrangement where payment is made principally on the basis of the availability of the steam field facilities and not on actual steam deliveries. This type of arrangement is determined to be an operating lease where a significant portion of the risks and rewards of ownership of the assets are retained by EDC since it does not include transfer of EDC's assets. Accordingly, the steam field facilities and power plant assets are recorded as part of the cost of property, plant and equipment, and the capacity fees billed to NPC/PSALM are recorded as operating revenue based on the terms of the PPAs and SSAs (see Note 25).

First Gen Group as a Lessee

First Gen Group has also entered into commercial property leases where it has determined that the lessor retains all the significant risks and rewards of ownership of these properties and has classified the leases as operating leases (see Note 25).

In connection with the installation of Burgos Wind Project's wind turbines and related dedicated point-to-point limited facilities, EDC entered into uniform land lease agreements and contracts of easement of right of way, respectively, with various private landowners. The term of the land lease agreement starts from the execution date of the contract and ends after 25 years from the commercial operations of the Burgos Wind Project. The contract of easement of right of way on the other hand, creates a perpetual easement over the subject property. Both the land lease agreement and contract of easement of right of way were classified as operating leases. All payments made in advance in connection with the agreements are included as part of "Prepaid expenses". Prepaid lease will be amortized on a straight-line basis over the lease term, whereas prepaid rights of way will be amortized on a straight-line basis over the term of the WESC, including the extension based on management's judgment of probability of extension (see Note 12).

f. *Revenue from contracts with customers*

First Gen Group applied the following significant judgements in assessing the amount and timing of revenue from contracts with customers in accordance with the requirements of PFRS 15:

Identifying performance obligations

First Gen Group identifies performance obligations by considering whether the promised goods or services in the contract are distinct goods or services. A good or service is distinct when the customer can benefit from the good or service on its own or together with other resources that are readily available to the customer and First Gen Group's promise to transfer the good or service to the customer is separately identifiable from the other promises in the contract.

First Gen Group assesses performance obligations as a series of distinct goods and services that are substantially the same and have the same pattern of transfer if:

1. each distinct good or services in the series are transferred over time; and
2. the same method of progress will be used (i.e., units of delivery) to measure the entity's progress towards complete satisfaction of the performance obligation.

For PPAs, PSAs and ancillary services containing several promises such as capacity and energy dispatched which are separately identified (excluding capacity fees considered as operating lease component in 2018), these obligations are combined and considered as one (1) performance



obligation since these are not distinct within the context of the agreements as the buyer cannot benefit from these services on its own without contracting the operations of the power plants. 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.

Retail electricity supply also qualifies as a series of distinct goods or services which is accounted for as one performance obligation since the delivery of energy every month are distinct services.

Allocation of variable consideration

Variable consideration may be attributable to the entire contract or to a specific part of the contract. For PPAs (upon scoping out of PFRS 16), PSAs and ancillary services and retail electricity supply, revenue streams which are considered as series of distinct goods or services that are substantially the same and have the same pattern of transfer, First Gen Group allocates the variable amount that is no longer subject to constraint to the satisfied portion (i.e., month or actual electricity delivery) which forms part of the single performance obligation, and the monthly billing of First Gen Group (excluding fixed capacity fees considered as operating lease component in 2018).

Timing of revenue recognition

First Gen Group recognizes revenue when it satisfies an identified performance obligation by transferring a promised good or service to a customer. A good or service is considered to be transferred when the customer obtains control. First Gen Group determines, at contract inception, whether it will transfer control of a promised good or service over time. If First Gen Group does not satisfy a performance obligation over time, the performance obligation is satisfied at a point in time.

First Gen Group concluded that revenue from contracts with customers are to be recognized over time, since customers simultaneously receives and consumes the benefits as First Gen Group supplies power.

Identifying methods for measuring progress of revenue recognized over time

First Gen Group determines the appropriate method of measuring progress which is either through the use of input or output methods. Input method recognizes revenue on the basis of the efforts or inputs to the satisfaction of a performance obligation while output method recognizes revenue on the basis of direct measurements of the value to the customer of the goods or services transferred to date.

First Gen Group determined that the output method is the best method in measuring progress as actual electricity is supplied to customers. First Gen Group recognizes revenue based on contracted and actual kilowatt hours (kwh) dispatched which are billed on a monthly basis.

g. Applicability of IFRIC 12, Service Concession Arrangements on the GRESCs, WESCs and Solar Energy Service Contract (SESCs)

An arrangement would fall under IFRIC 12 if the two (2) conditions below are met:

- a) the grantor controls or regulates the services that the operator must provide using the infrastructure, to whom it must provide them, and at what price; and
- b) the grantor controls any significant residual interest in the property at the end of the concession term through ownership, beneficial entitlement or otherwise.

Based on management's judgment, the GRESCs, WESCs, and SESC entered into by EDC are outside the scope of IFRIC 12 since EDC controls the significant residual interest in the properties



(i.e., the estimated useful lives of the assets exceed the service concession periods) at the end of the concession term through ownership.

h. *Deferred revenue on stored energy*

Under EDC's addendum agreements with NPC, EDC has a commitment to NPC with respect to certain volume of stored energy that NPC may lift for a specified period, provided that EDC is able to generate such energy over and above the nominated energy for each given year in accordance with the related PPAs. EDC has made a judgment based on historical information that future liftings by NPC from the stored energy is not probable and accordingly, has not deferred any portion of the collected revenues. The stored energy commitments are, however, disclosed in Note 25(b) to the consolidated financial statements.

i. *Classification of financial instruments*

First Gen Group exercises judgment in classifying a financial instrument, or its component parts, on initial recognition as either a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definition of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the consolidated statement of financial position (see Note 24).

In addition, financial assets are classified by evaluating, among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions in an arm's length basis.

j. *Contractual cash flows assessment*

For each financial asset, First Gen Group assesses the contractual terms to identify whether the instrument is consistent with the concept of SPPI.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortization of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, First Gen Group applies judgment and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

k. *Evaluation of business model in managing financial instruments*

First Gen Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. First Gen Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to First Gen 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, in particular, the way those risks are managed; and
- The expected frequency, value and timing of sales are also important aspects of First Gen Group’s assessment.

The business model assessment is based on reasonably expected scenarios without taking “worst case” or “stress case” scenarios into account. If cash flows after initial recognition are realized in a way that is different from First Gen Group’s original expectations, First Gen Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

Estimates

a. *Recoverability of goodwill*

As of December 31, 2020 and 2019, goodwill is allocated to the following CGUs:

| Entity | Cash-generating Unit | 2020 | 2019 |
|--------------|---|--------------------|------------------|
| Red Vulcan | EDC and Subsidiaries* | \$941,572 | \$893,001 |
| GCGI | Palinpinon and Tongonan power plant complex* | 46,680 | 44,272 |
| FGHC | Santa Rita power plant complex | 9,086 | 9,086 |
| FG Hydro | Pantabangan/Masiway hydroelectric power plants* | 6,109 | 5,794 |
| EDC HKL | Hot Rock entities | 1,451 | 2,549 |
| Total | | \$1,004,898 | \$954,702 |

*Changes in the carrying amount is due to the foreign exchange adjustment

Goodwill pertains to the business synergies achieved when these cash-generating units were acquired. Goodwill is tested for recoverability annually as at December 31 for Red Vulcan, FGHC, FG Hydro, and EDC HKL, and September 30 for GCGI or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired.

This requires an estimation of the value-in-use of the CGUs to which goodwill is allocated. Estimating value-in-use requires First Gen Group to estimate the expected future cash flows from the CGUs and discounts such cash flows using weighted average cost of capital to calculate the present value of those future cash flows. With regard to the assessment of value-in-use, management believes that no reasonably possible change in any of the key assumptions would result to a materially different calculation.

The recoverable amounts have been determined based on value-in-use calculation using cash flow projections based on financial budgets approved by senior management covering the remaining term of the existing agreements.

The pre-tax discount rates applied in cash flow projections and the growth rates used to extrapolate the cash flows beyond the remaining term of the existing agreements for the years ended December 31, 2020 and 2019 are summarized as follows:

| Entity | 2020 | | 2019 | |
|--------------|------------------------|--------------|------------------------|--------------|
| | Pre-tax discount rates | Growth rates | Pre-tax discount rates | Growth rates |
| Red Vulcan | 8.8% | 4.6% | 10.9% | 3.3% |
| GCGI/EDC HKL | 8.9% | 4.6% | 9.4% - 9.6% | 3.2% |
| FGHC | 10.0% | 2.0% | 6.4% | 2.1% |
| FG Hydro | 9.3% | 4.6% | 8.9% | 2.9% |



Following are the key assumptions used:

- **Budgeted Gross Margins**
The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budgeted year, increased for expected efficiency improvements.
- **Discount Rates**
Discount rates reflect the current market assessment of the risk specific to each CGU. The discount rate is based on the average percentage of the company's weighted average cost of capital. This rate is further adjusted to reflect the market assessment of any risk specific to the CGU for which future estimates of cash flows have not been adjusted.
- **Growth Rate**
Cash flows beyond the five-year period are extrapolated using a determined constant growth rate to arrive at the terminal value of each CGU.

In 2020, EDC recognized impairment loss on goodwill arising from the EDC's acquisition of Hot Rock entities amounting to \$1.1 million. No impairment loss on goodwill was recognized in the consolidated statements of income in 2019 and 2018. The carrying values of goodwill as of December 31, 2020 and 2019 amounted to \$1,004.9 million and \$954.7 million, respectively (see Note 11).

b. *Recoverability of exploration and evaluation assets*

Exploration and evaluation costs are recognized as assets in accordance with PFRS 6, *Exploration for and Evaluation of Mineral Resources*. Capitalization of these costs is based, to a certain extent, on management's judgment of the degree to which the expenditure may be associated with finding specific geothermal reserve.

The application of First Gen Group's accounting policy for exploration and evaluation assets requires judgment and estimates in determining whether it is likely that the future economic benefits are certain, which may be based on assumptions about future events or circumstances. Estimates and assumptions may change if new information becomes available. If, after the exploration and evaluation assets are capitalized, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalized is written-off in the consolidated statement of income in the period when the new information becomes available.

First Gen Group reviews the carrying values of its exploration and evaluation assets whenever events or changes in circumstances indicate that their carrying values may exceed their estimated net recoverable amounts. An impairment loss is recognized when the carrying values of these assets are not recoverable and exceeds their fair value.

The factors that First Gen Group considers important which could trigger an impairment review of exploration and evaluation assets include the following:

- the period for which First Gen Group has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- substantive expenditure on further exploration for and evaluation of geothermal reserve in the specific area is neither budgeted nor planned;
- exploration for and evaluation of geothermal reserve in the specific area have not led to the discovery of commercially viable geothermal reserve and First Gen Group decided to discontinue such activities in the specific area; and



- sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

First Gen Group determines impairment of projects based on the technical assessment of its resident scientists in various disciplines or based on management's decision not to pursue any further commercial development of its exploration projects.

In 2019, the exploration and evaluation costs incurred for Balingasag amounting to \$0.5 million was assessed by management to be no longer recoverable. No similar loss was recognized in 2018.

In 2020, EDC surrendered the energy service contracts for Ampiro, Lakewood and Balingasag to the DOE. Accordingly, First Gen Group wrote off the exploration and evaluation costs incurred for these projects and the related allowance for impairment losses.

As of December 31, 2020 and 2019, the carrying amounts of exploration and evaluation assets amounted to \$40.7 million and \$61.6 million, respectively (see Notes 12 and 25).

c. *Estimating NRV of inventories*

First Gen Group measures inventories at NRV when such value is lower than cost due to damage, physical deterioration, obsolescence, changes in price levels or other causes. The carrying amounts of inventories as of December 31, 2020 and 2019 amounted to \$177.8 million and \$128.9 million, respectively (see Note 7). Provision for inventory obsolescence pertaining to spare parts and supplies amounted to \$1.6 million, \$0.6 million and \$1.8 million in 2020, 2019 and 2018, respectively (see Notes 7 and 18).

d. *Recognition of deferred income tax assets*

The carrying amounts of deferred income tax assets at each financial reporting date are reviewed and are reduced to the extent that there is no longer sufficient future taxable income available to allow all or part of the deferred income tax assets to be utilized. First Gen Group's assessment on the recognition of deferred income tax assets on deductible temporary differences, and the carryforward benefits of excess MCIT and NOLCO is based on the forecasted taxable income of the future years. This forecast is based on First Gen Group's past results and future expectations on revenue and expenses.

As of December 31, 2020 and 2019, the amount of deferred income tax assets recognized in the consolidated statements of financial position amounted to \$52.2 million and \$56.9 million, respectively. First Gen Group also has deductible temporary differences, carryforward benefits of unused NOLCO and excess MCIT for which no deferred income tax asset was recognized (see Note 21).

e. *Retirement and other post-employment benefits*

The cost of defined benefit retirement plans and other post-employment medical and life insurance benefits (in the case of EDC) are determined using the projected unit credit method of actuarial valuation. An actuarial valuation involves making assumptions. These include the determination of the discount rates, future salary increases and medical trend rates, future salary increases, mortality and disability rates and employee turnover rates. While the assumptions are reasonable and appropriate, significant differences in First Gen Group's actual experience or significant changes in the assumptions may materially affect the retirement benefit obligation. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.



The assumed discount rates were determined using the market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as at financial reporting date. The details of assumptions used in the calculation of First Gen Group's retirement benefits are presented in Note 20 to the consolidated financial statements.

As of December 31, 2020 and 2019, the net retirement and other post-employment benefits liabilities of First Gen Group amounted to \$52.0 million and \$38.4 million, respectively. Net retirement benefit expense amounted to \$7.8 million, \$3.9 million and \$6.6 million in 2020, 2019 and 2018, respectively (see Note 20).

f. *Impairment of non-financial assets other than goodwill*

Property, plant and equipment, water rights, pipeline rights, rights to use transmission line, computer software and licenses, input VAT, prepaid expenses, prepaid major spare parts, TCCs, prepaid taxes and right-of-use assets

First Gen Group assesses impairment on these non-financial assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that First Gen Group considers important which could trigger an impairment review include the following:

- significant under-performance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- significant negative industry or economic trends.

First Gen Group assesses whether there are any indicators of impairment for all non-financial assets at each financial reporting date. First Gen Group recognizes an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is computed using the value in use approach. Recoverable amount is estimated for an individual asset or, if it is not possible, for the cash-generating unit to which the asset belongs. In the case of input VAT recorded as "Prepaid expenses" under "Other noncurrent assets" account, where the collection of tax claims is uncertain, First Gen Group provides an allowance for impairment based on the assessment of management and First Gen Group's legal counsel.

First Gen Group recorded a provision for impairment on noncurrent prepaid expenses amounting to \$5.0 million, \$4.4 million and \$4.5 million in 2020, 2019 and 2018, respectively. The aggregate carrying amounts of current and noncurrent prepaid expenses amounted to \$50.6 million and \$94.1 million as of December 31, 2020 and 2019, respectively (see Notes 9 and 12).

Loss on direct write-off of input VAT claims amounted to \$0.7 million in 2020, \$1.3 million in 2019 and \$1.9 million in 2018. The amount of loss on direct write-off of input VAT claims is included under "Others" account in the consolidated statements of income (see Notes 12 and 18).

The aggregate carrying values of the non-financial assets amounted to \$2,949.2 million and \$2,841.1 million as of December 31, 2020 and 2019, respectively (see Notes 7, 9, 10, 11 and 12).

g. *Estimation of useful lives of property, plant and equipment (except land and construction in progress), concession rights on acquired contracts, water rights, pipeline rights, rights to use transmission line, and other intangible assets*

First Gen Group estimated the useful lives of property, plant and equipment, concession rights on acquired contracts, water rights, pipeline rights, rights to use transmission line and other intangible assets based on the years over which the assets are expected to be available for use and on the



collective assessment of industry practices, internal technical evaluation and experience with similar assets. The estimated useful lives of property, plant and equipment, concession rights on acquired contracts, water rights, pipeline rights, rights to use transmission line and other intangible assets are reviewed at each financial reporting date and updated, if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits in the use of these assets. However, it is possible that future financial performance could be materially affected by changes in the estimates brought about by changes in the factors mentioned above. The amounts and timing of recording the depreciation and amortization of property, plant and equipment, concession rights on acquired contracts, water rights, pipeline rights, rights to use transmission line and other intangible assets for any year would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of the property, plant and equipment, concession rights on acquired contracts, water rights, pipeline rights, rights to use transmission line and other intangible assets would increase the recorded depreciation and amortization and decrease the noncurrent assets.

There were no changes in the estimated useful lives of property, plant and equipment, concession rights on acquired contracts, water rights, pipeline rights, rights to use transmission line and other intangible assets in 2020, 2019 and 2018 (see Notes 10 and 11).

The carrying values of property, plant and equipment (excluding land and construction in progress) as of December 31, 2020 and 2019 amounted to \$2,295.0 million and \$2,324.9 million, respectively (see Note 10). The aggregate carrying values of water rights, concession rights on acquired contracts, pipeline rights, rights to use transmission line, and other intangible assets as of December 31, 2020 and 2019 amounted to \$36.0 million and \$46.2 million, respectively (see Note 11).

h. *Estimation of asset retirement obligations*

Under their respective ECCs issued by the Department of Environmental and Natural Resources (DENR), FGP, FGPC, FNPC and Prime Meridian have legal obligations to dismantle their power plant assets at the end of their useful lives. FG Bukidnon, on the other hand, has a legal obligation under the HSC to dismantle its power plant assets at the end of their useful lives. The asset retirement obligations recognized represent the best estimate of the expenditures required to dismantle the power plants at the end of their useful lives. Such cost estimates are discounted using a pre-tax rate that reflects the current market assessment of the time value of money and the risks specific to the liability. Each year, the asset retirement obligations are increased to reflect the accretion of discount and to accrue an estimate for the effects of inflation, with the charges being recognized under the "Interest expense and financing charges" account in the consolidated statements of income. While it is believed that the assumptions used in the estimation of such costs are reasonable, significant changes in these assumptions may materially affect the recorded expense or obligations in future years.

In 2009, with the conversion of its Geothermal Service Contracts (GSCs) to GRESCs, EDC has made a judgment that the GRESCs are subject to the provision for restoration costs. Similarly, under the WESC, EBWPC has made a judgment that it is responsible for the removal and the disposal of all materials, equipment and facilities installed in the contract area used for the wind energy project. In determining the amount of provisions for rehabilitation and restoration costs, assumptions and estimates are required in relation to the expected cost to rehabilitate and restore sites and infrastructure when such obligation exists (see Note 25).



First Gen Group adjusted its asset retirement obligations and recognized additional asset retirement obligations amounting to \$8.0 million and \$9.5 million in 2020 and 2019, respectively. The revision was mainly attributable to changes in estimated cash flows and discount rates (see Notes 10 and 15).

Asset retirement obligations amounted to \$55.5 million and \$43.6 million as of December 31, 2020 and 2019, respectively (see Note 15).

i. *Fair values of financial instruments*

First Gen Group carries certain financial assets and liabilities at fair value, which requires extensive use of accounting estimates and judgment. While significant components of fair value measurement were determined using verifiable objective evidence (i.e., foreign exchange rates, interest rates and volatility rates), the amount of changes in fair value would differ if First Gen Group utilized different valuation methodologies and assumptions. Any changes in fair value of these financial assets and liabilities would affect the consolidated statements of income and the consolidated statements of changes in equity (see Note 24).

Where the fair values of certain financial assets and financial liabilities recorded in the consolidated statements of financial position cannot be derived from active markets, they are determined using internal valuation techniques using generally accepted market valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimates are used in establishing fair values. Judgments include considerations of liquidity and model inputs such as correlation and volatility for longer dated derivatives.

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

j. *Legal contingencies and regulatory assessments*

First Gen Group is involved in various legal proceedings and regulatory assessments as discussed in Note 25 to the consolidated financial statements. First Gen Group's estimate of probable costs for the assessments and resolution of these claims and cases have been developed in consultation with in-house and external counsels handling the defense in these claims and cases and is based upon thorough analysis of potential results.

First Gen Group, in consultation with its in-house and external legal counsels, believe that its positions on these assessments are consistent with the relevant laws, and these assessments would not have a material adverse effect on the consolidated financial statements. It is possible, however, that future financial performance could be materially affected by changes in the estimates or the effectiveness of management's strategies relating to these proceedings.

As of December 31, 2020 and 2019, provisions for these liabilities amounting to \$12.1 million and \$11.4 million, respectively, are recorded as "Others" in the "Other noncurrent liabilities" account (see Note 15). In 2020 and 2019, First Gen Group recorded additional provisions of \$1.0 million and \$0.9 million, respectively, and settlements amounting to \$1.0 million and \$2.8 million, respectively. Interest on liability from litigation amounted to \$0.2 million for the years ended December 31, 2020 and 2019 and \$0.1 million for the year ended December 31, 2018 (see Note 19).

k. *Estimation of liability from shortfall generation*

EDC's Unified Leyte PPA with NPC requires the annual nomination of capacity that EDC shall deliver to NPC. On a monthly basis, EDC bills a uniform capacity to NPC based on the nominated energy. At the end of the contract year, EDC's fulfillment of the nominated capacity and the



parties' responsibilities for any shortfall shall be determined. On the other hand, the PPAs for Mindanao I and II provide a minimum offtake energy, which EDC shall meet each contract year. The contract year for the Unified Leyte PPA is for fiscal period ending July 25, while the contract year for the Mindanao I and II PPAs is for fiscal period ending December 25 (see Note 25). Assessment is made at every reporting date whether the nominated capacity or minimum offtake energy would be met based on management's projection of electricity generation covering the entire contract year. If the occurrence of shortfall generation is determined to be probable, the amount of estimated reimbursement to NPC is accounted for as a reduction to revenue for the period and a corresponding liability to NPC is recognized. As of December 31, 2020 and 2019, EDC's estimated liability arising from shortfall generation amounted to \$27.7 million and \$33.2 million, respectively, are shown as part of "Others" in the "Accounts payable and accrued expenses" account (see Note 13).

Moreover, the amount of estimations relating to the shortfall generation under the PPA's covering Unified Leyte may be subsequently adjusted or reported depending on the subsequent reconciliation by the Technical or Steering Committee established in accordance with the PPAs, in view of the parties' responsibilities in connection with the consequences of typhoons and similar events. As of March 17, 2021, the reconciliation with NPC for the contract years 2013-2014, 2016-2017, 2017-2018 and 2019-2020 for Unified Leyte PPA, and contract years 2019 and 2020 for Mindanao I and II PPAs, is still ongoing.

4. Operating Segment Information

Operating segments are components of First Gen Group that engage in business activities from which they may earn revenues and incur expenses, whose operating results are regularly reviewed by First Gen Group's CODM to make decisions about how resources are to be allocated to the segment and assess their performances, and for which discrete financial information is available. For purposes of management reporting, First Gen Group's operating businesses are organized and managed separately on a per company basis, with each company representing a strategic business segment. First Gen's identified operating segments, which are consistent with the segments reported to the BOD, which is the CODM of First Gen, are as follows:

- FGPC, which operates the 1,000 MW combined cycle, natural gas-fired Santa Rita power plant, and where the Parent Company now has a 100% equity interest;
- FGP, which operates the 500 MW combined cycle, natural gas-fired San Lorenzo power plant, and where the Parent Company now has a 100% equity interest;

EDC and Subsidiaries, which holds service contracts with the DOE corresponding to 10 geothermal contract areas each granting EDC exclusive rights to explore, develop, and utilize the corresponding resources in the relevant contract area. EDC conducts commercial operations in four (4) out of its 10 geothermal contract areas. Likewise, EDC owns the 150 MW Burgos Wind Power Plant (Burgos Wind) and the 6.82 MW Burgos Solar Power Plant Phase 1 and Phase 2 (Burgos Solar) both situated in Burgos, Ilocos Norte. As of December 31, 2020 and 2019, Burgos Wind and Burgos Solar power plants are entitled to the FIT rates. Also, EDC, through EDC Siklab, has started to earn revenue from its solar rooftop PPAs and lease agreements.

As of December 31, 2020 and 2019, the Parent Company has a 100.0% direct voting interest in Prime Terracota. As of December 31, 2020 and 2019, the Parent Company has 45.7% effective economic interest in EDC;



- FG Hydro, which operates the 132 MW Pantabangan-Masiway Hydroelectric Plant (PAHEP/MAHEP), and where the Parent Company has a 40% direct economic interest as of December 31, 2020 and 2019 and 67.4% effective economic interest as of December 31, 2020 and 2019;
- FNPC, which owns and operates the 420 MW natural gas-fired San Gabriel power plant (San Gabriel Plant), and where the Parent Company has a 100% equity interest. The San Gabriel Plant started commercial operations in November 2016; and,
- Prime Meridian, which owns and operates the 97 MW Avion open-cycle natural gas-fired power plant (Avion Plant), and where the Parent Company has a 100% equity interest. The Avion Plant started commercial operations since September 2016.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment revenue and segment expenses are measured in accordance with PFRSs. The classification of segment revenue is consistent with the consolidated statements of income. Segment expenses pertain to the costs and expenses presented in the consolidated statements of income excluding interest expense and financing charges, depreciation and amortization expense and income taxes which are managed on a per company basis.

First Gen has only one geographical segment as all of its operating assets are located in the Philippines. First Gen Group operates and derives principally all of its revenue from domestic operations. Thus, geographical business information is not required.

Substantially all of the segment revenues of FGP, FGPC and FNPC are derived from Meralco, while close to 35.0% and 33.1% of EDC's total revenues in 2020 and 2019, respectively, are derived from existing long-term PPAs with NPC.

Financial performances of the business segments are summarized as follows:

| | Year Ended December 31, 2020 | | | | | | | | Total |
|---|------------------------------|-----------|-----------|----------------|-----------------------|----------|------------|-----------------------|-------------|
| | FGPC | FGP | FNPC | Prime Meridian | EDC and Subsidiaries* | FG Hydro | Others | Eliminating Entries** | |
| Segment revenue | \$584,334 | \$296,020 | \$171,452 | \$20,544 | \$713,272 | \$41,501 | \$15,074 | (\$11,897) | \$1,830,300 |
| Segment expenses | (399,589) | (201,542) | (105,173) | (14,528) | (303,248) | (23,656) | (38,402) | 20,781 | (1,065,357) |
| Segment results | 184,745 | 94,478 | 66,279 | 6,016 | 410,024 | 17,845 | (23,328) | 8,884 | 764,943 |
| Interest income | 258 | 3,564 | 230 | 24 | 4,880 | 61 | 2,445 | (3,437) | 8,025 |
| Interest expense and financing charges | (8,142) | (7,755) | (7,959) | (53) | (72,655) | (35) | (10,529) | 3,437 | (103,691) |
| Depreciation and amortization | (41,196) | (23,403) | (24,214) | (4,699) | (130,008) | (9,047) | (854) | - | (233,421) |
| Other income (charges) - net | (744) | (128) | 1,764 | (31) | 43,846 | (5,783) | 13,136 | (8,884) | 43,176 |
| Income (loss) before income tax | 134,921 | 66,756 | 36,100 | 1,257 | 256,087 | 3,041 | (19,130) | - | 479,032 |
| Benefit from (provision for) income tax | (32,129) | (16,088) | (3,166) | (416) | (33,769) | (779) | 1,049 | - | (85,298) |
| Net income (loss) | \$102,792 | \$50,668 | \$32,934 | \$841 | \$222,318 | \$2,262 | (\$18,081) | \$- | \$393,734 |

*Pertains to EDC and subsidiaries' consolidated statement of income, including the effect of the purchase price allocation but excluding FG Hydro.

**Pertains to intercompany transactions that were eliminated upon consolidation.



| | Year Ended December 31, 2019 | | | | | | | | Total |
|---|------------------------------|-----------|-----------|----------------|-----------------------|----------|------------|-----------------------|-------------|
| | FGPC | FGP | FNPC | Prime Meridian | EDC and Subsidiaries* | FG Hydro | Others | Eliminating Entries** | |
| Segment revenue | \$704,483 | \$352,273 | \$248,101 | \$34,725 | \$759,818 | \$46,024 | \$22,696 | (\$16,734) | \$2,151,386 |
| Segment expenses | (512,774) | (257,325) | (173,099) | (24,612) | (380,310) | (15,329) | (46,172) | 26,079 | (1,383,542) |
| Segment results | 191,709 | 94,948 | 75,002 | 10,113 | 379,508 | 30,695 | (23,476) | 9,345 | 767,844 |
| Interest income | 837 | 3,836 | 519 | 53 | 10,443 | 420 | 4,599 | (3,428) | 17,279 |
| Interest expense and financing charges | (15,291) | (12,342) | (8,862) | (47) | (74,806) | (25) | (11,503) | 3,428 | (119,448) |
| Depreciation and amortization | (40,663) | (23,602) | (24,904) | (4,519) | (121,733) | (8,636) | (837) | - | (224,894) |
| Other income (charges) - net | (153) | 619 | 1,203 | (45) | 36,143 | 65 | 12,008 | (9,345) | 40,495 |
| Income (loss) before income tax | 136,439 | 63,459 | 42,958 | 5,555 | 229,555 | 22,519 | (19,209) | - | 481,276 |
| Benefit from (provision for) income tax | (30,906) | (17,521) | 2,771 | (1,649) | (18,327) | (2,167) | 751 | - | (67,048) |
| Net income (loss) | \$105,533 | \$45,938 | \$45,729 | \$3,906 | \$211,228 | \$20,352 | (\$18,458) | \$- | \$414,228 |

*Pertains to EDC and subsidiaries' consolidated statement of income, including the effect of the purchase price allocation but excluding FG Hydro.

**Pertains to intercompany transactions that were eliminated upon consolidation.

| | Year Ended December 31, 2018 | | | | | | | | Total |
|---|------------------------------|-----------|-----------|----------------|-----------------------|----------|------------|-----------------------|-------------|
| | FGPC | FGP | FNPC | Prime Meridian | EDC and Subsidiaries* | FG Hydro | Others | Eliminating Entries** | |
| Segment revenue | \$681,915 | \$341,732 | \$199,440 | \$17,017 | \$688,386 | \$35,535 | \$51,339 | (\$36,675) | \$1,978,689 |
| Segment expenses | (490,274) | (246,658) | (131,626) | (15,149) | (347,778) | (15,352) | (63,948) | 47,306 | (1,263,479) |
| Segment results | 191,641 | 95,074 | 67,814 | 1,868 | 340,608 | 20,183 | (12,609) | 10,631 | 715,210 |
| Interest income | 1,262 | 4,156 | 284 | 32 | 9,832 | 256 | 5,813 | (3,428) | 18,207 |
| Interest expense and financing charges | (16,851) | (14,124) | (9,458) | - | (77,528) | (532) | (20,255) | 3,428 | (135,320) |
| Depreciation and amortization | (39,553) | (22,311) | (18,243) | (4,380) | (119,044) | (8,460) | (764) | - | (212,755) |
| Other income (charges) - net | 497 | 739 | (2,699) | 388 | 32,790 | 43 | (3,297) | (10,631) | 17,830 |
| Income (loss) before income tax | 136,996 | 63,534 | 37,698 | (2,092) | 186,658 | 11,490 | (31,112) | - | 403,172 |
| Benefit from (provision for) income tax | (35,330) | (20,859) | (2,488) | 150 | (21,014) | (2,157) | (1,989) | - | (83,687) |
| Net income (loss) | \$101,666 | \$42,675 | \$35,210 | (\$1,942) | \$165,644 | \$9,333 | (\$33,101) | \$- | \$319,485 |

*Pertains to EDC and subsidiaries' consolidated statement of income, including the effect of the purchase price allocation but excluding FG Hydro.

**Pertains to intercompany transactions that were eliminated upon consolidation.

Set out below is the disaggregation of First Gen Group's revenues from sale of electricity:

| | 2020 | 2019 | 2018 |
|---|-------------|-------------|-------------|
| Revenue from contracts with customers | \$1,830,300 | \$2,151,386 | \$1,447,251 |
| Sale of electricity accounted under operating lease | - | - | 531,438 |
| Segment revenue | \$1,830,300 | \$2,151,386 | \$1,978,689 |

Set out below is the reconciliation of the segment revenue as shown in the business segments with the revenue from contracts with customers in 2020, 2019 and 2018:

2020

| | FGPC | FGP | FNPC | Prime Meridian | EDC and Subsidiaries | FG Hydro | Others | Eliminating Entries | Total |
|---|-----------|-----------|-----------|----------------|----------------------|----------|----------|---------------------|-------------|
| PPA | \$584,334 | \$296,020 | \$- | \$- | \$339,957 | \$- | \$- | \$- | \$1,220,311 |
| PSAs | - | - | 171,452 | - | 146,385 | 24,037 | 819 | (11,897) | 330,796 |
| Spot market sales | - | - | - | 8,152 | 70,688 | 14,152 | - | - | 92,992 |
| Sales under FIT | - | - | - | - | 88,690 | - | - | - | 88,690 |
| Retail electricity sales and ancillary services | - | - | - | 12,392 | 67,552 | 3,312 | 14,255 | - | 97,511 |
| Revenue from contracts with customers | \$584,334 | \$296,020 | \$171,452 | \$20,544 | \$713,272 | \$41,501 | \$15,074 | (\$11,897) | \$1,830,300 |

2019

| | FGPC | FGP | FNPC | Prime Meridian | EDC and Subsidiaries | FG Hydro | Others | Eliminating Entries | Total |
|---|-----------|-----------|-----------|----------------|----------------------|----------|----------|---------------------|-------------|
| PPA | \$704,483 | \$352,273 | \$- | \$- | \$266,520 | \$- | \$- | \$- | \$1,323,276 |
| PSAs | - | - | 248,051 | - | 241,846 | 5,886 | 686 | (16,734) | 479,735 |
| Spot market sales | - | - | 50 | 34,725 | 129,870 | 38,621 | - | - | 203,266 |
| Sales under FIT | - | - | - | - | 57,644 | - | - | - | 57,644 |
| Retail electricity sales and ancillary services | - | - | - | - | 63,938 | 1,517 | 22,010 | - | 87,465 |
| Revenue from contracts with customers | \$704,483 | \$352,273 | \$248,101 | \$34,725 | \$759,818 | \$46,024 | \$22,696 | (\$16,734) | \$2,151,386 |



2018

| | FGPC | FGP | FNPC | Prime Meridian | EDC and Subsidiaries | FG Hydro | Others | Eliminating Entries | Total |
|---|-----------|-----------|-----------|----------------|----------------------|----------|----------|---------------------|-------------|
| PPA | \$681,915 | \$341,731 | \$- | \$- | \$261,462 | \$- | \$- | \$- | \$1,285,108 |
| PSAs | - | - | 108,059 | - | 279,880 | 17,379 | 882 | (36,675) | 369,525 |
| Spot market sales | - | - | 91,381 | 17,017 | 53,978 | 16,836 | - | - | 179,212 |
| Sales under FIT | - | - | - | - | 62,885 | - | - | - | 62,885 |
| Retail electricity sales and ancillary services | - | - | - | - | 30,181 | 1,320 | 50,458 | - | 81,959 |
| Segment revenue | 681,915 | 341,731 | 199,440 | 17,017 | 688,386 | 35,535 | 51,340 | (36,675) | 1,978,689 |
| Less: Sale of electricity accounted under operating lease | (157,099) | (80,512) | (32,365) | - | (261,462) | - | - | - | (531,438) |
| Revenue from contracts with customers | \$524,816 | \$261,219 | \$167,075 | \$17,017 | \$426,924 | \$35,535 | \$51,340 | (\$36,675) | \$1,447,251 |

Other financial information of the business segments are as follows:

| As at December 31, 2020 | | | | | | | | | |
|-------------------------------|------------------|------------------|------------------|------------------|-----------------------|------------------|--------------------|-----------------------|--------------------|
| | FGPC | FGP | FNPC | Prime Meridian | EDC and Subsidiaries* | FG Hydro | Others | Eliminating Entries** | Total |
| Current assets | \$304,237 | \$285,191 | \$91,517 | \$16,892 | \$811,553 | \$32,595 | \$536,322 | (\$411,906) | \$1,666,401 |
| Noncurrent assets | 355,899 | 138,635 | 356,174 | 112,604 | 2,121,180 | 83,286 | 5,325,313 | (4,451,020) | 4,042,071 |
| Total assets | \$660,136 | \$423,826 | \$447,691 | \$129,496 | \$2,932,733 | \$115,881 | \$5,861,635 | (\$4,862,926) | \$5,708,472 |
| Current liabilities | \$234,063 | \$175,353 | \$44,331 | \$4,272 | \$652,947 | \$9,255 | \$56,425 | (\$93,765) | \$1,082,881 |
| Noncurrent liabilities | 199,111 | 130,652 | 124,685 | 1,602 | 1,068,912 | 412 | 285,529 | (141,363) | 1,669,540 |
| Total liabilities | \$433,174 | \$306,005 | \$169,016 | \$5,874 | \$1,721,859 | \$9,667 | \$341,954 | (\$235,128) | \$2,752,421 |

*Pertains to EDC and subsidiaries' consolidated statement of financial position, including the effect of the purchase price allocation but excluding FG Hydro.

**Pertains to intercompany assets and liabilities that were eliminated upon consolidation.

| As at December 31, 2019 | | | | | | | | | |
|-------------------------|-----------|-----------|-----------|----------------|-----------------------|-----------|-------------|-----------------------|-------------|
| | FGPC | FGP | FNPC | Prime Meridian | EDC and Subsidiaries* | FG Hydro | Others | Eliminating Entries** | Total |
| Current assets | \$426,446 | \$309,495 | \$92,938 | \$14,076 | \$556,786 | \$22,029 | \$533,070 | (\$654,475) | \$1,300,365 |
| Noncurrent assets | 298,069 | 151,359 | 371,844 | 112,482 | 2,014,705 | 79,429 | 5,237,755 | (4,356,311) | 3,909,332 |
| Total assets | \$724,515 | \$460,854 | \$464,782 | \$126,558 | \$2,571,491 | \$101,458 | \$5,770,825 | (\$5,010,786) | \$5,209,697 |
| Current liabilities | \$213,838 | \$163,160 | \$56,470 | \$4,215 | \$447,335 | \$2,831 | \$294,384 | (\$339,968) | \$842,265 |
| Noncurrent liabilities | 269,291 | 170,290 | 141,932 | 1,078 | 1,034,224 | 235 | 299,836 | (140,953) | 1,775,933 |
| Total liabilities | \$483,129 | \$333,450 | \$198,402 | \$5,293 | \$1,481,559 | \$3,066 | \$594,220 | (\$480,921) | \$2,618,198 |

*Pertains to EDC and subsidiaries' consolidated statement of financial position, including the effect of the purchase price allocation but excluding FG Hydro.

**Pertains to intercompany assets and liabilities that were eliminated upon consolidation.

5. Cash and Cash Equivalents

This account consists of:

| | 2020 | 2019 |
|---|------------------|-----------|
| Cash on hand and in banks (see Notes 23 and 24) | \$231,187 | \$147,460 |
| Short-term deposits (see Notes 23 and 24) | 541,043 | 476,421 |
| | \$772,230 | \$623,881 |

Cash and cash equivalents earn interest at the respective bank deposit rates ranging from 0.12% to 1.00%, 0.12% to 3.50% and 0.12% to 3.10% for the years ended December 31, 2020, 2019 and 2018, respectively. Short-term deposits are made for varying periods of up to three months depending on the immediate cash requirements of First Gen Group, and earn interest at the respective short-term deposits rates.

Total interest income earned amounted to \$7.8 million, \$16.4 million and \$15.0 million for the years ended December 31, 2020, 2019 and 2018, respectively (see Note 19).



6. Receivables

This account consists of:

| | 2020 | 2019 |
|--|------------------|-----------|
| Trade (see Notes 23, 24 and 25) | \$432,051 | \$417,216 |
| Due from related parties (see Notes 17, 23 and 24) | 2,126 | 2,328 |
| Loans and notes receivables (see Notes 23 and 24) | 2,504 | 1,408 |
| Others (see Notes 23, 24 and 25) | 28,522 | 32,541 |
| | 465,203 | 453,493 |
| Less allowance for impairment losses | 19,910 | 18,804 |
| | \$445,293 | \$434,689 |

Trade receivables are noninterest-bearing and are generally collectible in 30 to 60 days. Other receivables comprise mainly of receivables from employees, contractors, and suppliers which are collectible upon demand.

The table below shows the rollforward analysis of the allowance for impairment on trade and other receivables:

| | 2020 | 2019 |
|--|-----------------|----------|
| Balance at beginning of year | \$18,804 | \$6,318 |
| Provision for impairment (see Note 18) | 65 | 11,933 |
| Foreign exchange adjustments | 1,041 | 553 |
| Balance at end of year | \$19,910 | \$18,804 |

7. Inventories

This account consists of:

| | 2020 | 2019 |
|-----------------------------------|------------------|-----------|
| At cost: | | |
| Fuel inventories | \$56,592 | \$47,060 |
| Spare parts and supplies | 85,068 | 65,195 |
| | 141,660 | 112,255 |
| At NRV - Spare parts and supplies | 36,151 | 16,621 |
| | \$177,811 | \$128,876 |

The amounts of fuel inventories recognized as expense amounted to \$7.2 million, \$33.7 million and \$6.8 million for the years ended December 31, 2020, 2019 and 2018, respectively, which are recognized as part of the "Costs of sale of electricity" account in the consolidated statements of income (see Note 18).

Spare parts and supplies inventories include items that are carried at net realizable value amounting to \$36.2 million and \$16.6 million as of December 31, 2020 and 2019, respectively, and have a cost amounting to \$39.2 million and \$17.7 million, respectively. The rest of the spare parts and supplies inventories are carried at cost.

First Gen Group also identifies parts and supplies inventories subject to disposal and recognizes a provision equivalent to the carrying amount of these items. Provision for impairment of spare parts



and supplies inventories amounted to \$1.6 million, \$0.6 million and \$1.8 million in 2020, 2019 and 2018, respectively. Provision for impairment of spare parts and supplies inventories are shown as part of “General and administrative expenses” account in the consolidated statements of income (see Note 18). The amount of spare parts and supplies inventories charged to expense amounted to \$24.8 million, \$25.7 million and \$23.6 million for the years ended December 31, 2020, 2019 and 2018, respectively (see Note 18).

Details of spare parts and supplies inventories issued are as follows:

| | 2020 | 2019 | 2018 |
|--|-----------------|----------|----------|
| Costs of sale of electricity (see Note 18) | \$21,445 | \$24,006 | \$21,580 |
| General and administrative expenses (see Note 18) | 3,318 | 1,667 | 2,014 |
| | \$24,763 | \$25,673 | \$23,594 |

8. Financial assets at FVPL

First Gen Group entered into various investment management agreements (IMA) with various Investment Managers, whereby First Gen Group availed the service of the Investment Manager relative to the management and investment of funds.

Among others, following are the significant provisions of the IMA of First Gen Group:

- The investment managers shall administer and manage the fund as allowed and subject to the requirements of the Bangko Sentral ng Pilipinas (BSP), and in accordance with the written investment policy and guidelines mutually agreed upon and signed by the respective investment managers and First Gen Group.
- The agreement is considered as an agency and not a trust agreement. First Gen Group, therefore, shall at all times retain legal title to the fund.
- The IMA does not guaranty a yield, return, or income on the investments or reinvestments made by the investment managers. Any loss or depreciation in the value of the assets of the fund shall be for the account of First Gen Group.

In addition, First Gen Group has investments in various money unit investment trust fund. Fund investments include quoted government securities and other quoted securities. First Gen Group accounts for the entire investment as financial assets to be carried at FVPL. Mark-to-market gain (loss) on the securities amounting to \$0.2 million, \$2.3 million and (\$0.6 million) in 2020, 2019 and 2018, respectively, were recognized in the consolidated statements of income.

As of December 31, 2020 and 2019, the movements of the financial assets at FVPL account are as follows:

| | 2020 | 2019 |
|----------------------------------|-----------------|----------|
| Balance at beginning of year | \$30,848 | \$17,202 |
| Additions for the year | 77,702 | 69,719 |
| Realized income for the year | 178 | 301 |
| Mark-to-market gain for the year | 220 | 2,313 |
| Redemptions for the year | (57,832) | (59,663) |
| Foreign exchange adjustments | 2,447 | 985 |
| Trustee fees | (18) | (9) |
| Balance at end of year | \$53,545 | \$30,848 |



9. Other Current Assets

This account consists of:

| | 2020 | 2019 |
|---------------------------------|------------------|----------|
| Short-term investments | \$166,481 | \$26,778 |
| Prepaid expenses | 28,860 | 28,505 |
| Advances to contractors | 10,400 | 785 |
| Input VAT (see Note 12) | 5,841 | 6,580 |
| Prepaid taxes (see Note 12) | 4,085 | 4,237 |
| Derivative assets (see Note 24) | 194 | 115 |
| DSRA (see Note 14) | – | 13,860 |
| Others (see Notes 23 and 24) | 1,661 | 1,211 |
| | \$217,522 | \$82,071 |

Short-term Investments

Short-term investments consist of money market securities with maturity of more than three (3) months but less than twelve (12) months.

Prepaid Expenses

Prepaid expenses consist mainly of prepaid insurance, rentals and creditable withholding taxes.

Prepaid Taxes

Prepaid taxes consist mainly of tax credits that may be used in the future by the operating subsidiaries of First Gen Group. As of December 31, 2020 and 2019, EDC, FG Hydro, EBWPC and GCGI classified a portion of their TCCs as current assets totaling to nil and \$0.4 million, respectively. These are expected to be utilized for payment of various taxes within twelve (12) months.

DSRA

DSRA pertains to the restricted peso and dollar-denominated interest bearing accounts opened and established by certain subsidiaries of First Gen Group in accordance with the loan agreements that will serve as a cash reserve or deposit to service the principal and/or interest payments due on the loans.

Following the execution of an amendment agreement to the financing agreements of FGPC and FGP in 2018, both companies withdrew the remaining cash balance of their respective DSRA upon securing a Standby Letter of Credit (SBLC) to fully fund the obligations of FGPC and FGP under their respective financing agreements (see Note 14).

In 2019, EBWPC secured an acceptable credit support instrument from EDC in lieu of cash deposit standing in the DSRA, pursuant to the “reserve support instruments” clause of its loan agreement (see Note 14).

In 2020, EDC entered into various surety agreements with the lenders to guarantee the funding of the DSRA in accordance with the loan agreements for the benefit of GCGI and BGI, in lieu of the cash deposit standing in DSRA.

Total interest earned on DSRA, net of final tax, amounted to \$0.1 million, \$0.4 million and \$1.8 million for the years ended December 31, 2020, 2019 and 2018, respectively (see Note 19).



10. Property, Plant and Equipment

Movements in the account are as follows:

| 2020 | | | | | | | | | |
|--|-----------------|---|--|---------------------------------|---|-----------------------------|---------------------------|-----------------------------|--------------------|
| | Land | Power Plants, Buildings, Improvements and Other Structures | Exploration, Machinery and Equipment | FCRS and Production Wells | Furniture, Fixtures and Equipment | Transportation Equipment | Leasehold Improvements | Construction in Progress | Total |
| Costs: | | | | | | | | | |
| Balances at December 31, 2019 | \$58,871 | \$2,040,009 | \$1,362,181 | \$912,172 | \$41,487 | \$5,654 | \$5,257 | \$166,875 | \$4,592,506 |
| Additions | 3,778 | 20,964 | 4,613 | - | 1,728 | 515 | - | 134,939 | 166,537 |
| Retirements/write-off | - | (153) | (286) | - | (151) | (103) | - | - | (693) |
| Reclassifications/adjustments (see Notes 12 and 25) | (1) | 20,990 | 1,077 | 60,041 | 201 | (39) | - | (51,929) | 30,340 |
| Foreign exchange adjustments | 2,322 | 64,601 | 8,927 | 51,885 | 1,725 | 112 | 29 | 12,115 | 141,716 |
| Balances at December 31, 2020 | 64,970 | 2,146,411 | 1,376,512 | 1,024,098 | 44,990 | 6,139 | 5,286 | 262,000 | 4,930,406 |
| Accumulated Depreciation, Amortization and Impairment Losses: | | | | | | | | | |
| Balances at December 31, 2019 | 348 | 863,126 | 873,061 | 264,555 | 33,061 | 3,906 | 4,149 | 370 | 2,042,576 |
| Depreciation and amortization (see Note 18) | - | 100,635 | 76,284 | 32,437 | 4,595 | 606 | 888 | - | 215,445 |
| Retirements/write-off | - | (130) | (252) | - | (148) | (108) | - | - | (638) |
| Reclassifications/adjustments | - | (26) | (285) | 365 | (147) | (15) | - | - | (108) |
| Foreign exchange adjustments | 19 | 31,040 | 3,674 | 15,631 | 1,449 | 82 | 27 | 20 | 51,942 |
| Balances at December 31, 2020 | 367 | 994,645 | 952,482 | 312,988 | 38,810 | 4,471 | 5,064 | 390 | 2,309,217 |
| Net Book Values | \$64,603 | \$1,151,766 | \$424,030 | \$711,110 | \$6,180 | \$1,668 | \$222 | \$261,610 | \$2,621,189 |
| 2019 | | | | | | | | | |
| | Land | Power Plants, Buildings, Improvements and Other Structures | Exploration, Machinery and Equipment | FCRS and Production Wells | Furniture, Fixtures and Equipment | Transportation Equipment | Leasehold Improvements | Construction in Progress | Total |
| Costs: | | | | | | | | | |
| Balances at December 31, 2018 | \$57,560 | \$1,956,414 | \$1,348,251 | \$822,307 | \$38,130 | \$5,944 | \$5,063 | \$145,644 | \$4,379,313 |
| Additions | 48 | 10,419 | 2,246 | - | 1,222 | 723 | 48 | 109,904 | 124,610 |
| Retirements/write-off | - | (85) | (3,083) | - | (1,546) | (1,018) | - | - | (5,732) |
| Reclassifications/adjustments (see Note 12) | (221) | 30,156 | 8,805 | 56,797 | 2,558 | (66) | 125 | (94,572) | 3,582 |
| Foreign exchange adjustments | 1,484 | 43,105 | 5,962 | 33,068 | 1,123 | 71 | 21 | 5,899 | 90,733 |
| Balances at December 31, 2019 | 58,871 | 2,040,009 | 1,362,181 | 912,172 | 41,487 | 5,654 | 5,257 | 166,875 | 4,592,506 |
| Accumulated Depreciation, Amortization and Impairment Losses: | | | | | | | | | |
| Balances at December 31, 2018 | 335 | 748,462 | 796,970 | 226,195 | 29,116 | 3,862 | 3,220 | 356 | 1,808,516 |
| Depreciation and amortization (see Note 18) | - | 95,673 | 77,085 | 28,961 | 4,618 | 987 | 914 | - | 208,238 |
| Retirements/write-off | - | (62) | (2,998) | - | (1,504) | (913) | - | - | (5,477) |
| Reclassifications/adjustments | - | 330 | (225) | (44) | (34) | (84) | - | - | (57) |
| Foreign exchange adjustments | 13 | 18,723 | 2,229 | 9,443 | 865 | 54 | 15 | 14 | 31,356 |
| Balances at December 31, 2019 | 348 | 863,126 | 873,061 | 264,555 | 33,061 | 3,906 | 4,149 | 370 | 2,042,576 |
| Net Book Values | \$58,523 | \$1,176,883 | \$489,120 | \$647,617 | \$8,426 | \$1,748 | \$1,108 | \$166,505 | \$2,549,930 |



Property, plant and equipment with net book values of \$289.3 million and \$304.5 million as of December 31, 2020 and 2019, respectively, have been pledged as security for First Gen Group's long-term debts (see Note 14).

Estimated Rehabilitation and Restoration Costs

Under their respective ECCs, FGP, FGPC, FNPC and Prime Meridian have legal obligations to dismantle their respective power plant assets at the end of their useful lives. FG Bukidnon, on the other hand, has legal obligation under the HSC to dismantle its power plant asset at the end of its useful life. FGP, FGPC, FNPC, Prime Meridian and FG Bukidnon established their respective provisions to recognize their estimated liability for the dismantlement of the power plant assets (see Note 15).

Also, FCRS and production wells include the estimated rehabilitation and restoration costs of EDC's steam fields and power plants' contract areas at the end of the contract period. These were based on technical estimates of probable costs, which may be incurred by EDC in the rehabilitation and restoration of the said steam fields and power plants' contract areas, discounted using a risk-free discount rate and adjusted the cash flows to settle the provision. Similarly, EBWPC has recorded an estimated provision for asset retirement obligation relating to the removal and disposal of all wind farm materials, equipment and facilities from the contract areas at the end of contract period (see Note 15). The amount of provision was recorded as part of the costs of power plants.

First Gen Group adjusted its asset retirement obligation with an increase of \$8.0 million and \$9.5 million in 2020 and 2019, respectively (see Notes 3 and 15). The revision in estimate was attributable to changes in estimated cash flow and discount rates. First Gen Group calculates the present value to settle the obligation by adjusting the cash flows for the risk and discounted it using risk-free discount rates.

Depreciation and Amortization

Details of depreciation and amortization charges recognized in the consolidated statements of income are shown below:

| | 2020 | 2019 | 2018 |
|---|------------------|-----------|-----------|
| Property, plant and equipment | \$215,445 | \$208,238 | \$199,214 |
| Intangible assets (see Note 11) | 13,690 | 12,506 | 13,939 |
| Right-of-use assets (see Note 12) | 4,362 | 4,189 | - |
| Capitalized depreciation | (76) | (39) | (398) |
| | \$233,421 | \$224,894 | \$212,755 |
| | 2020 | 2019 | 2018 |
| Costs of sale of electricity (see Note 18) | \$218,138 | \$211,528 | \$204,347 |
| General and administrative (see Note 18) | 15,283 | 13,366 | 8,408 |
| | \$233,421 | \$224,894 | \$212,755 |

Reclassifications/Adjustments

The reclassifications in the accumulated depreciation of property, plant and equipment include the capitalized depreciation charges amounting to \$0.08 million, \$0.04 million and \$0.4 million in 2020, 2019 and 2018, respectively, under "Construction in progress" which primarily relates to ongoing drilling of production wells. In addition, First Gen Group recognized adjustments to the cost of property, plant and equipment in 2020 and 2019 relating to provisions for rehabilitation and restoration costs, as a result of the reassessment made by First Gen Group on the nature of the assets. It also



includes reclassification of Mindanao III exploration and evaluation assets amounting to \$23.6 million and the prepaid major spare parts amounting to \$20.2 million [see Notes 12 and 25(h)]. The reclassification of prepaid major spare parts in 2020 is a result of the completion of the scheduled major maintenance outages of the Santa Rita power plant.

Construction in Progress

First Gen Group's "Construction in progress" account includes steam assets and other ongoing construction projects. Steam assets are mainly composed of in-progress production wells and FCRS, while other construction projects include on-going rehabilitation activities in the plants, Control Systems Integration (CSI), retrofitting projects and other construction projects.

Construction of LNG Terminal

On November 11, 2020, FGEN LNG signed a Construction Contract and Supply Contract with McConnell Dowell Philippines, Inc. and McConnell Dowell South East Asia Pte. Ltd., respectively, for the engineering procurement and construction (EPC) of the Multi-Purpose Jetty and Gas Receiving Facility for its Interim Offshore LNG Terminal (IOT Project) to be located in the First Gen Clean Energy Complex in Batangas City. As of March 17, 2021, the construction of Multi-Purpose Jetty and Gas Receiving Facility is on-going.

11. Goodwill and Intangible Assets

Movements in the account are as follows:

| | 2020 | | | | | | Total |
|--------------------------------------|--------------------------|---|-----------------|--------------------|--|-------------------------------|--------------------|
| | Goodwill (see Note 3) | Concession Rights for Contracts Acquired | Water Rights | Pipeline Rights | Rights to Use Transmission Line | Other Intangible Assets | |
| Costs: | | | | | | | |
| Balances at December 31, 2019 | \$954,702 | \$164,644 | \$47,493 | \$13,253 | \$1,152 | \$10,331 | \$1,191,575 |
| Additions | - | - | - | - | - | 1,627 | 1,627 |
| Foreign exchange adjustments | 51,294 | 8,955 | 2,583 | - | - | 594 | 63,426 |
| Balances at December 31, 2020 | 1,005,996 | 173,599 | 50,076 | 13,253 | 1,152 | 12,552 | 1,256,628 |
| Accumulated Amortization: | | | | | | | |
| Balances at December 31, 2019 | - | 149,487 | 24,933 | 10,389 | 480 | 5,433 | 190,722 |
| Amortization (see Note 18) | - | 9,419 | 1,930 | 602 | 120 | 1,619 | 13,690 |
| Impairment (see Note 3) | 1,058 | - | - | - | - | - | 1,058 |
| Foreign exchange adjustments | 40 | 8,487 | 1,429 | - | - | 326 | 10,282 |
| Balances at December 31, 2020 | 1,098 | 167,393 | 28,292 | 10,991 | 600 | 7,378 | 215,752 |
| Net Book Values | \$1,004,898 | \$6,206 | \$21,784 | \$2,262 | \$552 | \$5,174 | \$1,040,876 |

| | 2019 | | | | | | Total |
|--------------------------------------|--------------------------|---|-----------------|--------------------|--|-------------------------------|--------------------|
| | Goodwill (see Note 3) | Concession Rights for Contracts Acquired | Water Rights | Pipeline Rights | Rights to Use Transmission Line | Other Intangible Assets | |
| Costs: | | | | | | | |
| Balances at December 31, 2018 | \$919,817 | \$158,553 | \$45,736 | \$13,253 | \$1,152 | \$7,394 | \$1,145,905 |
| Additions | - | - | - | - | - | 2,586 | 2,586 |
| Foreign exchange adjustments | 34,885 | 6,091 | 1,757 | - | - | 351 | 43,084 |
| Balances at December 31, 2019 | 954,702 | 164,644 | 47,493 | 13,253 | 1,152 | 10,331 | 1,191,575 |
| Accumulated Amortization: | | | | | | | |
| Balances at December 31, 2018 | - | 135,013 | 22,182 | 9,786 | 360 | 4,363 | 171,704 |
| Amortization (see Note 18) | - | 9,052 | 1,851 | 603 | 120 | 880 | 12,506 |
| Foreign exchange adjustments | - | 5,422 | 900 | - | - | 190 | 6,512 |
| Balances at December 31, 2019 | - | 149,487 | 24,933 | 10,389 | 480 | 5,433 | 190,722 |
| Net Book Values | \$954,702 | \$15,157 | \$22,560 | \$2,864 | \$672 | \$4,898 | \$1,000,853 |



Concession Rights for Contracts Acquired

As a result of the purchase price allocation of Red Vulcan, an intangible asset was recognized pertaining to concession rights originating from contracts of EDC amounting to \$204.3 million (₱8,336.7 million). Such intangible asset pertains to the SSAs and PPAs of EDC that were existing at the time of acquisition. The identified intangible asset is amortized using the straight-line method over the remaining term of the existing contracts ranging from 1 to 17 years. The concession rights for contracts acquired have been valued based on the expected future cash flows using the Multiple Excess Earnings Method (MEEM) as of the date of acquisition. MEEM is the most commonly used approach in valuing customer-related assets, although it may be used to value other intangible assets as well. The asset value is estimated as the sum of the discounted future excess earnings attributable to the asset over the remaining project period. The remaining amortization period of the intangible asset pertaining to the concession rights originating from contracts ranges from less than a year to 4.0 years as of December 31, 2020.

Water Rights

Water rights pertain to FG Hydro's right to use water from the Pantabangan reservoir for the generation of electricity. NPC, through a Certification issued to FG Hydro dated July 27, 2006, gave its consent to the transfer to FG Hydro, as the winning bidder of the PAHEP/MAHEP, the water permit for Pantabangan river issued by the National Water Resources Council on March 15, 1977.

Water rights are amortized using the straight-line method over 25 years, which is the term of FG Hydro's agreement with NIA. The remaining amortization period of water rights is 10.9 years as of December 31, 2020.

Pipeline Rights

Pipeline rights represent the construction cost of the natural gas pipeline facility connecting the natural gas supplier's refinery to FGP's power plant including incidental transfer costs incurred in connection with the transfer of ownership of the pipeline facility to the natural gas supplier. The cost of pipeline rights is amortized using the straight-line method over 22 years, which is the term of the GSPA. The remaining amortization period of pipeline rights is 3.75 years as of December 31, 2020.

Rights to Use Transmission Line

On July 15, 2015, FGPC agreed to give, transfer and convey, by way of donation, the Substation Improvements to TransCo amounting to \$1.2 million pursuant to the SIA dated September 2, 1997 entered into among FGPC, NPC and Meralco. The transferred substation improvements were accounted for as intangible assets since FGPC still maintains the right to use these assets under the provisions of the PPA with Meralco and the SIA. The cost of the rights to use the substation improvements is amortized using the straight-line method over 10 years, which was then the remaining term of the PPA with Meralco. The remaining amortization period is 4.67 years as of December 31, 2020.

Other Intangible Assets

This account includes computer software and licenses.



12. Other Noncurrent Assets

This account consists of:

| | 2020 | 2019 |
|---|------------------|-----------|
| Prepaid major spare parts [see Note 25(h)] | \$107,151 | \$97,013 |
| Input VAT | 94,591 | 62,252 |
| Exploration and evaluation assets [see Note 25(c)] | 40,729 | 61,566 |
| Long-term receivables (see Notes 23 and 24) | 24,507 | 4,177 |
| Prepaid expenses - net of current portion (see Note 9) | 21,759 | 34,634 |
| TCCs | 18,942 | 26,475 |
| Right-of-use assets - net | 16,961 | 15,455 |
| Financial assets at FVOCI (see Notes 23 and 24) | 5,504 | 5,058 |
| Special deposits and funds | 4,648 | 3,934 |
| Derivative assets (see Note 24) | - | 848 |
| Others | 41,808 | 39,690 |
| | 376,600 | 351,102 |
| Less allowance for impairment loss | 22,576 | 16,936 |
| | \$354,024 | \$334,166 |

Input VAT

Input VAT represents VAT due or paid on purchases of goods and services that can be claimed against any future liability to the BIR for output VAT from sale of goods and services.

Exploration and Evaluation Assets

| | 2020 | 2019 |
|--|-----------------|----------|
| Balance at beginning of year | \$61,566 | \$58,506 |
| Additions | 327 | 1,955 |
| Reclassification/adjustments (see Note 10) | (23,630) | (1,115) |
| Direct write-off | - | (50) |
| Foreign exchange adjustments | 2,466 | 2,270 |
| Balance at end of year | \$40,729 | \$61,566 |

Details of exploration and evaluation assets per project are as follows:

| | 2020 | 2019 |
|----------------|-----------------|----------|
| Rangas/Kayabon | \$36,142 | \$34,215 |
| Dauin/Bacong | 1,687 | 1,568 |
| Mindanao III | - | 23,197 |
| Others | 2,900 | 2,586 |
| | \$40,729 | \$61,566 |

In 2019, the exploration and evaluation costs incurred for Balingasag amounting to \$0.05 million was assessed by management to be no longer recoverable. Accordingly, the book value of this exploration and evaluation asset was directly written off. No similar loss was recognized in 2020 and 2018.

In 2020, EDC surrendered the energy service contracts for Ampiro, Lakewood and Balingasag to the DOE and the corresponding exploration and evaluation costs incurred for this project and the related allowance for impairment losses were written off.



Prepaid expenses

Prepaid expenses include the outstanding input VAT claims that were applied by EDC for refund with the BIR/Supreme Court (SC). In 2018, FG Hydro’s outstanding input VAT claims for the year 2016 were elevated to the Court of Tax Appeals (CTA). As of December 31, 2020 and 2019, the outstanding input VAT claims which are still pending with the BIR/SC/CTA amounted to \$20.5 million and \$14.9 million, respectively.

Prepaid expenses also include payments made by EDC on its real property taxes (RPT) that were paid under protest to certain local government units (“LGUs”) totaling to \$21.5 million and \$17.6 million as of December 31, 2020 and 2019, respectively. The amounts paid in protest were in excess of the amounts determined using the 1.5% RPT rate stated in the Renewable Energy Law (RE Law), and are pending with the Local Board of Assessment Appeals (LBAA) and Central Board of Assessment Appeals (CBAA).

In connection with the installation of Burgos Wind project’s wind turbines and related dedicated point-to-point limited facilities, EDC entered into uniform land lease agreements and contracts of easement of right of way with various private landowners. The term of land lease agreement starts from the execution date of the contract and ends after 25 years from the commercial operations of the Burgos Wind project. As of December 31, 2018, the total prepaid lease amounted to \$3.0 million with \$0.1 million classified as current portion presented as “Prepaid expenses” under “Other current assets” account in the consolidated statement of financial position. Upon adoption of PFRS 16 on January 1, 2019, the said prepaid lease was reclassified as “Right-of-use assets” under “Other noncurrent assets” account in the consolidated statement of financial position.

TCCs

TCCs that remain unutilized after five (5) years from the date of original issuance are still valid provided that these are duly revalidated by the BIR within the period allowed by law.

Right-of-use assets

Right-of-use assets pertain to the recognized amounts from the operating lease contracts of the First Gen Group in accordance with PFRS 16 [see Notes 17 and 25(n)]. The costs of right-of-use assets are amortized using the straight-line method over the lease term. Movements of the account are as follows:

| | 2020 | 2019 |
|----------------------------------|-----------------|-----------------|
| Cost: | | |
| Balance at beginning of year | \$19,721 | \$17,768 |
| Additions | 541 | 2,527 |
| Adjustments [see Note 25(n)] | 4,414 | (963) |
| Foreign exchange adjustments | 650 | 389 |
| Balance at end of year | 25,326 | 19,721 |
| Accumulated Amortization: | | |
| Balance at beginning of year | 4,266 | – |
| Amortization (see Note 18) | 4,362 | 4,189 |
| Adjustments [see Note 25(n)] | (493) | – |
| Foreign exchange adjustments | 230 | 77 |
| Balance at end of year | 8,365 | 4,266 |
| Net Book Value | \$16,961 | \$15,455 |



Financial Assets at FVOCI

Financial assets at FVOCI consist of:

| | 2020 | 2019 |
|--|----------------|----------------|
| Quoted debt instruments | \$3,536 | \$3,101 |
| Quoted equity instruments | 1,259 | 1,254 |
| Investment in proprietary club membership shares | 709 | 703 |
| | \$5,504 | \$5,058 |

Quoted debt instruments consist of investments in fixed rate bonds, fixed rate treasury notes and retail treasury bonds with maturities between 2022 and 2037 as of December 31, 2020 and 2019, and interest rates ranging from 4.6% to 6.1% for both years.

Quoted equity instruments consist mainly of shares traded in the PSE.

The movements of the accumulated unrealized gains related to the foregoing investments, which are presented in the consolidated statements of comprehensive income, amounted to \$0.2 million and \$0.6 million in 2020 and 2019, respectively. Changes in fair value recognized in the consolidated statements of comprehensive income pertain the unrealized gains and losses during the year brought about by the temporary increases or decreases in the fair values of these instruments.

Special Deposits and Funds

The special deposits and funds mainly consist of security deposits for various operating lease agreements covering office spaces and certain equipment, escrow accounts in favor of terminated employees, and escrow accounts in favor of specified counterparties on certain transactions. The release of which is subject to certain conditions (see Notes 23, 24 and 25).

Others

Others account includes the investment made by EDC to Enerco which is accounted as investment in joint venture amounting to \$26.2 million and \$30.3 million as of December 31, 2020 and 2019, respectively. As of December 31, 2020, basic surface studies as well as civil works, road rehabilitation, base camp and avalanche controls have already been completed. Additional roads, drilling pad construction, base camp expansion and water supply system have been installed and completed. Exploration drilling program is intended to resume as soon as power supply agreements have been secured, access to transmission line has been negotiated and all the relevant permits have been obtained.

In 2020 and 2019, First Gen Group recognized share in net income (losses) amounting to \$0.2 million and (\$7.3 million), respectively. No share in net losses were recognized in prior years given that the project was still in early stages and the share in net losses to be taken up was not yet significant. Total unrecognized share in net losses as of 2018 amounted to \$0.4 million.

Others account also include advances to contractors, deposits for land acquisitions, and power plant spares totaling to \$15.6 million and \$9.4 million as of December 31, 2020 and 2019, respectively.



Allowance for Impairment

The rollforward analysis of the allowance for impairment pertaining to input VAT and long-term receivables is presented below:

| | 2020 | | |
|--|---------------------|--------------------------|-----------------|
| | Prepaid expenses | Long-term receivables | Total |
| Balance at beginning of year | \$14,992 | \$1,944 | \$16,936 |
| Provision for impairment (see Note 18) | 5,017 | – | 5,017 |
| Write-off | (470) | – | (470) |
| Foreign exchange differences | 987 | 106 | 1,093 |
| Balance at end of year | \$20,526 | \$2,050 | \$22,576 |

| | 2019 | | |
|--|---------------------|--------------------------|----------|
| | Prepaid expenses | Long-term receivables | Total |
| Balance at beginning of year | \$11,247 | \$1,871 | \$13,118 |
| Provision for impairment (see Note 18) | 4,396 | – | 4,396 |
| Write-off | (1,167) | – | (1,167) |
| Foreign exchange differences | 516 | 73 | 589 |
| Balance at end of year | \$14,992 | \$1,944 | \$16,936 |

Loss on direct write-off of input VAT claims amounted to \$0.7 million in 2020, \$1.3 million in 2019 and \$1.9 million in 2018. The amount of loss on direct write-off of input VAT claims is included under “Others” account in the consolidated statements of income.

13. Accounts Payable and Accrued Expenses

This account consists of:

| | 2020 | 2019 |
|--|------------------|-----------|
| Trade (see Note 17) | \$369,261 | \$316,222 |
| Deferred output VAT | 82,250 | 70,235 |
| Accrued interest and financing costs (see Note 14) | 20,451 | 20,213 |
| Withholding and other taxes payable | 10,987 | 10,766 |
| Output VAT | 1,862 | 2,364 |
| Government share payable | 1,461 | 1,304 |
| Due to a related party (see Note 17) | 145 | 145 |
| Others (see Note 3) | 38,358 | 40,873 |
| | \$524,775 | \$462,122 |

Trade payables are noninterest-bearing and are normally settled on 30 to 60-day payment terms.

“Government share payable” pertains to outstanding payable to the Philippine Government (Government) for its share on certain earnings of EDC generated from renewable energy. Under the RE Law, EDC shall pay a government share equivalent to 1.0% to 1.5% of its gross income. Such fiscal incentive was applied by EDC beginning February 1, 2009 (see Note 25).

On May 8, 2012, upon execution of their respective Geothermal Operating Contracts with the DOE, GCGI and BGI also became subject to the government share of 1.5% of their gross income (see Note 25). In 2014, upon receipt of the COE for FIT Eligibility, EBWPC also became subject to the government share of 1% of its gross income.



On February 22, 2017 and February 27, 2017, upon approval of FG Hydro's application for registration as an RE developer and Hydropower Operating Contracts for PAHEP and MAHEP, respectively, FG Hydro became subject to 10% statutory income tax rate and government share of 1% of its gross income (see Note 26).

Government share is allocated between the DOE and the LGUs where the geothermal and hydro resources are located and payable within 60 days after the end of each quarter in the case of EDC, GCGI, BGI, EBWPC and EDC Siklab (for the Gaisano La Paz Solar Rooftop Project). For FG Hydro, government share is paid to DOE (60%) and LGU (40%) within 60 days after the end of each quarter. Government share expense amounted to \$5.8 million, \$5.8 million and \$4.7 million for the years ended December 31, 2020, 2019 and 2018, respectively. Government share expense is presented as part of "Others" in the "Costs of sale of electricity" in the consolidated statements of income (see Note 18).

Other payables mainly include EDC's provision for shortfall generation amounting to \$27.7 million and \$33.2 million as of December 31, 2020 and 2019, respectively, and a portion of liabilities on regulatory assessments and other contingencies (see Note 3).

14. Loans Payable and Long-term Debts

Loans Payable

On September 18, 2019, FGPC obtained a short-term loan amounting to \$23.7 million from the Philippine National Bank (PNB). The short-term loan had an all-in interest rate of 2.66% per annum and payable on December 17, 2019. The proceeds were used to pay the liquid fuel purchased in June 2019. On December 17, 2019, FGPC paid \$11.2 million of the short-term loan and extended the maturity of the remaining balance. The remaining short-term loan amounting to \$12.5 million had an all-in interest rate of 2.39% per annum and payable on June 11, 2020. On June 11, 2020, FGPC executed a promissory note to extend the maturity of the remaining balance, which had an all-in interest rate of 3.5% per annum and was paid on December 7, 2020.

On April 2, 2020, FGP obtained a short-term loan amounting to \$20.0 million from BDO Unibank Inc. (BDO). The short-term loan had an all-in interest rate of 3.4365% per annum and payable on August 28, 2020. The proceeds were used to pay the liquid fuel purchased in December 2019.

On August 27, 2020, FGP executed a promissory note to extend the maturity of the short-term loan, which now has an all-in interest rate of 2.5578% per annum and was paid on January 26, 2021.

On February 10, 2021, FGP obtained a short-term loan amounting to \$10.0 million and \$6.0 million from PNB and MUFG Bank, Ltd., respectively. These short-term loans have an all-in interest rate of 1.06% per annum and payable on August 9, 2021. The proceeds were used to pay for the liquid fuel that was purchased in November 2020.



Long-term debts

This account consists of long-term debts of:

| | 2020 | 2019 |
|----------------------|--------------------|-------------|
| EDC | \$1,250,032 | \$1,099,050 |
| FGPC | 248,582 | 319,139 |
| FGP | 163,529 | 205,174 |
| FNPC | 134,585 | 151,309 |
| Parent Company | 127,566 | 147,397 |
| | 1,924,294 | 1,922,069 |
| Less current portion | 444,265 | 300,100 |
| | \$1,480,029 | \$1,621,969 |

EDC

The details of EDC's long-term debts are as follows:

| Creditor/Project | Maturities | Interest Rates | 2020 | 2019 |
|--|--------------------|--|------------------|-----------|
| US\$181.1 Million Notes | January 20, 2021 | 6.50% | \$181,105 | \$180,867 |
| International Finance Corporation (IFC) | | | | |
| ▪ IFC 1 - ₪4.1 billion | 2012-2023 | 6.07% per annum from April 16, 2014 to June 21, 2018; 4.52% from June 22, 2018 to October 15, 2018; and 6.37% from October 16, 2018 until maturity | 17,342 | 22,870 |
| ▪ IFC 2 - ₪3.3 billion | 2013-2025 | 6.98% per annum from April 16, 2016 to June 21, 2018; and 4.78% from June 22, 2018 until next repricing date | 24,650 | 27,787 |
| ▪ IFC 3 - ₪4.8 billion | March 15, 2033 | 7.804% | 84,910 | 86,895 |
| Fixed Rate Note Facility (FXCN) | | | | |
| ▪ ₪4.0 billion | 2012-2022 | 5.25% | 63,994 | 63,313 |
| ▪ ₪3.0 billion | 2012-2022 | 5.25% | 47,991 | 47,477 |
| 2013 Peso Fixed-Rate Bonds (FXR) | | | | |
| ▪ ₪4.0 billion | May 3, 2023 | 4.7312% | 82,991 | 77,994 |
| ▪ ₪3.0 billion | May 3, 2020 | 4.1583% | - | 59,204 |
| EBWPC Loans: | | | | |
| \$37.5M Commercial Debt Facility | October 23, 2029 | LIBOR plus 2.0% margin | 26,432 | 28,762 |
| \$150.0M ECA Debt Facility | October 23, 2029 | LIBOR plus 2.35% margin | 105,122 | 114,310 |
| ₪5.6 B Commercial Debt Facility | October 23, 2029 | PDST-R2 rate plus 2.0% margin | 83,059 | 85,726 |
| ₪8.5 Billion GCGI Term Loan | March 18, 2022 | 5.25% | 56,513 | 76,942 |
| ₪5.0 Billion BGI Term Loan | October 7, 2025 | 5.65412% | 40,478 | 51,113 |
| DBP ₪291.2 Million Term Loan | December 17, 2030 | 5.50% | 4,641 | 4,840 |
| UBP ₪1.5 billion Term Loan | December 5, 2026 | 5.25% | 25,529 | 26,565 |
| SBC ₪1.0 billion Term Loan | December 5, 2031 | 5.5788% | 20,092 | 19,241 |
| UBP ₪2.0 Billion Term Loan | April 12, 2032 | 5.44% | 31,774 | 32,745 |
| SBC ₪3.0 Billion Term Loan | May 4, 2027 | 5.32% | 44,798 | 47,180 |
| PNB ₪500 Million Term Loan | June 1, 2022 | 4.74% | 3,118 | 4,924 |
| BPI ₪1.0 Billion Term Loan | June 1, 2027 | 5.21% | 14,942 | 15,738 |
| SBC ₪1.0 Billion Term Loan | May 4, 2032 | 5.43% | 15,886 | 16,372 |
| SBC ₪500 Million Term Loan | May 4, 2032 | 5.49% | 7,942 | 8,185 |
| \$50 Million Mizuho Term Loan | March 24, 2022 | 0.87988% | 49,586 | - |
| BPI ₪6.0 Billion Term Loan | | | | |
| BPI ₪3.0 Billion Term Loan | April 15, 2030 | 5.1323% | 62,052 | - |
| BPI ₪3.0 Billion Term Loan | April 15, 2030 | 3.56% | 62,034 | - |
| BDO ₪12 Billion Term Loan | September 10, 2030 | 4.25% until next repricing date | 93,049 | - |
| Total | | | 1,250,030 | 1,099,050 |
| Less current portion | | | 294,950 | 151,343 |
| Noncurrent portion | | | \$955,080 | \$947,707 |



The long-term debts are presented net of unamortized debt issuance costs. A rollforward analysis of unamortized debt issuance costs is as follows:

| | 2020 | 2019 |
|---|----------------|----------------|
| Balance at beginning of year | \$9,763 | \$12,550 |
| Additions during the year | 2,218 | – |
| Accretion during the year charged to “Interest expense and financing charges” account (see Note 19) | (2,585) | (2,391) |
| Unamortized debt issuance costs charged to “Interest expense and financing charges” account (see Note 19) | – | (500) |
| Foreign exchange adjustments | 207 | 104 |
| Balance at end of year | \$9,603 | \$9,763 |

US\$181.1 Million Notes

On January 20, 2011, EDC issued a 10-year \$300.0 million notes (₱13,350.0 million) (the “Notes”) at 6.50% interest per annum which will mature in January 2021. The Notes are intended to be used by EDC to support the business expansion plans, finance capital expenditures, service debt obligations and for general corporate purposes. Such Notes are listed and quoted on the Singapore Exchange Securities Trading Limited (SGX-ST).

On February 20, 2019, EDC made a partial redemption of its \$211.0 million Notes amounting to \$31.7 million with a nominal amount of \$29.9 million, resulting to a loss on extinguishment of \$1.8 million. The amount of loss is presented as part of “Other income (charges)” account in the 2019 consolidated statement of income.

The Notes redeemed were cancelled and subsequently de-listed from the SGX-ST in accordance with the procedures thereof.

On January 20, 2021, EDC fully paid its \$181.1 million Notes listed and quoted on the SGX-ST. The Notes were subsequently de-listed from the SGX-ST in accordance with the procedures thereof.

IFC

EDC entered into a loan agreement with IFC, a shareholder of EDC, on November 27, 2008 for \$100.0 million (₱4.1 billion). On January 7, 2009, EDC opted to draw the loan in Peso. The loan is payable in 24 equal semi-annual installments after a three-year grace period at an interest rate of 7.4% per annum for the first five years subject to repricing for another 5 to 10 years. Under the loan agreement, EDC is restricted from creating liens and is subject to certain financial covenants.

On May 20, 2011, EDC signed a 15-year \$75.0 million loan facility with IFC to fund its medium-term capital expenditures program. The loan was drawn in peso on September 30, 2011, amounting to \$69.3 million (₱3.3 billion). The loan is payable in 24 equal semi-annual installments after a three-year grace period at an interest rate of 6.657% per annum. The loan includes prepayment option, which allows EDC to prepay all or part of the loan anytime starting from the date of the loan agreement until maturity. The prepayment amount is equivalent to the sum of the principal amount of the loan to be prepaid, redeployment cost and prepayment premium.

On March 22, 2018, EDC signed a 15-year \$90.0 million loan facility with IFC to fund its 2018 capital expenditures and other general corporate requirements of its existing geothermal operations. The loan was drawn in Peso on June 22, 2018 amounting to \$91.5 million (₱4.8 billion).

Following the consummation of this financing agreement, EDC and IFC have agreed to amend and reduce the interest rate of the first two (2) loans to 1.30%.



In 2018, the reduction in the interest rate resulted to a gain totaling to \$3.5 million (₱182.6 million) which is the difference between the original contractual cash flows and modified cash flows discounted using the original EIR. The amount of gain on modification of long-term debts is presented as part of “Other income (charges)” account in the 2018 consolidated statement of income.

All other terms and conditions of IFC Loans 1 and 2 remained the same.

Issuance of FXCN and Prepayment of FRCN

On April 4, 2012, EDC signed a 10-year FXCN facility agreement amounting to ₱7.0 billion which is divided into two tranches. The proceeds were used by EDC to prepay in full the previously issued FRCN amounting to ₱7.0 billion. The FXCN tranches 1 and 2 bears a coupon rate of 6.6173% and 6.6108% per annum, respectively.

Debt issuance cost amounting to \$2.4 million (₱100.2 million) was capitalized as part of the new FXCN.

Amended FXCN

On April 30, 2015, EDC and the Noteholders amended the FXCN loan agreement to reduce the interest rate to 5.25% for both Tranche 1 and Tranche 2 as well as to effect other amendments in order to align the same with the other loan covenants of EDC.

Transaction costs related to the amended FXCN amounting to \$1.4 million (₱64.7 million) were capitalized to the carrying amount of the FXCN loan.

2013 Peso Fixed-Rate (FXR) Bonds

On May 3, 2013, EDC issued fixed-rate peso bonds with an aggregate principal amount of \$162.0 million (₱7.0 billion). The FXR bonds, which are listed on the PDEX, are comprised of \$69.4 million (₱3.0 billion) seven-year bonds at 4.1583% and \$92.6 million (₱4.0 billion) 10-year bonds at 4.7312% due on May 3, 2020 and May 3, 2023, respectively. Interest is payable semi-annually starting November 3, 2013. Transaction costs incurred in connection with the issuance of the seven-year bonds and 10-year bonds amounted to \$0.9 million and \$1.2 million, respectively. The net proceeds of the FXR bonds were used to partially fund the 87 MW Burgos Wind project located in Burgos, Ilocos Norte.

On May 4, 2020, EDC fully settled the ₱3.0 billion seven-year bonds.

US\$80 Million Term Loan

On March 21, 2013, EDC entered into a credit agreement with certain banks to avail of a term loan facility of up to \$80.0 million with availability period of 12 months from the date of the agreement.

On December 6, 2013, EDC availed of the full amount of the term loan with maturity date of June 21, 2018. The proceeds were intended to be used by EDC for business expansion, capital expenditures, debt servicing, and for general corporate purposes. The term loan carried an interest rate of 1.8% margin plus LIBOR. Debt issuance costs related to the term loan amounted to \$1.9 million, including front-end fees and commitment fee. The repayment of the term loan was made based on the following schedule: 4.0% and 5.0% of the principal amount on the 15th and 39th month from the date of the credit agreement, respectively; and 91.0% of the principal amount on maturity date.

On June 21, 2018, EDC fully settled the \$80.0 million term loan.



EBWPC Loan

On October 17, 2014, EDC secured a \$315.0 million financing facility agreement, which covers a Peso Commercial Debt Facility of ₱5.6 billion, an ECA Debt Facility of \$150.0 million, and a USD Commercial Debt Facility of \$37.5 million, from local and foreign banks for the construction of the 150 MW Burgos Wind project in Ilocos Norte. The facility consists of U.S. Dollar and Philippine Peso-denominated tranches which will mature in 15 years. Portion of the proceeds received from the financing facility was used to settle the outstanding bridge loans availed in October 2014. Total borrowing costs amounted to \$1.8 million.

Under the agreement of the EBWPC's project financing, EBWPC's debt service is guaranteed by EDC. In the last quarter of 2014, EBWPC entered into seven (7) interest rate swap agreements with an aggregate notional amount of \$181.3 million. This is to partially hedge the interest rate risks on its ECA and Commercial Debt Facility (Hedged Loan) that is benchmarked against six (6) months U.S. LIBOR.

On June 15, 2015, EBWPC has fully drawn the \$315.0 million financing agreement in ECA Debt Facility, USD Commercial Debt Facility, and the Peso Commercial Debt Facility with various banks. As part of the agreement, EBWPC has provided a DSRA which will cover the principal and interest payments of the loan due in next six (6) months amounting to \$15.2 million (₱796.7 million) as of December 31, 2018. In 2019, pursuant to the "reserve support instruments" clause of the loan agreement, EBWPC secured an acceptable credit support instrument from EDC in lieu of cash deposit standing in the DSRA.

GCGI Loan

On March 6, 2015, GCGI completed the execution of separate unsecured loan agreements with Asia United Bank Corporation, Bank of the Philippine Islands (BPI), BDO, Development Bank of the Philippines (DBP), Land Bank of the Philippines (Landbank), RCBC, Robinsons Bank Corporation, and Union Bank of the Philippines (Union Bank) for the total amount of \$180.6 million (₱8.5 billion) at 5.25% per annum maturing on March 6, 2022. BDO Capital and Investment Corporation acted as sole arranger.

As part of the agreement, GCGI has provided a DSRA which will cover the principal and interest payments of the loan amounting \$9.2 million (₱467.5 million) as of December 31, 2019 (see Note 9).

On January 22, 2020, GCGI entered into a surety agreement with EDC and the lenders whereby EDC, as a surety, guarantees the funding of the DSRA in accordance with the loan agreement for the benefit of GCGI, in lieu of the cash deposit standing in DSRA.

BGI Loan

On September 9, 2015, BGI completed the execution of separate unsecured loan agreements with BDO, BPI, and Security Bank for the total amount of \$106.2 million (₱5.0 billion) with a maturity period of 10 years. The initial drawdown amounting to ₱2.5 billion was made on October 7, 2015, while the remaining ₱2.5 billion was drawn on December 7, 2015. BGI may voluntarily prepay all or any part of the principal amount of the loan commencing on and from the 42nd month of the initial drawdown date with a prepayment penalty. BDO Capital and Investment Corporation acted as a structuring supervisor and sole bookrunner.

As part of the agreement, BGI has provided a DSRA which will cover the principal and interest payments of the loan amounting to and \$3.8 million (₱193.7 million) as of December 31, 2019 (see Note 9).



On July 3, 2020, BGI entered into a surety agreement with EDC and the lenders whereby EDC, as a surety, guarantees the funding of the DSRA in accordance with the loan agreement for the benefit of BGI, in lieu of the cash deposit standing in DSRA.

DBP ₱291.2 Million Term Loan

On December 8, 2015, EDC secured a ₱291.2 million loan from DBP. The term loan carries an interest rate of 5.75% per annum and will mature on December 17, 2030. The proceeds were used to finance the Burgos Solar Phase 1 project. On December 17, 2017, the loan agreement was amended to reduce the interest rate to 5.50% per annum.

UBP ₱1.5 billion Term Loan

On June 24, 2016, EDC secured a ₱1.5 billion loan at 5.25% per annum maturing on December 5, 2026 with Union Bank. The proceeds were used to refinance the outstanding ₱3.5 billion fixed rate bonds, which matured on December 4, 2016, and to fund other general corporate purposes.

SBC ₱1.0 Billion Term Loan

On December 1, 2016, EDC secured a ₱1.0 billion loan at 5.58% per annum maturing on December 5, 2031 with Security Bank and SB Capital Investment Corporation. The proceeds were used to refinance the outstanding ₱3.5 billion fixed rate bonds, which matured on December 4, 2016, and to fund other general corporate purposes.

UBP ₱2.0 Billion Term Loan

On April 5, 2017, EDC secured a ₱2.0 billion loan at 5.44% per annum maturing on April 12, 2032 with Union Bank.

SBC ₱3.0 Billion Term Loan

On April 26, 2017, EDC secured a ₱3.0 billion loan at 5.32% per annum maturing on May 4, 2027 with Security Bank.

PNB ₱500.0 Million Term Loan

On May 26, 2017, EDC secured a ₱500.0 million loan at 4.74% per annum maturing on June 1, 2022 with PNB.

BPI ₱1.0 Billion Term Loan

On May 26, 2017, EDC secured a ₱1.0 billion loan at 5.21% per annum maturing on June 1, 2027 with BPI.

SBC ₱1.0 Billion Term Loan

On April 26, 2017, EDC secured a ₱1.0 billion loan at 5.43% per annum maturing on May 4, 2032 with Security Bank.

SBC ₱500.0 Million Term Loan

On July 26, 2017, EDC secured a ₱500.0 million loan at 5.49% per annum maturing on May 4, 2032 with Security Bank.

BPI ₱5.0 Billion Term Loan

On July 20, 2018, EDC secured a ₱5.0 billion loan at 5.23% per annum maturing on October 29, 2021 with BPI. On April 1, 2019, EDC fully settled the loan and recognized loss on unamortized debt issue costs amounting to \$0.2 million (₱8.6 million).



BDO ₱4.0 Billion Term Loan

On July 25, 2018, EDC secured a ₱4.0 billion loan at 5.23% per annum maturing on October 29, 2021 with BDO. On April 29, 2019, EDC fully settled the loan and recognized loss on unamortized debt issue costs amounting to \$0.1 million (₱7.7 million).

Bank of Commerce ₱2.0 Billion Term Loan

On July 19, 2018, EDC secured a ₱2.0 billion loan at 4.12% per annum maturing on October 29, 2021 with Bank of Commerce. On March 28, 2019, EDC fully settled the loan and recognized loss on unamortized debt issue costs amounting to \$0.09 million (₱4.6 million).

MBL ₱500.0 Million Term Loan

On November 21, 2018, EDC secured a ₱500.0 million loan at 6.59% per annum maturing on November 26, 2021 with Mizuho Bank, Ltd. On May 27, 2019, EDC fully settled the loan and recognized loss on unamortized debt issue costs amounting to \$0.03 million (₱1.3 million).

US\$50.0 Million Mizuho Loan

On March 24, 2020, EDC signed a \$50.0 million, two-year loan facility with Mizuho Bank, Ltd. On April 1, 2020, EDC has fully drawn the \$50.0 million loan at an interest rate of 0.65% margin plus LIBOR. Transaction costs related to the loan amounted to \$0.6 million. The proceeds are intended to be used for general corporate purposes.

BPI ₱6.0 Billion Term Loan

On April 2, 2020, EDC signed a ₱6.0 billion, 10-year term loan facility with BPI. On April 15, 2020, EDC has drawn ₱3.0 billion from the loan facility at a fixed interest rate of 5.13% per annum. On July 29, 2020, EDC has drawn the remaining ₱3.0 billion at a fixed interest rate of 3.56% per annum. Transaction costs related to the loan amounted to \$0.9 million (₱45.0 million).

BDO ₱4.5 Billion Loan

On August 28, 2020, EDC signed a ₱11.5 billion, 10-year term loan facility with BDO. On September 10, 2020, EDC has drawn ₱4.5 billion from the loan facility at a fixed rate of 4.25% per annum subject to repricing after five (5) years from the initial drawdown. Transaction costs related to the loan amounted to \$0.7 million (₱33.8 million).

On February 18, 2021, EDC has drawn additional ₱2.0 billion from the loan facility at a fixed rate of 4.25% per annum.

Unused Credit Facilities

As of December 31, 2020 and 2019, EDC has unused credit facilities from various local banks equivalent to \$308.1 million (₱14.8 billion) and \$465.2 million (₱23.6 billion), respectively, which may be availed for future operating activities.

Loan Covenants

The loan covenants covering EDC's outstanding debts include, among others, maintenance of certain level ratios such as: current ratio, debt-to-equity ratio, net financial debt-to-adjusted EBITDA ratio, and debt-service coverage ratios. Under various loan agreements, EDC and EBWPC are also subject to debt incurrence ratios and equity distribution restriction ratio, depending on the counterparty, in each case subject to certain exceptions and conditions. As of December 31, 2020 and 2019, EDC, EBWPC, GCGI, and BGI are in compliance with the loan covenants of all their respective outstanding debts.



Parent Company

The details of the Parent Company's long-term debt are as follows:

| | 2020 | 2019 |
|-------------------------------|------------------|-----------|
| \$200.0 Million Term Facility | \$127,566 | \$147,397 |
| Less current portion | 19,851 | 19,831 |
| Noncurrent portion | \$107,715 | \$127,566 |

\$200.0 Million Term Facility

On September 22, 2015, the Parent Company signed an unsecured \$200.0 million Term Loan Agreement with BDO as Lender and BDO Capital as Arranger. The proceeds were intended to be used to invest in and/or finance the Parent Company's subsidiaries to enable the latter to fund capital expenditures for the 420 MW San Gabriel natural gas-fired power plant and other projects, and fund other general corporate requirements. On September 29, 2015, the Parent Company fully availed the term loan of \$200.0 million that will fully mature in September 2025.

The interest rate of the loan is computed semi-annually, every March and September, using fixed interest rates of: (i) 4.90% per annum from drawdown date to the March 31, 2016 (repricing date), and (ii) 5.09% per annum each successive six months from Repricing Date to maturity date.

In addition, the facility imposes standard loan covenants on the Parent Company and requires the Parent Company to maintain a debt service coverage ratio of at least 1.2:1 and a debt-to-equity ratio of at most 2.5:1. The obligations of the Parent Company under this Term Loan Agreement are unsecured. As of December 31, 2020 and 2019, the Parent Company is in compliance with the terms of the Term Loan Agreement.

The movements of the unamortized debt issuance costs account as of December 31, 2020 and 2019 are as follows:

| | 2020 | 2019 |
|---|--------------|-------|
| Balance at beginning of year | \$603 | \$791 |
| Accretion during the year charged to the "Interest expense and financing charges" account (see Note 19) | (169) | (188) |
| Balance at end of year | \$434 | \$603 |

\$300.0 Million Notes

On October 9, 2013, the Parent Company issued \$250.0 million U.S. Dollar denominated Senior Unsecured Notes (the "Notes") due October 9, 2023 at the rate of 6.50% per annum. On October 31, 2013, additional Notes of \$50.0 million were issued and consolidated to form a single series with the Notes. The \$50.0 million Notes were identical in all respects to the original Notes, other than with respect to the date of issuance and issue price. The Notes were represented by a permanent global certificate ("Global Certificate") in fully registered form that was deposited with the custodian for and registered in the name of a nominee for a common depository for Euroclear bank SA/NV and Clearstream Banking, *societe anonyme*. The Notes were listed on the SGX-ST.

The Parent Company at any time and from time to time prior to October 9, 2018 could redeem all or a portion of the Notes at a redemption price equal to 100.0% of the principal amount of the Notes redeemed, plus the Applicable Premium, accrued and unpaid interest, if any, to (but not including) the date of redemption. In addition, at any time prior to October 9, 2018, the Parent Company, on any one or more occasions redeem up to 35% of the aggregate principal amount of the Notes, at a redemption



price equal to 106.5% of the principal amount of notes redeemed plus accrued and unpaid interest, with the net cash proceeds of certain equity offerings. Finally, at any time and from time to time after October 9, 2018, the Parent Company on any one or more occasions redeem all or a part of the Notes at a specified redemption price (expressed in percentages of the principal amount) plus accrued and unpaid interest, if any, to (but not including) the date of redemption.

On October 13, 2017, the Parent Company bought back \$58.3 million of the Notes from the market at an agreed price with sellers and at a premium to the face value. These Notes were cancelled thereafter.

An aggregate principal amount of \$150.0 million was additionally redeemed on December 15, 2017 at a certain Redemption Price based on a formula stated in the Trust Deed that equaled the Applicable Premium at Redemption Date of 6.684% of the face value.

On September 5, 2018, the Parent Company sent a Notice of Redemption to Noteholders stating the Parent Company's intention to redeem all the outstanding Notes in the aggregate principal amount of \$91.7 million on October 9, 2018 at a Redemption Price of 103.25% as set in the terms and condition of the Notes. On October 9, 2018, the Parent Company paid \$94.7 million, including the premium, as full settlement of the Notes. These Notes were cancelled thereafter. The loss on extinguishment amounted to \$3.0 million and was presented as part of "Other income (charges)" account in the 2018 consolidated statement of income.

The Notes were direct, unconditional and unsecured obligations of the Parent Company, ranking pari passu among themselves and at least pari passu with all other present and future unsecured and unsubordinated obligations of the Parent Company, but in the event of insolvency, only to the extent permitted by applicable laws relating to creditors' right. As of October 9, 2018, the Parent Company was in compliance with the terms of the Notes.

The movements of the unamortized debt issuance costs account as of December 31, 2018 were as follows:

| | |
|---|------------|
| Balance at beginning of year | \$690 |
| Accretion during the year charged to the "Interest expense and financing charges" account (see Note 19) | (59) |
| Unamortized debt issuance costs charged to "Interest expense and financing charges" account (see Note 19) | (631) |
| <u>Balance at end of year</u> | <u>\$-</u> |

FGPC

Long-term debt of FGPC consists of U.S. dollar-denominated borrowings availed from various lenders to finance the operations of its power plant complex.

| Nature | Repayment Schedule | Facility Amount | Outstanding Balances | |
|--|---|-----------------|-------------------------|------------------|
| | | | 2020 | 2019 |
| New term loan facility with various local and a foreign banks and with interest at six-month LIBOR plus 1.00% margin | Repayment to be made in various semi-annual installments from 2017 up to 2024 | \$500,000 | \$248,582 | \$319,139 |
| Less current portion | | | 70,761 | 70,557 |
| <u>Noncurrent portion</u> | | | <u>\$177,821</u> | <u>\$248,582</u> |

On April 5, 2017 (the "Refinancing Date"), FGPC entered into a 7-year Facility Agreement covering a \$500.0 million term loan facility with six banks namely: Bank of Commerce, BPI, BDO, PNB, Security Bank, and Sumitomo Mitsui Banking Corporation Singapore Branch. The proceeds were used to repay in full the aggregate principal, accrued interest and fees outstanding under the existing facilities, to fund



the debt service reserve amount in the DSRA, and to pay down a portion of the Parent Company's existing loans, as well as pre-fund its upcoming maturities.

On May 19, 2017, FGPC availed of the \$500.0 million term loan facility with a 7-year tenor until May 2024. As a result of the refinancing, a portion of the proceeds of the term loan facility was used to pay the outstanding loans amounting to \$222.4 million, and the remaining balance, after funding of the DSRA and payment of other fees and expenses, was upstreamed to the Parent Company on June 28, 2017 as dividends and advances which are non-interest bearing. With respect to the new term loan facility, the interest rate is computed semi-annually, every May and November, using the six-month LIBOR floating benchmark rate on the Interest Rate Setting Date plus 100 basis points.

The movements of the unamortized debt issuance costs account as of December 31, 2020 and 2019 are as follows:

| | 2020 | 2019 |
|--|----------------|---------|
| Balance at beginning of year | \$2,290 | \$3,353 |
| Accretion for the year charged to the "Interest expense and financing charges" account (see Note 19) | (872) | (1,063) |
| Balance at end of year | \$1,418 | \$2,290 |

FGP

Long-term debt of FGP consists of U.S. dollar-denominated borrowings availed from various lenders to partly finance the operations of its power plant complex.

| Nature | Repayment Schedule | Facility Amount | Outstanding Balances | |
|--|---|-----------------|----------------------|-----------|
| | | | 2020 | 2019 |
| Term loan facility with various local banks and with interest at six-month LIBOR plus 2.25% margin | Repayment to be made in various semi-annual installments from 2013 up to 2022 | \$420,000 | \$163,529 | \$205,174 |
| Less current portion | | | 41,718 | 41,645 |
| Noncurrent portion | | | \$121,811 | \$163,529 |

On October 3, 2012 (the "Refinancing Date"), FGP entered into a Facility Agreement covering a \$420.0 million term loan facility with seven local banks namely: BDO, BPI, PNB, RCBC, Union Bank, The Hongkong and Shanghai Banking Corporation Limited, and Security Bank. The proceeds were used to repay in full the aggregate principal, accrued interest and fees outstanding under the existing facilities, to fund the debt service reserve amount in the DSRA, to fund FGP's general and corporate working capital requirements, and to upstream the remaining balance to First Gen to fund its investments in other power projects.

On October 22, 2012, FGP availed of the \$420.0 million term loan facility with a 10-year tenor until October 2022. As a result of the refinancing, a portion of the proceeds of the term loan facility was used to pay the outstanding loans amounting to \$77.4 million, and the remaining balance, after funding of the DSRA and payment of other fees and expenses, was upstreamed to the Parent Company on November 5, 2012 as dividends and advances which are interest-bearing.

With respect to the term loan facility, the interest rate is computed semi-annually, every June and December, using the six-month LIBOR floating benchmark rate on the Interest Rate Setting Date plus 225 basis points, except for the first and the last interest periods wherein the benchmark rate will be the LIBOR for such period nearest to the duration of the first and the last interest periods, respectively. The term loan facility offered FGP the one-time option to reset the floating interest rate to a fixed



interest rate applicable to all or a portion of the outstanding loans on December 10, 2015 or on December 10, 2017, however, FGP did not avail of the option to reset the floating interest rate to a fixed interest rate during the said applicable dates.

Movements of debt issuance costs as of December 31, 2020 and 2019 are as follows:

| | 2020 | 2019 |
|--|--------------|---------|
| Balance at beginning of year | \$826 | \$1,249 |
| Accretion for the year charged to the "Interest expense and financing charges" account (see Note 19) | (355) | (423) |
| Balance at end of year | \$471 | \$826 |

The covenants in the term loan facilities of FGPC and FGP's financing agreements are limited to restrictions with respect to: change in corporate business; amendment of constituent documents; incurrence of other loans; granting of guarantees or right of set-off; maintenance of good, legal and valid title to the critical assets of the site free from all liens and encumbrances other than permitted liens; transactions with affiliates; and specified debt service coverage ratio and debt to equity ratio during any Restricted Payment. FGPC and FGP's real and other properties and shares of stock are no longer mortgaged and pledged as part of security to the lenders. Instead, FGPC and FGP covenant to its lenders that it shall not permit any indebtedness to be secured by or to benefit from any lien on the critical assets of the plant except Permitted Liens. As of December 31, 2020 and 2019, FGPC and FGP are in compliance with the terms of the said agreements.

On November 13, 2018, FGPC and FGP respectively entered into an amendment agreement to the financing agreements to allow the option to fund (in whole or in part) the DSRA with SBLC issued by an investment grade SBLC provider. Last November 19, 2018, FGPC provided a 5.5-year SBLC issued by MUFG Bank Ltd. Manila Branch; while FGP provided a 1-year SBLC issued by Mizuho last December 10, 2018. The FGP SBLC for its DSRA was renewed for another year last December 10, 2019. The latest renewal was last December 10, 2020 with a tenor of one year. The purpose of the SBLC is to ensure that the DSRA is fully funded at all times, in accordance with the financing agreement, until full satisfaction of the obligations of FGPC and FGP under their respective financing agreements. Simultaneous to the provision of the initial SBLCs, both FGPC and FGP withdrew the remaining cash balance in their respective DSRA's (see Note 9).

FNPC

Long-term debt of FNPC pertains to U.S. Dollar-denominated borrowings availed from KfW IPEX-Bank of Germany (KfW-IPEX).

| Nature | Repayment Schedule | Facility Amount | Carrying value | |
|---|---|-----------------|------------------|-----------|
| | | | 2020 | 2019 |
| Export credit facility with KfW-IPEX and with fixed interest rate per annum of 3.12% plus 25 basis points | Repayment to be made in various semi-annual installments from 2016 up to 2028 | \$265,000 | \$134,585 | \$151,309 |
| Less current portion | | | 16,984 | 16,724 |
| Noncurrent portion | | | \$117,601 | \$134,585 |

On July 10, 2014, FNPC signed a \$265.0 million Export Credit Facility with KfW-IPEX with a tenor of 13.7 years to partially finance the 420 MW San Gabriel natural gas-fired power project. This facility has an export credit guarantee provided by Euler Hermes, acting on behalf of the Federal Republic of Germany. The proceeds of the loan were used primarily to finance the eligible German and non-German goods and services under the Supply Contract of FNPC with Siemens AG, the equipment supplier. FNPC (as the Borrower) and AlliedGen (as the Pledgor) also signed a Pledge



Agreement wherein AlliedGen has pledged 100% of the issued and outstanding capital stock of FNPC in favor of KfW-IPEX. Furthermore, the Parent Company signed a Guarantee and Indemnity Agreement with KfW-IPEX, guaranteeing FNPC's punctual performance on all its payment obligations under the Export Credit Facility loan agreement (see Note 17).

With respect to the Export Credit Facility, the interest is paid semi-annually, every March and September, using the fixed interest rate (per annum) of 3.12% plus 25 basis points. In addition, FNPC paid a commitment fee of 0.6% per annum on the undrawn amount.

Upon completion of construction of San Gabriel natural gas-fired power project in 2016, FNPC no longer availed the undrawn portion of the Export Credit Facility. Total drawdowns amounted to \$229.4 million.

The movements of the unamortized debt issuance costs account as of December 31, 2020 and 2019 are as follows:

| | 2020 | 2019 |
|---|-----------------|----------|
| Balance at beginning of year | \$11,796 | \$14,492 |
| Accretion during the year charged to "Interest expense and financing charges" account (see Note 19) | (2,465) | (2,696) |
| Balance at end of year | \$9,331 | \$11,796 |

As of December 31, 2020 and 2019, FNPC is in compliance with the covenants as set forth in its agreement with KfW-IPEX.

FG Hydro

On May 7, 2010, FG Hydro signed a secured loan agreement for a \$112.0 million (₱5.0 billion) Peso loan with PNB and Allied Bank with a tenor of ten years. With the merger of PNB and Allied Bank in February 2013, FG Hydro's outstanding loan as of that date was consolidated under PNB. The loan was secured by Real Estate and Chattel mortgages on all present and future mortgageable assets of FG Hydro. The loan carried an interest of 9.025% subject to re-pricing after five years.

On November 7, 2012, FG Hydro's outstanding loan amounting to \$103.8 million (₱4.3 billion) was restructured by way of an amendment to the loan agreement. The amended agreement provided for a change in the determination of the applicable interest rates and extended the maturity date of the loan by two years with the last repayment to be made on November 7, 2022. On February 29, 2016, the loan agreement was amended to release from the loan security all present and future chattel and non-critical real assets as specified under the amendment.

On various dates, FG Hydro made voluntary partial prepayments of the principal loan balance totaling to \$41.5 million (₱2.1 billion). On November 7, 2018, FG Hydro fully paid the then remaining outstanding loan amounting to \$5.8 million (₱0.4 billion).

On November 16, 2018, following the full repayment of the loan, PNB Trust Banking Group executed a release of mortgage in favor of FG Hydro to cancel and discharge the Real Estate mortgages created under the loan. The release was registered with the Register of Deeds in Talavera, Nueva Ecija on December 5, 2018, thereby terminating the mortgages on FG Hydro's assets.



15. Other Noncurrent Liabilities

This account consists of:

| | 2020 | 2019 |
|---|------------------|-----------------|
| Asset retirement obligations (see Note 3) | \$55,464 | \$43,581 |
| Lease liabilities - net of current portion (see Note 2) | 11,028 | 9,013 |
| Provision for sick and vacation leaves | 6,165 | 5,827 |
| Others (see Notes 3 and 25) | 35,876 | 28,919 |
| | \$108,533 | \$87,340 |

Asset Retirement Obligations

Movements of the asset retirement obligations are as follows:

| | 2020 | 2019 |
|--|-----------------|-----------------|
| Balance at beginning of year | \$43,581 | \$31,047 |
| Effect of change in estimates (see Note 3) | 7,981 | 9,499 |
| Accretion for the year charged to "Interest expense and financing charges" account (see Note 19) | 1,919 | 2,164 |
| Foreign exchange adjustments | 1,983 | 871 |
| Balance at end of year | \$55,464 | \$43,581 |

Lease Liabilities

First Gen Group recognized lease liabilities from its operating lease contracts based on the present value of the remaining lease payments over the lease term, discounted using the incremental borrowing rate at the date of initial application.

Movements of the lease liabilities are as follows:

| | 2020 | 2019 |
|--|-----------------|----------------|
| Balance at beginning of year | \$13,019 | \$14,362 |
| Additions | 541 | 2,527 |
| Accretion for the year charged to "Interest expense and financing charges" account (see Note 19) | 628 | 786 |
| Adjustments [see Note 25(n)] | 4,414 | 2,260 |
| Payments | (4,833) | (7,395) |
| Foreign exchange adjustments | 1,509 | 479 |
| Balance at end of year | 15,278 | 13,019 |
| Less current portion | 4,250 | 4,006 |
| Noncurrent portion | \$11,028 | \$9,013 |

Provision for Sick Leave and Vacation Leave

Sick and annual vacation leaves with pay are given to active employees subject to certain requirements set by First Gen Group. These leaves are convertible into cash upon separation of the employees. At the end of the year, any remaining unused sick and vacation leave are accrued up to maximum allowed number of leave credits which is based on the employees' length of service. For EDC, vacation and sick leave credits exceeding the maximum allowed for accrual are forfeited.

Others

Others include cash received from Tokyo Gas Co., Ltd. (Tokyo Gas) for the development of the FGEN Batangas LNG Terminal Project (FGEN LNG Project) in accordance with the Joint Development Agreement (JDA) entered with the Parent Company last December 5, 2018. The JDA is a preliminary



agreement between the parties to pursue development work to achieve a Final Investment Decision (FID). On October 6, 2020, the Parent Company and Tokyo Gas executed a Joint Cooperation Agreement (JCA) which represents the next phase of their joint development of FGEN LNG's Interim Offshore LNG Terminal (IOT) Project. Under the JCA, Tokyo Gas will have a 20% participating interest in the IOT Project and provide support in development, construction, operations and maintenance work to achieve an FID. Upon reaching FID under the JCA, the parties will enter into a Definitive Agreement in respect of the IOT Project.

As of December 31, 2020 and 2019, total cash received from Tokyo Gas amounted to \$21.4 million and \$16.4 million, respectively.

This account also includes EDC's estimate of the probable costs for the resolution of EDC's pending assessments from various regulatory agencies and outstanding legal cases including the corresponding interest thereon. Such estimated costs were developed in consultation with in-house and external legal counsels, and are based on the analysis of the potential outcomes. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings. As of December 31, 2020 and 2019, provision for pending assessments amounted to \$12.2 million and \$11.4 million, respectively.

16. Equity

a. Capital Stock

Details and movements of the Parent Company's capital stock are as follows:

| | Number of Shares | | |
|--|----------------------|---------------|---------------|
| | 2020 | 2019 | 2018 |
| Redeemable preferred stock (Series "B") | | | |
| - ¥0.50 par value | | | |
| Authorized | 1,000,000,000 | 1,000,000,000 | 1,000,000,000 |
| Issued and outstanding | 1,000,000,000 | 1,000,000,000 | 1,000,000,000 |
| Redeemable preferred stock (Series "E") | | | |
| - ¥0.50 par value | | | |
| Authorized | 1,500,000,000 | 1,500,000,000 | 1,500,000,000 |
| Issued and outstanding | 468,553,892 | 468,553,892 | 468,553,892 |
| Redeemable preferred stock (Series "F") | | | |
| - ¥10.00 par value | | | |
| Authorized | 100,000,000 | 100,000,000 | 100,000,000 |
| Issued | 100,000,000 | 100,000,000 | 100,000,000 |
| Outstanding | | | |
| Balance at beginning of year | - | - | 63,202,160 |
| Redemptions | - | - | (63,202,160) |
| Balance at end of year | - | - | - |
| Redeemable preferred stock (Series "G") | | | |
| - ¥10.00 par value | | | |
| Authorized | 135,000,000 | 135,000,000 | 135,000,000 |
| Issued | 133,750,000 | 133,750,000 | 133,750,000 |
| Outstanding | | | |
| Balance at beginning of year | 118,150,800 | 126,195,800 | 126,855,520 |
| Redemptions | - | (8,045,000) | (659,720) |
| Balance at end of year | 118,150,800 | 118,150,800 | 126,195,800 |



| | Number of Shares | | |
|--|----------------------|----------------------|----------------------|
| | 2020 | 2019 | 2018 |
| Redeemable preferred stock (Series "H") | | | |
| - ₱10.00 par value* | | | |
| Authorized | 300,000,000 | 300,000,000 | - |
| Subscribed | 82,986,740 | 82,986,740 | - |
| Issued | 82,986,740 | 45,649,250 | - |
| Outstanding | | | |
| Balance at beginning of year | - | - | - |
| Issuance | 37,337,490 | 45,649,250 | - |
| Acquisition | (37,337,490) | (45,649,250) | - |
| Balance at end of year | - | - | - |
| Common stock - ₱1 par value | | | |
| Authorized | 5,000,000,000 | 5,000,000,000 | 5,000,000,000 |
| Issued | 3,660,943,557 | 3,660,943,557 | 3,660,943,557 |
| Outstanding | | | |
| Balance at beginning of year | 3,564,189,657 | 3,580,799,657 | 3,598,780,657 |
| Purchases of treasury stocks | (12,008,700) | (16,610,000) | (17,981,000) |
| Balance at end of year | 3,552,180,957 | 3,564,189,657 | 3,580,799,657 |

* As of December 31, 2020 and 2019, all subscribed and issued Series "H" redeemable preferred stocks are held by the subsidiaries of the Parent Company and presented as part of "Cost of stocks held in treasury" upon consolidation.

As of December 31, 2020, the Parent Company's redeemable preferred stock consists of the following:

- The Series "B" preferred stocks have voting rights, entitled to cumulative dividends of two centavos (₱0.02) a share and redeemable at the option of the Parent Company.
- The Series "E" preferred stocks have voting rights, entitled to receive dividends at one centavo (₱0.01) a share and redeemable at the option of the Parent Company.
- The Series "F" preferred stocks have non-voting rights except in the cases provided by law, issue value of one hundred pesos (₱100.0) a share, dividend rate of 8.0% on the issue price, entitled to receive cumulative dividends, and redeemable at the option of the Parent Company.
- The Series "G" preferred stocks have non-voting rights except in the cases provided by law, issue value of one hundred pesos (₱100.00) a share, dividend rate of 7.7808% on the issue price, entitled to receive cumulative dividends, and redeemable at the option of the Parent Company.
- The Series "H" preferred stocks have non-voting rights except in the cases provided by law, issue value of ten pesos (₱10.0) a share, dividend rate shall be based on the 6-month Bloomberg Valuation (BVAL) rate as published on the PDEX page plus 150 basis points on the issue price, entitled to receive cumulative dividends, and redeemable at the option of the Parent Company.

Preferred stocks, regardless of series, are non-participating and non-convertible to common stocks.

On May 16, 2012, the BOD of the Parent Company approved the extension of the two-year share buyback program which was previously approved by the BOD of the Parent Company on May 12, 2010 covering up to 300.0 million of the Parent Company's common stocks representing approximately 9% of the Parent Company's total outstanding common stocks. The number of shares and buyback period are subject to revision from time to time as circumstances may warrant, subject to the proper disclosures to regulatory agencies, by the BOD of the Parent Company. The Parent Company will undertake a buyback transaction only if and to the extent that the price per share is deemed extremely undervalued, if share prices are considered highly volatile, or in any



other instance where the Parent Company believes that a buyback will result in enhancing shareholder value. On May 12, 2014, the stockholders and the BOD of the Parent Company approved the extension of the buyback program for another two years from June 1, 2014 to May 31, 2016 under the same terms and conditions as the original share buyback program. There were no stocks purchased under the program from May 16, 2012 to May 31, 2016.

During the May 12, 2014 Annual Stockholders' Meeting, the stockholders and the BOD of the Parent Company approved a two-year buyback program covering the repurchase of up to ₱5.0 billion worth of Series "F" and "G" redeemable preferred stocks from the open market. The two-year period commenced on June 1, 2014 and ended on May 31, 2016. Under the Series "F" and "G" redeemable preferred stocks buy-back program, the maximum amount of the shares and buyback period will be subject to revision by the BOD from time to time as circumstances warrant, subject to proper disclosures to regulatory agencies. The program will not involve active and widespread solicitation from shareholders in general, and not adversely affect the Parent Company's prospective and existing development projects. The program will be executed in open market through the trading facilities of the PSE and be implemented under the supervision of the Parent Company's Chief Executive Officer, President, and Chief Finance Officer. On October 6, 2015, the Parent Company purchased from the open market 36,365,000 Series "F" redeemable preferred stocks at an issue price of ₱110.0 per share. The transaction was made pursuant to a two-year buyback program approved by the stockholders and BOD on May 12, 2014.

On May 11, 2016, the BOD of the Parent Company approved during its Organizational board meeting the two-year extension of the buy-back programs from June 1, 2016 to May 31, 2018. The two-year extension covers the: (i) common stock buy-back program covering up to 300.0 million of the Parent Company's common stocks; and (ii) Series "F" and "G" Preferred Shares buyback program covering up to ₱10.0 billion worth of said redeemable preferred stocks.

In 2016 and 2017, the Parent Company purchased from the open market a total of 432,840 and 6,894,480 Series "F" and Series "G" redeemable preferred stocks, respectively. Total payments for the buyback of the Series "F" and Series "G" redeemable preferred stocks amounted to ₱46.9 million (\$0.92 million) and ₱810.5 million (\$16.4 million), respectively.

On June 14, 2018, the BOD of the Parent Company approved during its board meeting the two-year extension of the buy-back programs from June 15, 2018 to June 14, 2020. The two-year extension covers the: (i) common stock buy-back program covering up to 300.0 million of the Parent Company's common stocks; and (ii) Series "G" Preferred Shares buyback program covering up to ₱10.0 billion worth of said redeemable preferred stocks.

On the same date, the BOD of the Parent Company approved during its board meeting, in accordance with the terms and condition of the Parent Company's Series "F" Preferred Shares, the redemption of all outstanding Series "F" Preferred Shares on July 25, 2018 at the applicable redemption value of ₱100.0 a share. On July 25, 2018, the Parent Company redeemed all outstanding Series "F" Preferred Shares amounting to ₱6,320.2 million (\$119.1 million).

In 2018, the Parent Company purchased from the open market 659,720 Series "G" redeemable preferred stocks and 17,981,000 common stocks. Total payments for the buyback of Series "G" redeemable preferred stocks and common stocks amounted to ₱69.5 million (\$1.3 million) and ₱270.3 million (\$5.2 million), respectively.

In 2019, the Parent Company purchased from the open market 8,045,000 Series "G" redeemable preferred stocks and 33,039,352 common stocks. Total payments for the buyback of Series "G" redeemable preferred stocks and common stocks amounted to ₱871.8 million (\$16.7 million) and



₱813.8 million (\$15.7 million), respectively. From the total common stocks purchased from the open market, a total of 16,429,352 common stocks are held by subsidiaries.

On April 15, 2020, the BOD of the Parent Company approved during its board meeting the two-year extension of the buy-back programs from June 14, 2020 to June 14, 2022. The two-year extension covers the: (i) common stock buy-back program covering up to 300.0 million of the Parent Company's common stocks; and (ii) Series "G" Preferred Shares buyback program covering up to ₱10.0 billion worth of said redeemable preferred stocks.

In 2020, the Parent Company purchased from the open market 12,008,700 common stocks for ₱228.9 million (\$4.5 million).

On February 15, 2021, the Parent Company purchased from the open market 51,546,960 Series "G" redeemable preferred stocks for ₱5,572.1 million (\$115.9 million) [see Note 29].

On January 20, 2015, the Parent Company authorized the issuance and sale of an aggregate of 297,029,800 common stocks to be taken from its unissued capital stock and treasury stock at an identical issue price of ₱25.25 per share (the "Offer Price"). The price represents a 2.9% discount to the last traded price of ₱26.00 per share. The placement was conducted via an accelerated bookbuilding process (see Note 1).

On March 12, 2015 and May 13, 2015, the BOD and the stockholders of the Parent Company approved the following amendments/matters to Article Seventh of the Parent Company's Amended Articles of Incorporation:

- to create 160 million Series "H" preferred stocks with a par value of ₱10.0 per share with the following features: issue value and dividend rate to be determined by the BOD at the time of issuance, entitled to cumulative dividends, non-voting, non-participating, redeemable at option of the Parent Company and in the event of liquidation, dissolution, distribution of assets or winding-up of the Parent Company shall be entitled to be paid at their issue value plus any accrued and unpaid dividends thereon;
- to increase the authorized capital stock from ₱8,600.0 million to ₱10,200.0 million; and,
- to file the corresponding amendments to Article Seventh of the Parent Company's Amended Articles of Incorporation to reflect the above items.

On March 15, 2018, the BOD of the Parent Company approved the amendment to Article Seventh of the Parent Company's Amended Articles of Incorporation to increase the authorized capital stock from ₱8,600.0 million to ₱11,600.0 million by way of creating 300.0 million Series "H" preferred stocks with a par value of ₱10.0 a share. This amends the March 12, 2015 resolutions of the BOD increasing the authorized capital stock for ₱8,600.0 million to ₱10,200.0 million by creation of 160.0 million Series "H" preferred stocks.

On December 28, 2018, the Parent Company submitted to the Philippine SEC an application for the increase of its authorized capital stock. The increase will be paid through the conversion of FGPC's existing deposits for future stocks subscriptions amounting to ₱3,766.3 million (\$70.5 million) as partial payment for its subscription to 75,000,000 Series "H" redeemable preferred stocks. On March 27, 2019, the Philippine SEC approved the Parent Company's application.



On April 10, 2019 and July 11, 2019, the Parent Company issued a total of 7,986,740 Series “H” redeemable preferred stocks at ₱100.0 issue price to Prime Meridian totaling to ₱798.7 million (\$15.3 million).

In 2019, the Parent Company incurred and paid documentary stamp taxes and SEC fees related to the issuance of capital stock amounting to \$0.3 million which was presented as deduction to “Additional paid-in capital” account in the consolidated statement of financial position.

On February 10, 2020, the BOD of the Parent Company approved the amendment to Article Seventh of the Parent Company’s Amended Articles of Incorporation to increase the authorized capital stock from ₱11,600.0 million to ₱13,200.0 million by way of creating 160.0 million Series “I” preferred stocks with a par value of ₱10.0 a share.

On December 3, 2020, the Parent Company received from FGPC the remaining subscription receivable balance for Series “H” redeemable preferred stocks amounting to ₱3,773.7 million (\$77.4 million).

b. Deposits for Future Stock Subscriptions

On October 30, 2015, FPH made deposits for future stock subscriptions amounting to ₱100.0 million (\$2.1 million) for its subscription to the Series “H” preferred stocks of the Parent Company. On September 19, 2018, the BOD of the Parent Company approved the return of deposits for future stock subscriptions to FPH.

c. Retained Earnings

Following are the dividends declared and paid by the Parent Company in 2020, 2019 and 2018:

2020

| Declaration date | Record date | Payment date | Shareholders | Description | Dividend per share | Total amount (in USD) | Total amount (in PHP) |
|------------------|---------------|---------------|-----------------------|-------------|--------------------|-----------------------|-----------------------|
| Dec. 9, 2020 | Dec. 23, 2020 | Jan 25, 2021 | Series “B” Preferred | Regular | ₱0.02 | \$415 | ₱20,000 |
| Dec. 9, 2020 | Dec. 23, 2020 | Jan 25, 2021 | Series “E” Preferred | Regular | 0.01 | 97 | 4,686 |
| Dec. 9, 2020 | Dec. 23, 2020 | Jan 25, 2021 | Series “G” Preferred | Regular | 3.8904 | 8,420 | 406,161 |
| Dec. 9, 2020 | Dec. 23, 2020 | Jan 25, 2021 | Series “G” Preferred* | Regular | 0.38904 | 111 | 5,349 |
| Nov. 19, 2020 | Dec. 7, 2020 | Dec. 22, 2020 | Common | Regular | 0.28 | 20,780 | 1,007,416 |
| June 9, 2020 | July 1, 2020 | July 27, 2020 | Series “G” Preferred | Regular | 3.8904 | 8,033 | 406,161 |
| June 9, 2020 | July 1, 2020 | July 27, 2020 | Series “G” Preferred* | Regular | 0.38904 | 106 | 5,349 |
| June 9, 2020 | June 24, 2020 | July 20, 2020 | Common | Regular | 0.28 | 19,924 | 1,007,416 |
| | | | | | | \$57,886 | ₱2,862,538 |

*Pertains to the 13,750,000 Series “G” preferred stocks issued to FPH by way of private placement.

2019

| Declaration date | Record date | Payment date | Shareholders | Description | Dividend per share | Total amount (in USD) | Total amount (in PHP) |
|------------------|---------------|---------------|-----------------------|-------------|--------------------|-----------------------|-----------------------|
| Nov. 29, 2019 | Dec. 27, 2019 | Jan. 27, 2020 | Series “B” Preferred | Regular | ₱0.02 | \$389 | ₱20,000 |
| Nov. 29, 2019 | Dec. 27, 2019 | Jan. 27, 2020 | Series “E” Preferred | Regular | 0.01 | 91 | 4,686 |
| Nov. 29, 2019 | Dec. 27, 2019 | Jan. 27, 2020 | Series “G” Preferred | Regular | 3.8904 | 7,892 | 406,161 |
| Nov. 29, 2019 | Dec. 27, 2019 | Jan. 27, 2020 | Series “G” Preferred* | Regular | 0.38904 | 104 | 5,349 |
| June 17, 2019 | July 3, 2019 | July 25, 2019 | Series “G” Preferred | Regular | 3.8904 | 8,370 | 437,459 |
| June 17, 2019 | July 3, 2019 | July 25, 2019 | Series “G” Preferred* | Regular | 0.38904 | 102 | 5,349 |
| May 8, 2019 | May 23, 2019 | June 19, 2019 | Common | Regular | 0.55 | 38,393 | 1,999,638 |
| | | | | | | \$55,341 | ₱2,878,642 |

*Pertains to the 13,750,000 Series “G” preferred stocks issued to FPH by way of private placement.



2018

| Declaration date | Record date | Payment date | Shareholders | Description | Dividend per share | Total amount (in USD) | Total amount (in PHP) |
|------------------|---------------|---------------|-----------------------|-------------|--------------------|-----------------------|-----------------------|
| Nov. 19, 2018 | Jan. 2, 2019 | Jan. 25, 2019 | Series "B" Preferred | Regular | ₱0.02 | \$379 | ₱20,000 |
| Nov. 19, 2018 | Jan. 2, 2019 | Jan. 25, 2019 | Series "E" Preferred | Regular | 0.01 | 89 | 4,686 |
| Nov. 19, 2018 | Jan. 2, 2019 | Jan. 25, 2019 | Series "G" Preferred | Regular | 3.8904 | 8,293 | 437,459 |
| Nov. 19, 2018 | Jan. 2, 2019 | Jan. 25, 2019 | Series "G" Preferred* | Regular | 0.38904 | 101 | 5,349 |
| Sept. 19, 2018 | Oct. 12, 2018 | Oct. 26, 2018 | Common | Regular | 0.35 | 23,937 | 1,275,523 |
| June 14, 2018 | June 29, 2018 | July 25, 2018 | Series "F" Preferred | Regular | 4.00 | 4,840 | 252,809 |
| June 14, 2018 | June 29, 2018 | July 25, 2018 | Series "G" Preferred | Regular | 3.8904 | 8,397 | 438,604 |
| June 14, 2018 | June 29, 2018 | July 25, 2018 | Series "G" Preferred* | Regular | 0.38904 | 102 | 5,349 |
| | | | | | | \$46,138 | ₱2,439,779 |

*Pertains to the 13,750,000 Series "G" preferred stocks issued to FPH by way of private placement.

As of December 31, 2020 and 2019, total unpaid cash dividends on preferred stocks amounting to \$9.1 million (₱436.2 million) and \$8.6 million (₱436.2 million), respectively, are presented as "Dividends payable" in the consolidated statements of financial position.

The retained earnings balance is restricted to the extent of: (a) acquisition price of the treasury stocks amounting to \$447.0 million and \$365.1 million as of December 31, 2020 and 2019, respectively; and (b) the undistributed net earnings of subsidiaries and associates are amounting to \$677.3 million and \$670.4 million as of December 31, 2020 and 2019, respectively. Undistributed earnings of the subsidiaries and associates are not available for dividend distribution until such time that the Parent Company receives the dividends from these investee companies.

d. Treasury Stocks

(i) Common stocks

Movements of common stocks held in treasury are as follows:

| | 2020 | | 2019 | | 2018 | |
|---|------------------|----------|------------------|----------|------------------|----------|
| | Number of Shares | Cost | Number of Shares | Cost | Number of Shares | Cost |
| Balances at beginning of year | 96,753,900 | \$39,102 | 80,143,900 | \$29,782 | 62,162,900 | \$24,625 |
| Common stocks acquired through market during the year | 12,008,700 | 4,507 | 16,610,000 | 9,320 | 17,981,000 | 5,157 |
| Balances at end of year | 108,762,600 | \$43,609 | 96,753,900 | \$39,102 | 80,143,900 | \$29,782 |

On January 20, 2015, the Parent Company authorized the issuance of 279,406,700 common stocks to be taken from its treasury stock at issue price of ₱25.25 per share (the "Offer Price"). The price represents a 2.9% discount to the last traded price of ₱26.00 per share.

As of December 31, 2020 and 2019, the number of common stocks of Parent Company held by subsidiaries totaled to 45,733,548. The costs of these Parent Company common stocks held by subsidiaries amounted to \$17.2 million as of December 31, 2020 and 2019. These are included as part of "Cost of stocks held in treasury" account in the equity section of the consolidated statements of financial position.

In 2020, 2019 and 2018, the portion of cash dividends declared pertaining to common stocks held by subsidiaries amounting to \$0.5 million, \$0.7 million and \$0.4 million, respectively, were reverted to retained earnings.



(ii) Redeemable preferred stocks

Movements of redeemable preferred stocks held in treasury are as follows:

| | 2020 | | 2019 | | 2018 | |
|--|------------------|-----------|------------------|-----------|------------------|-----------|
| | Number of Shares | Cost | Number of Shares | Cost | Number of Shares | Cost |
| Redeemable Preferred Stock Series "F": | | | | | | |
| Balances at beginning of year | 100,000,000 | \$205,713 | 100,000,000 | \$205,713 | 36,797,840 | \$86,581 |
| Redemption during the year | - | - | - | - | 63,202,160 | 119,132 |
| Balances at end of year | 100,000,000 | \$205,713 | 100,000,000 | \$205,713 | 100,000,000 | \$205,713 |
| Redeemable Preferred Stock Series "G": | | | | | | |
| Balances at beginning of year | 15,599,200 | \$34,472 | 7,554,200 | \$17,735 | 6,894,480 | \$16,416 |
| Redemption during the year | - | - | 8,045,000 | 16,737 | 659,720 | 1,319 |
| Balances at end of year | 15,599,200 | \$34,472 | 15,599,200 | \$34,472 | 7,554,200 | \$17,735 |
| Redeemable Preferred Stock Series "H": | | | | | | |
| Balances at beginning of year | 45,649,250 | \$85,814 | - | \$- | - | \$- |
| Acquisition during the year | 37,337,490 | 77,408 | 45,649,250 | 85,814 | - | - |
| Balances at end of year | 82,986,740 | \$163,222 | 45,649,250 | \$85,814 | - | \$- |

e. Non-controlling Interests

For the years ended December 31, 2020 and 2019, the NCI arises from the total comprehensive income and net assets not held by First Gen Group in EDC and Subsidiaries. Financial information of subsidiaries that have material NCI interests are provided below:

| | 2020 | 2019 |
|---|-----------|-----------|
| Accumulated balances of NCI | | |
| EDC and Subsidiaries | \$532,570 | \$466,520 |
| Total comprehensive income allocated to NCI | | |
| EDC and Subsidiaries | \$142,879 | \$126,797 |

In 2020 and 2019, EDC declared cash dividends to its non-controlling common stockholders amounting to \$76.2 million (¥3,798.8 million) and \$75.9 million (¥3,907.9 million), respectively. As of December 31, 2020 and 2019, the total unpaid cash dividends of EDC to its non-controlling common stockholder amounted to \$56.6 million (¥2,713.7 million) and \$45.2 million (¥2,287.2 million), respectively and presented as "Dividends payable" in the consolidated statements of financial position. EDC has no cash dividend declaration to its non-controlling stockholders in 2018.



Following are the summarized financial information of EDC and Subsidiaries (amounts in thousands):

Consolidated Statements of Financial Position as of December 31, 2020 and 2019

| | 2020 | | 2019 | |
|-------------------------------------|--------------------|---------------------|--------------------|---------------------|
| | In USD | In Php | In USD | In Php |
| Current assets | \$849,575 | ₱40,799,131 | \$583,961 | ₱29,568,884 |
| Non-current assets | 2,197,274 | 105,519,690 | 2,079,748 | 105,308,039 |
| Total Assets | \$3,046,849 | ₱146,318,821 | \$2,663,709 | ₱134,876,923 |
| Current liabilities | \$662,203 | ₱31,800,962 | \$450,166 | ₱22,794,141 |
| Non-current liabilities | 1,068,007 | 51,288,902 | 1,032,443 | 52,277,766 |
| Total Liabilities | 1,730,210 | 83,089,864 | 1,482,609 | 75,071,907 |
| Total Equity | 1,316,639 | 63,228,957 | 1,181,100 | 59,805,016 |
| Total Liabilities and Equity | \$3,046,849 | ₱146,318,821 | \$2,663,709 | ₱134,876,923 |

Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2020, 2019 and 2018

| | 2020 | | 2019 | | 2018 | |
|-------------------------------------|------------------|--------------------|------------------|--------------------|------------------|-------------------|
| | In USD | In Php | In USD | In Php | In USD | In Php |
| Revenues from sale of electricity | \$754,774 | ₱37,616,780 | \$805,842 | ₱41,868,418 | \$723,921 | ₱37,985,628 |
| Costs of sale of electricity | (349,495) | (17,418,329) | (382,025) | (19,848,497) | (363,866) | (19,092,818) |
| General and administrative expenses | (108,778) | (5,421,340) | (137,082) | (7,122,237) | (117,955) | (6,189,362) |
| Financial income (expenses) | (67,748) | (3,376,459) | (63,968) | (3,323,529) | (67,973) | (3,566,669) |
| Other income (charges) | 38,062 | 1,896,972 | 36,208 | 1,881,248 | 32,834 | 1,722,843 |
| Income before income tax | 266,815 | 13,297,624 | 258,975 | 13,455,403 | 206,961 | 10,859,622 |
| Provision for income tax | (35,327) | (1,760,633) | (21,222) | (1,102,630) | (24,090) | (1,264,074) |
| Net income | 231,488 | 11,536,991 | 237,753 | 12,352,773 | 182,871 | 9,595,548 |
| Other comprehensive income (loss) | (15,787) | (786,809) | (16,883) | (877,197) | 7,606 | 399,114 |
| Total comprehensive income | \$215,701 | ₱10,750,182 | \$220,870 | ₱11,475,576 | \$190,477 | ₱9,994,662 |

Consolidated Statements of Cash Flows for the Years Ended December 31, 2020, 2019 and 2018

| | 2020 | | 2019 | | 2018 | |
|---|------------------|-------------------|-------------------|-------------------|-----------------|-------------------|
| | In USD | In Php | In USD | In Php | In USD | In Php |
| Operating activities | \$374,395 | ₱18,659,305 | \$386,969 | ₱20,105,401 | \$418,355 | ₱21,951,958 |
| Investing activities | (124,756) | (6,217,673) | (64,177) | (3,334,375) | (43,720) | (2,294,088) |
| Financing activities | (97,067) | (4,837,679) | (335,710) | (17,442,171) | (310,942) | (16,315,758) |
| Net increase (decrease) in cash and cash equivalents | \$152,572 | ₱7,603,953 | (\$12,918) | (₱671,145) | \$63,693 | ₱3,342,112 |

f. Cumulative Translation Adjustments

The details of cumulative translation adjustments (net of NCI's share) as of December 31 are as follows:

| | 2020 | 2019 |
|--|-------------------|--------------------|
| Net losses on cash flow hedges - net of tax (see Note 24) | \$13,372 | \$16,846 |
| Foreign exchange adjustments | (79,028) | (167,940) |
| Balance at end of year | (\$65,656) | (\$151,094) |



The movements in the “Cumulative translation adjustments” account (net of NCI’s share) for the years ended December 31 are as follows:

| | 2020 | 2019 |
|---|-------------|-------------|
| Balance at beginning of year | (\$151,094) | (\$210,556) |
| Net gains on cash flow hedges - net of tax (see Note 24) | (3,474) | (4,755) |
| Foreign exchange adjustments | 88,912 | 64,217 |
| Balance at end of year | (\$65,656) | (\$151,094) |

17. Related Party Transactions

Related party relationship exists when the party has the ability to control, directly or indirectly, through one or more intermediaries, or exercise significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting entity and its key management personnel, directors and stockholders. In considering each possible related party relationship, attention is directed to the substance of the relationships, and not merely to the legal form.

The following are the significant transactions with related parties:

- a. Due to a related party represents noninterest-bearing U.S. dollar and Philippine peso-denominated emergency loans to meet working capital and investment requirements of certain entities in the Lopez Group.
- b. First Gen Group leases its office premises where its principal offices are located from Rockwell-Meralco BPO Venture, a joint venture of Rockwell Land Corporation (Rockwell), a subsidiary of FPH [(see Note 25(n)]. Total rental payments amounted to \$2.5 million and \$1.4 million for the years ended December 31, 2020 and 2019, respectively, and were considered as reduction of the “Lease liabilities” account in the consolidated statements of financial position (see Note 15). Total rent expense included under “Business and related expenses” in the “General and administrative expenses” account in the consolidated statement of income amounted to \$1.3 million in 2018 (see Note 18).
- c. Following the usual bidding process, EDC awarded to First Balfour, Inc. (First Balfour) procurement contracts for various works such as civil, structural and mechanical/ piping works in EDC’s geothermal, solar and wind power plants. EDC also engaged the services of Thermaprime Drilling Corporation (Thermaprime), a subsidiary of First Balfour, for the drilling services such as, but not limited to, rig operations, rig maintenance, well design and engineering. As of December 31, 2020 and 2019, the outstanding balances of EDC’s payables to First Balfour and Thermaprime totaled to \$25.4 million and \$13.4 million, respectively, recorded under “Accounts payable and accrued expenses” account in the consolidated statements of financial position (see Note 13).

First Balfour is a wholly owned subsidiary of FPH.



d. *Parent Company*

During the February 27, 2014 meeting, the BOD of the Parent Company approved the confirmation, ratification and approval of the authority of the Parent Company, pursuant to Clause (i) of the Second Article of the Parent Company's Amended Articles of Incorporation, to act as a guarantor or co-obligor or assume any obligation of any person, corporation or entity in which the Corporation may have an interest, directly or indirectly, including but not limited to FNPC, which is the operating company of the 420 MW San Gabriel power plant and Prime Meridian, which is the operating company of the 97 MW Avion power plant, under such terms and conditions as the Parent Company's duly authorized representatives may deem necessary, proper or convenient in the best interest of the Parent Company and its relevant subsidiary. On May 12, 2014, the stockholders of the Parent Company ratified and confirmed such authority.

On July 10, 2014, the Parent Company signed a Guarantee and Indemnity Agreement with KfW-IPEX, guaranteeing FNPC's punctual performance on all its payment obligations under the Export Credit Facility loan agreement.

EDC

EDC issued letters of credit amounting to \$80.0 million in favor of its subsidiary, EDC Chile Limitada, as evidence of its financial support for EDC Chile Limitada's participation in the bids for geothermal concession areas by the Chilean Government.

EDC also issued letters of credit in favor of its subsidiaries in Peru, namely, EDC Peru S.A.C. and EDC Energia Verde Peru S.A.C. at \$0.27 million each as evidence of EDC's financial support for the geothermal authorizations related to the exploration drilling activities of the said entities.

On January 22, 2020 and July 3, 2020, EDC entered into a surety agreement with GCGI and BGI, respectively, and the lenders whereby EDC, as a surety, guarantees the funding of the DSRA in accordance with the loan agreement for the benefit of GCGI and BGI, in lieu of the cash deposit standing in DSRA.

e. Compensation of key management personnel are as follows:

| | 2020 | 2019 | 2018 |
|------------------------------------|-----------------|----------|----------|
| Other short-term employee benefits | \$21,260 | \$15,776 | \$22,771 |
| Retirement benefits (see Note 20) | 1,627 | 1,030 | 1,221 |
| | \$22,887 | \$16,806 | \$23,992 |

Terms and Conditions of Transactions with Related Parties. As mentioned above, except for the letters of credit issued by EDC in favor of EDC Chile Limitada, EDC Peru S.A.C. and EDC Energia Verde Peru S.A.C., and the Parent Company guarantee issued to FNPC in relation to FNPC's payment obligations under its Export Credit Facility loan agreement, there have been no other guarantees provided for or received from any other related party during the years ended December 31, 2020 and 2019. The outstanding balances at the end of each year are unsecured and interest-free and settlement occurs in cash.

On January 22, 2020 and July 3, 2020, EDC entered into a surety agreement with GCGI and BGI, respectively, and the lenders whereby EDC, as a surety, guarantees the funding of the DSRA in accordance with the loan agreement for the benefit of GCGI and BGI, in lieu of the cash deposit standing in DSRA.



Details of amounts due from related parties (included in the “Receivables” account), and due to a related party (included in the “Accounts payable and accrued expenses” account) are as follows:

| Related Party | Nature of Transactions | Terms | Transactions for the Years ended | | | Net Amounts due from/to | |
|--|----------------------------|-------------------|----------------------------------|----------|----------|-------------------------|-------------|
| | | | December 31 | 2019 | 2018 | related parties as of | December 31 |
| | | | 2020 | 2019 | 2018 | 2020 | 2019 |
| Due from related parties (see Note 6) | | | | | | | |
| | | Unsecured and | | | | | |
| First Philec | Marketing services | payable by demand | (\$218) | (\$269) | \$642 | \$163 | \$381 |
| FGen Northern Power | Interest-free advances | - do - | - | - | (144) | - | 7 |
| Others | Interest-free advances | - do - | 23 | 827 | (457) | 1,963 | 1,940 |
| | | | (\$195) | \$558 | \$41 | \$2,126 | \$2,328 |
| Due to a related party (see Note 13) | | | | | | | |
| FGHC International Ltd. | Interest-free advances | Unsecured and | \$- | \$- | \$- | \$145 | \$145 |
| | | payable by demand | | | | | |
| Trade payables (see Note 13) | | | | | | | |
| First Balfour | Civil works and other | Unsecured and | \$28,590 | \$16,967 | \$12,644 | \$18,900 | \$9,619 |
| | services | payable by demand | | | | | |
| Thermaprime | Drilling and other related | - do - | 24,021 | 22,359 | 20,129 | 6,548 | 3,804 |
| | services | | | | | | |
| | | | \$52,611 | \$39,326 | \$32,773 | \$25,448 | \$13,423 |

No impairment loss was recognized on the amounts due from related parties for the years ended December 31, 2020, 2019 and 2018. This assessment is undertaken each financial year through review of the financial position of each of the related parties and the market in which the related party operates.

Due from related parties - Others are advances to FPH, Lopez Holdings, and FPH Capital Resources, Inc. (FCRI). Lopez Holdings is the intermediate parent company of First Gen through FPH. First Philec, FCRI and FGHC International Ltd. are subsidiaries of FPH.

All related parties are incorporated in the Philippines, except for FGHC International which was incorporated in Cayman Islands.

18. Costs and Expenses

Costs of Sale of Electricity

| | 2020 | 2019 | 2018 |
|--|--------------------|-------------|-------------|
| Fuel cost [see Notes 7 and 25(e)] | \$582,161 | \$840,609 | \$772,071 |
| Power plant operations and maintenance [see Notes 7 and 25(h)] | 246,487 | 281,349 | 271,293 |
| Depreciation and amortization (see Notes 10 and 11) | 218,138 | 211,528 | 204,347 |
| Others (see Notes 7 and 13) | 57,903 | 58,337 | 46,555 |
| | \$1,104,689 | \$1,391,823 | \$1,294,266 |



General and Administrative Expenses

| | 2020 | 2019 | 2018 |
|---|------------------|-----------|-----------|
| Staff costs (see Note 20) | \$60,876 | \$68,162 | \$59,608 |
| Professional fees | 43,751 | 51,992 | 48,299 |
| Insurance, taxes and licenses | 36,151 | 44,685 | 36,873 |
| Business and related expenses (see Note 17) | 24,002 | 16,066 | 17,210 |
| Depreciation and amortization (see Notes 10, 11 and 12) | 15,283 | 13,366 | 8,408 |
| Repairs and maintenance | 4,022 | 3,790 | 3,084 |
| Provision for impairment (see Notes 6 and 12) | 5,082 | 16,329 | 4,630 |
| Spare parts and supplies issued (see Note 7) | 3,318 | 1,667 | 2,014 |
| Provision for impairment of spare parts and supplies inventories (see Note 7) | 1,604 | 556 | 1,842 |
| | \$194,089 | \$216,613 | \$181,968 |

19. Financial Income (Expense)

Interest Income

| | 2020 | 2019 | 2018 |
|---|----------------|----------|----------|
| Cash and cash equivalents (see Note 5) | \$7,758 | \$16,402 | \$14,970 |
| DSRA (see Note 9) | 103 | 406 | 1,835 |
| Others | 164 | 471 | 1,402 |
| | \$8,025 | \$17,279 | \$18,207 |

“Others” include interest income on short-term investments, financial assets at FVOCI and financial assets at FVPL.

Interest Expense and Financing Charges

| | 2020 | 2019 | 2018 |
|--|------------------|-----------|-----------|
| Interest on: | | | |
| Long-term debt | \$94,541 | \$109,086 | \$125,171 |
| Liability from litigation | 157 | 151 | 148 |
| Accretion on: | | | |
| Debt issuance costs (see Note 14) | 6,446 | 6,761 | 7,567 |
| Asset retirement obligation (see Note 15) | 1,919 | 2,164 | 1,141 |
| Lease liabilities (see Note 15) | 628 | 786 | - |
| Unamortized debt issuance costs (see Note 14) | - | 500 | 1,293 |
| | \$103,691 | \$119,448 | \$135,320 |



20. Retirement Benefits

The following tables summarize the funded status and amounts recognized in the consolidated statements of financial position for the retirement plans and the components of net retirement benefit expense recognized as part of “Power plant operations and maintenance” in the “Costs of sale of electricity” account and “Staff costs” in the “General and administrative expenses” account in the consolidated statements of income. As of December 31, 2020 and 2019, the net retirement liabilities presented in the consolidated statements of financial position amounted to \$52.0 million and \$38.4 million, respectively.

Under the existing regulatory framework, Republic Act (R.A.) 7641 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 amounts recognized in the consolidated statements of financial position are as follows:

December 31, 2020

| | First Gen | FGPC | FGP | FGHC | EDC & Subsidiaries | Others | Total |
|---|-----------|---------|---------|---------|-----------------------|---------|-----------|
| Present value of defined benefit obligation | \$9,037 | \$7,466 | \$7,723 | \$3,532 | \$76,209 | \$1,115 | \$105,082 |
| Fair value of plan assets | (5,544) | (4,394) | (6,338) | (2,700) | (34,058) | – | (53,034) |
| Net retirement liabilities | \$3,493 | \$3,072 | \$1,385 | \$832 | \$42,151 | \$1,115 | \$52,048 |

December 31, 2019

| | First Gen | FGPC | FGP | FGHC | EDC & Subsidiaries | Others | Total |
|---|-----------|---------|---------|---------|-----------------------|--------|----------|
| Present value of defined benefit obligation | \$7,690 | \$6,627 | \$6,474 | \$3,053 | \$64,606 | \$714 | \$89,164 |
| Fair value of plan assets | (5,061) | (3,858) | (5,530) | (2,339) | (33,939) | – | (50,727) |
| Net retirement liabilities | \$2,629 | \$2,769 | \$944 | \$714 | \$30,667 | \$714 | \$38,437 |

The amounts recognized in the consolidated statements of income are as follows:

December 31, 2020

| | First Gen | FGPC | FGP | FGHC | EDC & Subsidiaries | Others | Total |
|-----------------------------|-----------|-------|-------|-------|-----------------------|--------|---------|
| Current service cost | \$669 | \$522 | \$536 | \$136 | \$3,848 | \$273 | \$5,984 |
| Net interest cost | 119 | 130 | 44 | 31 | 1,494 | 37 | 1,855 |
| Retirement benefits expense | \$788 | \$652 | \$580 | \$167 | \$5,342 | \$310 | \$7,839 |

December 31, 2019

| | First Gen | FGPC | FGP | FGHC | EDC & Subsidiaries | Others | Total |
|-----------------------------|-----------|-------|-------|-------|-----------------------|--------|---------|
| Current service cost | \$522 | \$415 | \$408 | \$112 | \$3,643 | \$106 | \$5,206 |
| Net interest cost (income) | 28 | 130 | (46) | 27 | 1,595 | 30 | 1,764 |
| Past service cost | – | – | – | – | – | 102 | 102 |
| Settlement gains | – | – | – | – | (3,187) | – | (3,187) |
| Retirement benefits expense | \$550 | \$545 | \$362 | \$139 | \$2,051 | \$238 | \$3,885 |

December 31, 2018

| | First Gen | FGPC | FGP | FGHC | EDC & Subsidiaries | Others | Total |
|-----------------------------|-----------|-------|-------|-------|-----------------------|--------|---------|
| Current service cost | \$527 | \$487 | \$439 | \$110 | \$3,741 | \$69 | \$5,373 |
| Net interest cost (income) | (16) | 87 | (52) | 16 | 973 | 14 | 1,022 |
| Past service cost | – | – | – | – | 242 | – | 242 |
| Retirement benefits expense | \$511 | \$574 | \$387 | \$126 | \$4,956 | \$83 | \$6,637 |



Movements in the present value of the defined benefit obligation are as follows:

December 31, 2020

| | First Gen | FGPC | FGP | FGHC | EDC & Subsidiaries | Others | Total |
|------------------------------------|-----------|---------|---------|---------|-----------------------|---------|-----------|
| Balance at beginning of year | \$7,690 | \$6,627 | \$6,474 | \$3,053 | \$64,606 | \$714 | \$89,164 |
| Current service cost | 669 | 522 | 536 | 136 | 3,848 | 273 | 5,984 |
| Interest cost | 330 | 287 | 297 | 88 | 3,155 | 37 | 4,194 |
| Benefits paid | (137) | (95) | - | - | (2,500) | - | (2,732) |
| Actuarial losses (gains) due to: | | | | | | | |
| Experience adjustments | 129 | (161) | 120 | 96 | 1,079 | 48 | 1,311 |
| Changes in financial assumptions | (96) | (92) | (89) | (18) | 2,219 | (67) | 1,857 |
| Changes in demographic assumptions | - | - | - | - | - | 54 | 54 |
| Foreign exchange adjustments | 452 | 378 | 385 | 177 | 3,802 | 56 | 5,250 |
| Balance at end of year | \$9,037 | \$7,466 | \$7,723 | \$3,532 | \$76,209 | \$1,115 | \$105,082 |

December 31, 2019

| | First Gen | FGPC | FGP | FGHC | EDC & Subsidiaries | Others | Total |
|------------------------------------|-----------|---------|---------|---------|-----------------------|--------|----------|
| Balance at beginning of year | \$5,642 | \$5,101 | \$4,462 | \$2,400 | \$63,609 | \$338 | \$81,552 |
| Current service cost | 522 | 415 | 408 | 112 | 3,643 | 106 | 5,206 |
| Interest cost | 371 | 342 | 320 | 108 | 4,669 | 30 | 5,840 |
| Past service cost | - | - | - | - | - | 102 | 102 |
| Benefits paid | (259) | (454) | - | - | (15,293) | (50) | (16,056) |
| Settlement gains | - | - | - | - | (3,187) | - | (3,187) |
| Actuarial losses (gains) due to: | | | | | | | |
| Experience adjustments | 159 | 179 | 46 | 145 | 917 | (31) | 1,415 |
| Changes in demographic assumptions | (19) | (52) | (60) | 12 | - | 3 | (116) |
| Changes in financial assumptions | 1,011 | 866 | 1,081 | 170 | 7,843 | 206 | 11,177 |
| Foreign exchange adjustments | 263 | 230 | 217 | 106 | 2,405 | 10 | 3,231 |
| Balance at end of year | \$7,690 | \$6,627 | \$6,474 | \$3,053 | \$64,606 | \$714 | \$89,164 |

Movements in the fair value of plan assets are as follows:

December 31, 2020

| | First Gen | FGPC | FGP | FGHC | EDC & Subsidiaries | Total |
|--|-----------|---------|---------|---------|-----------------------|----------|
| Balance at beginning of year | \$5,061 | \$3,858 | \$5,530 | \$2,339 | \$33,939 | \$50,727 |
| Interest income | 211 | 157 | 253 | 57 | 1,661 | 2,339 |
| Return on plan assets, excluding interest income | 126 | 252 | 235 | 169 | (883) | (101) |
| Contributions | - | - | - | - | 57 | 57 |
| Benefits paid | (137) | (95) | - | - | (2,500) | (2,732) |
| Foreign exchange adjustments | 283 | 222 | 320 | 135 | 1,784 | 2,744 |
| Balance at end of year | \$5,544 | \$4,394 | \$6,338 | \$2,700 | \$34,058 | \$53,034 |
| Actual return on plan assets | \$337 | \$409 | \$488 | \$226 | \$778 | \$2,238 |

December 31, 2019

| | First Gen | FGPC | FGP | FGHC | EDC & Subsidiaries | Total |
|--|-----------|---------|---------|---------|-----------------------|----------|
| Balance at beginning of year | \$4,854 | \$2,901 | \$4,862 | \$1,969 | \$41,841 | \$56,427 |
| Interest income | 343 | 212 | 366 | 81 | 3,074 | 4,076 |
| Return on plan assets, excluding interest income | (64) | 296 | 103 | 207 | 2,925 | 3,467 |
| Contributions | - | 770 | - | - | 28 | 798 |
| Benefits paid | (259) | (454) | - | - | (15,293) | (16,006) |
| Foreign exchange adjustments | 187 | 133 | 199 | 82 | 1,364 | 1,965 |
| Balance at end of year | \$5,061 | \$3,858 | \$5,530 | \$2,339 | \$33,939 | \$50,727 |
| Actual return on plan assets | \$279 | \$508 | \$469 | \$288 | \$5,999 | \$7,543 |

First Gen Group expects to contribute \$8.2 million to its defined benefit retirement plan in 2021.



Retirement plans

The retirement funds of the Parent Company, FGHC and FGP are maintained and managed by BDO Trust, while the retirement fund of FGPC is maintained and managed by the BPI Asset Management. In addition, EDC's retirement fund is maintained by BPI Asset Management and BDO Trust, while GCGI's and BGI's retirement funds are maintained by BDO Trust. These trustee banks are also responsible for investment of the plan assets. The investing decisions of the Plan are made by the respective retirement committees of the said companies.

The plan assets' carrying amount approximates their fair value since these are either short-term in nature or marked-to-market.

The plans' assets and investments by each class as of December 31, 2020 and 2019 are as follows:

| | 2020 | 2019 |
|---|-----------------|----------|
| Investments quoted in active market | | |
| Quoted equity investments: | | |
| Holding firms | \$10,733 | \$9,647 |
| Industrial - electricity, energy, power and water | 4,903 | 3,797 |
| Property | 2,501 | 2,539 |
| Financials – banks | 2,487 | 2,977 |
| Services - telecommunications | 974 | 649 |
| Industrial - food, beverage and tobacco | 572 | 506 |
| Transportation services | 578 | 315 |
| Retail | 351 | 365 |
| Golf and country club | 160 | 185 |
| Services - casinos and gaming | – | 192 |
| Mining | – | 139 |
| | 23,259 | 21,311 |
| Investments in debt instruments: | | |
| Government securities | 22,472 | 19,347 |
| Investments in corporate bonds | 5,767 | 7,508 |
| | 28,239 | 26,855 |
| Investment in mutual funds | 427 | 270 |
| Unquoted investments: | | |
| Cash and cash equivalents | 985 | 1,963 |
| Receivables and other assets | 147 | 350 |
| Liabilities | (23) | (22) |
| | 1,109 | 2,291 |
| Fair value of plan assets | \$53,034 | \$50,727 |

- Cash and cash equivalents include regular savings and time deposits;
- Investments in corporate debt instruments, consisting of both short-term and long-term corporate loans, notes and bonds, which bear interest ranging from 2.42% to 6.36% and have maturities from 2021 to 2026;
- Investments in government securities, consisting of retail treasury bonds that bear interest ranging from 2.48% to 11.70% and have maturities from 2021 to 2037; and



- Investment in equity securities pertain to listed shares in PSE and include investments in the following securities:

| | Relationship | 2020 | 2019 |
|-----------------------------|-----------------------------|-----------------|----------------|
| Lopez Holdings | Intermediate parent company | \$2,996 | \$2,915 |
| FPH (Voting common stocks) | Parent company | 3,954 | 3,116 |
| First Gen: | Reporting entity | | |
| Voting common stocks | | 4,283 | 1,377 |
| Non-voting preferred stocks | | 306 | 287 |
| | | \$11,539 | \$7,695 |

The carrying amounts of investments in equity securities also approximate their fair values since they are marked-to-market.

For the year ended December 31, 2020, unrealized gains (losses) arising from investments in Lopez Holdings, First Gen and FPH amounted to (\$1.7 million), \$1.2 million and \$0.7 million, respectively.

For the year ended December 31, 2019, unrealized gains (losses) arising from investments in Lopez Holdings, First Gen and FPH amounted to (\$1.6 million), \$1.0 million and \$0.1 million, respectively.

The voting rights over these equity securities are exercised by the trustee banks.

- Other financial assets held by these plans are primarily accrued interest income on cash deposits and debt securities held by the plans; and dividend receivable from equity securities.
- Liabilities of the plans pertain to trust fee payable and retirement benefits payable.

The principal actuarial assumptions used in determining retirement benefit obligations for First Gen Group as of December 31 are as follows:

| | 2020 | 2019 |
|-----------------------------|-------------|-------------|
| Discount rate | 2.82%-4.15% | 4.33%-5.18% |
| Future salary increase rate | 4.0%-6.5% | 5.0%-8.0% |
| Medical costs trend rate | 6.0% | 6.0% |

The sensitivity analysis below was determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of December 31, 2020 and 2019 assuming all other assumptions were held constant.

| | Increase/Decrease in Percentage Point | Effect on Present Value of Defined Benefit Obligation | |
|-------------------------|---|--|-----------|
| | | 2020 | 2019 |
| Discount rate | +1% | (\$9,266) | (\$8,116) |
| | -1% | 10,702 | 9,389 |
| Future salary increases | +1% | 10,610 | 9,242 |
| | -1% | (9,401) | (8,179) |
| Medical costs trend | +1% | 65 | 71 |
| | -1% | (55) | (62) |



For EDC, the estimated weighted average duration of benefit payment is 15 years in 2020 and 2019, while the estimated weighted average duration of benefit payment for the Parent Company, FGHC, FGP, FGPC, and others is 3 to 29 years in 2020 and 2019.

Following are the information about the maturity profile of the defined benefit obligations as of December 31, 2020 and 2019:

| | 2020 | 2019 |
|---|-----------------|---------|
| Less than one (1) year | \$10,902 | \$8,417 |
| One (1) year up to five (5) years | 34,097 | 24,932 |
| More than five (5) years up to 10 years | 64,992 | 66,748 |
| More than 10 years up to 15 years | 48,775 | 57,430 |
| More than 15 years up to 20 years | 89,793 | 101,746 |
| More than 20 years | 19,738 | 20,747 |

21. Income Tax

- a. The deferred income tax assets (liabilities) of First Gen Group are presented in the consolidated statements of financial position as follows:

| | 2020 | 2019 |
|---------------------------------|-----------------|----------|
| Deferred income tax assets | \$25,982 | \$24,383 |
| Deferred income tax liabilities | (16,814) | (23,062) |

The components of these deferred income tax assets (liabilities) as of December 31, 2020 and 2019 are as follows:

| | 2020 | 2019 |
|---|-----------------|----------|
| <i>Deferred income tax items recognized in the consolidated statements of income:</i> | | |
| Deferred income tax assets on: | | |
| Impairment loss on property, plant and equipment | \$12,905 | \$12,248 |
| Asset retirement obligations | 6,928 | 5,336 |
| Allowance for impairment loss | 5,614 | 4,698 |
| Capitalized project development costs | 4,907 | 5,101 |
| Revenue generated during testing period of BGI power plant | 3,135 | 3,038 |
| Unrealized foreign exchange losses | 3,113 | 8,993 |
| Unrealized foreign exchange losses - BOT power plants | 2,716 | 4,835 |
| Excess amortization of debt issuance costs under EIR method over straight-line method | 1,236 | 811 |
| Provision for impairment of spare parts and supplies inventories | 1,057 | 983 |
| NOLCO | 130 | 2,016 |
| MCIT | – | 14 |
| Retirement benefit obligation and others | 6,147 | 5,936 |
| | 47,888 | 54,009 |

(Forward)



| | 2020 | 2019 |
|---|-----------------|-----------------|
| Deferred income tax liabilities on: | | |
| Difference between the carrying amounts of nonmonetary assets and their related tax bases | (\$28,397) | (\$39,863) |
| Capitalized borrowing costs | (5,717) | (5,954) |
| Capitalized asset retirement obligations | (2,824) | (2,260) |
| Difference between fair value and book value resulting from business combinations | (1,317) | (2,016) |
| Capitalized costs and losses during commissioning period of the power plants | (772) | (1,204) |
| Prepaid major spare parts | (108) | (285) |
| Others | (1,182) | (876) |
| | (40,317) | (52,458) |
| | 7,571 | 1,551 |
| <i>Deferred income tax items recognized directly in other comprehensive income:</i> | | |
| Deferred income tax asset on others | 4,294 | 2,916 |
| Deferred income tax liabilities on: | | |
| Derivative assets | (1,675) | (1,747) |
| Net retirement benefit assets and others | (1,022) | (1,399) |
| | (2,697) | (3,146) |
| | 1,597 | (230) |
| | \$9,168 | \$1,321 |

- b. Certain deferred income tax assets of the Parent Company and certain subsidiaries have not been recognized since management believes that it is not probable that sufficient future taxable income for these entities will be available against which they can be utilized. The deductible temporary differences of certain items in the consolidated statement of financial position and carryforward benefits of NOLCO and MCIT of the Parent Company and certain subsidiaries for which no deferred income tax assets have been recognized consist of the following:

| | 2020 | 2019 |
|------------------------------------|-----------|-----------|
| NOLCO | \$151,507 | \$157,740 |
| Unrealized foreign exchange losses | 32,859 | 72,542 |
| Accrual for retirement benefits | 4,326 | 2,629 |
| MCIT | 674 | 698 |
| Others | 949 | 1,190 |

As of December 31, 2020 and 2019, the taxable temporary differences representing the excess of the carrying amount of the investments in subsidiaries over the tax base amounted to \$238.3 million and \$357.6 million, respectively. There is no corresponding deferred income tax liability recognized since these temporary differences pertain to investment in domestic companies and, accordingly, the reversals of these temporary differences are through regular dividend distribution not subject to income tax.

- c. Provision for current income tax in 2020, 2019 and 2018 includes the RCIT of FGP and FGPC. The provision for current income tax also includes the RCIT of FG Bukidnon, FNPC and Prime Meridian for 2020 and MCIT for 2019 and 2018. In 2020, 2019 and 2018, FGPC and FGP computed its current income tax using the Optional Standard Deduction (OSD) method.



- d. The balance of NOLCO as of December 31, 2020 may be used by the Parent Company and certain subsidiaries as additional deductions against their respective future taxable income. Similarly, the MCIT balance as of December 31, 2020 may be applied as credit against future income tax liabilities of the Parent Company and certain subsidiaries.

The balances of NOLCO and MCIT, with their corresponding years of expiration, are as follows:

| Incurred for the Year Ended December 31 | Available Until December 31 | NOLCO | | MCIT | |
|---|--------------------------------|-----------------|----------------------|------------------|----------------------|
| | | (In U.S Dollar) | (In Philippine Peso) | (In U.S. Dollar) | (In Philippine Peso) |
| 2018 | 2021 | \$32,663 | ₱1,568,619 | \$119 | ₱5,696 |
| 2019 | 2022 | 77,487 | 3,721,158 | 489 | 23,499 |
| 2020 | 2023 | — | — | 66 | 3,154 |
| 2020 | 2025 | 41,790 | 2,006,895 | — | — |
| | | \$151,940 | ₱7,296,672 | \$674 | ₱32,349 |

Bayanihan to Recover as One Act (Bayanihan 2)

On September 30, 2020, the BIR issued Revenue Regulations (RR) No. 25-2020 implementing Section 4 of Bayanihan 2 which states that the NOLCO incurred for taxable years 2020 and 2021 can be carried over as a deduction from gross income for the next five (5) consecutive taxable years immediately following the year of such loss.

- e. A reconciliation between the statutory income tax rate and effective income tax rate follows:

| | 2020 | 2019 | 2018 |
|---|---------------|---------|---------|
| Statutory income tax rate | 30.00% | 30.00% | 30.00% |
| Income tax effect of: | | | |
| Foregone itemized deduction before reconciling items | 5.14 | 5.45 | 8.75 |
| Movement of temporary differences reversing during ITH | (0.09) | 0.05 | — |
| Non-taxable/non-deductible foreign exchange (gains) losses | (0.55) | (0.19) | 1.85 |
| Availment of optional standard deduction | (7.43) | (7.19) | (8.65) |
| Income Tax Holiday (ITH) incentives | (2.75) | (10.07) | (11.90) |
| Foreign currency translation and others | (6.51) | (4.12) | 0.71 |
| Effective income tax rate | 17.81% | 13.93% | 20.76% |

- f. The BIR issued RR No. 16-2008 which implemented the provisions of R.A. 9504 on OSD. This regulation allowed both individual and corporate tax payers to use OSD in computing their taxable income. For corporations, they may elect a standard deduction in an amount equivalent to 40% of gross income, as provided by law, in lieu of the itemized allowed deductions. The provisions of R.A. No. 9504 and RR No. 16-2008 became effective on July 1, 2008.



g. Registrations with the BOI

- On October 31, 2018, FGEN LNG received its Certificate of Registration with the BOI under the Omnibus Investments Code of 1987 as the new operator of FGEN Batangas LNG Terminal Project on a Pioneer Status pursuant to Article 17 of Executive Order No. 226.
- On June 16, 2015, EDC was granted with an ITH incentive by the BOI covering its 4.16 MW Burgos Solar Power Plant - Phase 1, effective for a 7-year period beginning in December 2015. Meanwhile, on December 3, 2015, the BOI granted another ITH incentive to EDC covering its 2.66 MW Burgos Solar Power Plant - Phase 2, effective for a 7-year period beginning in June 2015.
- On November 13, 2015, GCGI was granted with an ITH incentive by the BOI covering its 112.5 MW Tongonan Geothermal Power Plant, effective for 7-year period beginning in April 2015. Only revenues derived from power generated (i.e., 36.79 MW or the capacity in excess of the 75.71 MW, whichever is lower) and sold to the grid, other entities and/or communities shall be entitled to ITH.
- On December 11, 2015, GCGI was granted with an ITH incentive by the BOI covering its 192.5 MW Palinpinon Geothermal Power Plant, effective for 7-year period beginning in February 2014. Only revenues derived from power generated (i.e., 39.66 MW or the capacity in excess of the 152.84 MW, whichever is lower) and sold to the grid, other entities and/or communities shall be entitled to ITH.
- On February 12, 2014, the BOI approved the ITH registration of the Nasulo Power Plant under the RE Law effective for a 7-year period beginning in January 2016 or date of commissioning, whichever is earlier. While the Nasulo power plant has a capacity of 49.4 MW, the ITH shall be limited only to the revenues derived from the sale of 30 MW.
- On March 19, 2014, Prime Meridian received its Certificate of Registration with the BOI under the Omnibus Investment Code of 1987 as a new operator of 115 MW Avion Plant. Subject to specific terms and conditions Prime Meridian is entitled to certain tax and non-tax incentives, which include among others, ITH for four years from November 2014 or actual start of commercial operations, whichever come earlier. The ITH shall be limited only to revenues generated from sale of electricity of the 115 MW Avion Plant. On September 26, 2016, the Avion Plant started its commercial operations.
- On February 14, 2013, BGI was granted with an ITH incentive by the BOI covering its 130 MW BMGPP complex. On February 17, 2015, BGI received a Legal and Compliance Service letter from BOI granting the upward amendment of registered capacity of the BMGPP complex from 130 MW to 140 MW effective for 7-year period beginning in July 2013 or date of commissioning, whichever is earlier. Subject to certain conditions, BGI is entitled to ITH for seven years from July 2013 or date of commissioning of the power plants, whichever is earlier. BGI does not recognize deferred income tax assets and deferred income tax liabilities on temporary differences for its registered activities that are expected to reverse during the ITH period.



- On November 22, 2013, FNPC received its Certificate of Registration with the BOI under the Omnibus Investments Code of 1987 as the new operator of a 450 MW San Gabriel Plant. Subject to certain conditions, FNPC is entitled to certain tax and non-tax incentives, which include, among others, ITH for four years from April 2016 or actual start of commercial operations, whichever is earlier. The ITH shall be limited only to the revenues generated from the sale of electricity of the San Gabriel Plant. On November 5, 2016, the San Gabriel Plant started its commercial operations.
- On June 29, 2011, the BOI approved the ITH registration of the 86 MW Burgos Wind Farm under the RE Law. On June 3, 2014, EBWPC received a legal service letter from BOI granting the upward amendment of registered capacity of the Burgos Wind Farm from 86 MW to 150 MW effective for a 7-year period beginning in December 2015 or date of commissioning, whichever is earlier.
- FG Hydro is registered with the BOI under the Omnibus Investments Code of 1987 as the new operator of the 112 MW PAHEP/MAHEP on a pioneer status. As a registered enterprise, FG Hydro was entitled to certain tax and non-tax incentives which include, among others, ITH for six years commencing on April 13, 2007. On October 2, 2013, the BOI approved FG Hydro's application for an ITH extension by granting it another year or until April 12, 2014. FG Hydro started using the 10% statutory rate in the computation of its income tax, on the effectivity dates of the RE contracts signed by the DOE for PAHEP and MAHEP on February 22, 2017 and on February 27, 2017, respectively.
- On February 8, 2019, EDC Siklab was granted with an ITH incentive by the BOI covering its 1.03 MW Gaisano La Paz Solar Rooftop Project in Iloilo, effective for 7-year period beginning in March 2017.

h. Corporate Recovery and Tax Incentives for Enterprises Act (CREATE) BILL

On February 3, 2021, the House of Representatives and the Senate have ratified the Bicameral Committee's version of the proposed "Corporate Recovery and Tax Incentives for Enterprises Act" or "CREATE".

Provisions under the CREATE bill include reductions in corporate income tax rate from 30% to 25% for large corporations and 20% for small and medium corporations with effectivity date of July 1, 2020. PAS 12, *Income Taxes*, requires the measurement of income taxes to be based on enacted or substantively enacted tax rates as of the reporting date, accordingly, the Company reflects in its financial statements the amount of income taxes calculated using the 30% corporate income tax rate on those activities not covered by the 10% corporate income tax rate under the RE Law or ITH incentive. The CREATE bill also includes reduction of the MCIT rate from 2% of the gross taxable income to 1% with effectivity date of July 1, 2020 until June 30, 2023.

Once the CREATE bill is passed into law, the amount of the provision for current income tax for the year ended December 31, 2020 will be lower by \$6.2 million (₱295.5 million) while the benefit for deferred income tax will be lower by \$1.1 million (₱54.3 million).



22. Earnings Per Share Calculations

| | 2020 | 2019 | 2018 |
|---|----------------------|---------------|---------------|
| (a) Net income attributable to equity holders of the Parent Company | \$275,695 | \$296,208 | \$221,200 |
| Less dividends on preferred stocks | (17,182) | (16,948) | (22,201) |
| (b) Net income available to common stocks | \$258,513 | \$279,260 | \$198,999 |
| (c) Weighted average number of common stocks for basic/diluted earnings per share | 3,553,763,124 | 3,577,890,270 | 3,588,123,391 |
| Basic/Diluted Earnings Per Share (b/c) | \$0.073 | \$0.078 | \$0.055 |

In 2020, 2019 and 2018, First Gen Group does not have any dilutive potential common stocks. Hence, diluted EPS is the same as basic EPS.

23. Financial Risk Management Objectives and Policies

First Gen Group's principal financial liabilities are comprised of loans payable and long-term debts, among others. The main purpose of these financial liabilities is to raise financing for First Gen Group's growth and operations. First Gen Group has other various financial assets and liabilities such as cash and cash equivalents, receivables, amounts due to and from related parties, and accounts payable and accrued expenses, which arise directly from its operations.

As a matter of policy, First Gen Group does not trade its financial instruments. However, First Gen Group enters into derivative and hedging transactions, primarily interest rate swaps, cross-currency swaps and foreign currency forwards, as needed, for the sole purpose of managing the relevant financial risks that are associated with First Gen Group's borrowing activities and as required by the lenders in certain cases.

First Gen Group has an Enterprise-Wide Risk Management Program which is aimed to identify risks based on the likelihood of occurrence and impact to the business, formulate risk management strategies, assess risk management capabilities and continuously monitor the risk management efforts.

The main financial risks arising from First Gen Group's financial instruments are interest rate risk, foreign currency risk, credit risk, liquidity risk and merchant risk. The BOD reviews and approves policies for managing each of these risks as summarized below. First Gen Group's accounting policies in relation to derivative financial instruments are set out in Note 2 to the consolidated financial statements.

Interest Rate Risk

First Gen Group's exposure to the risk of changes in market interest rate relates primarily to First Gen Group's long-term debt obligations that are subject to floating interest rates, derivative assets and derivative liabilities.

First Gen Group believes that prudent management of its interest cost will entail a balanced mix of fixed and variable rate debt. On a regular basis, the Finance team of First Gen Group monitors the interest rate exposure and presents it to management by way of a compliance report. To manage the exposure to floating interest rates in a cost-efficient manner, First Gen Group may consider prepayment, refinancing, or hedging the risks as deemed necessary and feasible.



In 2013, FGP entered into three interest rate swap (IRS) agreements to cover interest payments up to 24.3% of its Term Loan Facility. In the last quarter of 2014, EBWPC entered into four (4) IRS with aggregate notional amount of \$150.0 million. This is to partially hedge the interest rate risks on its ECA and Commercial Debt Facilities (the Foreign Facility) that is benchmarked against U.S. LIBOR and with flexible interest reset feature that allows EBWPC to select the interest reset frequency to be applied. In the first quarter of 2016, EBWPC entered into three (3) additional IRS with aggregate notional amount of \$30.0 million.

Under these swap agreements, FGP and EBWPC agreed to exchange, at specific intervals, the difference between fixed and variable rate interest amounts calculated by reference to the agreed-upon notional principal amounts. As of December 31, 2020 and 2019, approximately 64.9% and 63.3%, respectively, of First Gen Group's borrowings are subject to fixed interest rate after considering the effect of its IRS agreements.

Interest Rate Risk Table

The following table sets out the nominal amount, by maturity, of First Gen Group's financial instruments that are exposed to interest rate risk (amounts in millions):

| | Interest Rates | 2020 | | | | Total |
|---|----------------|---------------|--------------------------------|---------------------------------|-------------------|----------|
| | | Within 1 Year | More than 1 Year up to 3 Years | More than 3 Years up to 5 Years | More than 5 Years | |
| Fixed Rate | | | | | | |
| Long-term debts: | | | | | | |
| Parent \$200 million Term Loan | 4.90% | \$20.00 | \$54.00 | \$54.00 | \$- | \$128.00 |
| EDC \$181.1 million Notes | 6.50% | 181.12 | - | - | - | 181.12 |
| IFC 1 | 4.52% | 7.12 | 10.22 | - | - | 17.34 |
| IFC 2 | 4.78% | 5.23 | 10.46 | 8.96 | - | 24.65 |
| IFC 3 | 7.80% | 6.90 | 13.80 | 13.80 | 51.75 | 86.25 |
| FXCN | | | | | | |
| ¥3.0 billion | 5.25% | 2.25 | 45.98 | - | - | 48.23 |
| ¥4.0 billion | 5.25% | 3.00 | 61.30 | - | - | 64.30 |
| FXR Bonds | | | | | | |
| ¥4.0 billion | 4.73% | - | 83.29 | - | - | 83.29 |
| FNPC Term Facility | 3.37% | 19.19 | 38.38 | 38.38 | 47.97 | 143.92 |
| ¥1.5 billion Term Loan | 5.25% | 1.25 | 2.50 | 9.37 | 12.49 | 25.61 |
| ¥1.0 billion Term Loan | 5.58% | 1.25 | 2.50 | 2.50 | 13.95 | 20.20 |
| ¥291.2 million Term Loan | 5.50% | 0.47 | 0.93 | 0.93 | 2.33 | 4.66 |
| UBP ¥2.0 billion Term Loan | 5.44% | 2.78 | 5.55 | 5.55 | 18.05 | 31.93 |
| SBC ¥3.0 billion Term Loan | 5.32% | 5.00 | 13.74 | 14.99 | 11.24 | 44.97 |
| PNB ¥500.0 million Term Loan | 4.74% | 2.08 | 1.04 | - | - | 3.12 |
| BPI ¥1.0 billion Term Loan | 5.21% | 1.67 | 4.58 | 5.00 | 3.75 | 15.00 |
| SBC ¥1.0 billion Term Loan | 5.43% | 1.39 | 2.78 | 2.78 | 9.02 | 15.97 |
| SBC ¥500.0 million Term Loan | 5.49% | 0.69 | 1.39 | 1.39 | 4.51 | 7.98 |
| BPI ¥3.0 billion Term Loan | 3.56% | 3.12 | 12.49 | 13.12 | 33.73 | 62.46 |
| BPI ¥3.0 billion Term Loan | 5.13% | 3.12 | 12.49 | 13.12 | 33.73 | 62.46 |
| BD0 ¥4.5 billion Term Loan | 4.29% | 9.37 | 11.24 | 22.49 | 50.60 | 93.70 |
| BGI ¥5.0 billion Term Loan | 5.25% | 14.58 | 15.10 | 10.93 | - | 40.61 |
| GCGI ¥8.5 billion Term Loan | 5.25% | 24.78 | 31.86 | - | - | 56.64 |
| Floating Rate | | | | | | |
| Long-term debts: | | | | | | |
| FGPC Term Loan Facility | 1.24% | 71.43 | 142.86 | 35.71 | - | 250.00 |
| FGP Term Loan Facility | 2.50% | 46.00 | 118.00 | - | - | 164.00 |
| EBWPC Loans | | | | | | |
| \$37.5 million Commercial Debt Facility | 6.19% | 2.53 | 5.16 | 5.81 | 13.50 | 27.00 |
| \$150.0 million ECA Debt Facility | 2.60% | 10.13 | 20.63 | 23.25 | 54.00 | 108.01 |
| ¥5.6 billion Commercial Debt Facility | 2.25% | 2.63 | 5.26 | 5.26 | 70.97 | 84.12 |
| \$US50M Mizuho Loan | 1.72% | - | 50.00 | - | - | 50.00 |

*Including effect of interest rate swap



| | 2019 | | | | | Total |
|---|----------------|---------------|--------------------------------|---------------------------------|-------------------|---------|
| | Interest Rates | Within 1 Year | More than 1 Year up to 3 Years | More than 3 Years up to 5 Years | More than 5 Years | |
| Fixed Rate | | | | | | |
| Long-term debts: | | | | | | |
| FGP Term Loan Facility* | 1.28% - 1.43% | \$50.12 | \$- | \$- | \$- | \$50.12 |
| Parent \$200 million Term Loan | 4.90% | 20.00 | 47.00 | 54.00 | 27.00 | 148.00 |
| EDC \$181.1 million Notes | 6.50% | - | 181.12 | - | - | 181.12 |
| IFC 1 | 4.52% | 6.75 | 13.51 | 2.61 | - | 22.87 |
| IFC 2 | 4.78% | 4.96 | 9.92 | 9.92 | 2.98 | 27.78 |
| IFC 3 | 7.80% | 6.54 | 13.09 | 13.09 | 55.62 | 88.34 |
| FXCN | | | | | | |
| ¥3.0 billion | 5.25% | 2.13 | 45.74 | - | - | 47.87 |
| ¥4.0 billion | 5.25% | 2.84 | 60.99 | - | - | 63.83 |
| FXR Bonds | | | | | | |
| ¥3.0 billion | 4.16% | 59.25 | - | - | - | 59.25 |
| ¥4.0 billion | 4.73% | - | - | 78.39 | - | 78.39 |
| FNPC Term Facility | | | | | | |
| ¥1.5 billion Term Loan | 5.25% | 2.37 | 2.37 | 4.15 | 17.77 | 26.66 |
| ¥1.0 billion Term Loan | 5.58% | 0.20 | 2.37 | 2.37 | 14.42 | 19.36 |
| ¥291.2 million Term Loan | 5.50% | 0.44 | 0.88 | 0.88 | 2.65 | 4.85 |
| UBP ¥2.0 billion Term Loan | 5.44% | 2.63 | 5.27 | 5.27 | 19.75 | 32.92 |
| SBC ¥3.0 billion Term Loan | 5.32% | 4.74 | 10.66 | 14.22 | 17.77 | 47.39 |
| PNB ¥500.0 million Term Loan | 4.74% | 1.97 | 2.96 | - | - | 4.93 |
| BPI ¥1.0 billion Term Loan | 5.21% | 1.58 | 3.55 | 4.74 | 5.92 | 15.79 |
| SBC ¥1.0 billion Term Loan | 5.43% | 1.32 | 2.63 | 2.63 | 9.87 | 16.45 |
| SBC ¥500.0 million Term Loan | 5.49% | 0.66 | 1.32 | 1.32 | 4.94 | 8.24 |
| BGI ¥5.0 billion Term Loan | 5.25% | 12.84 | 23.21 | 9.87 | 5.43 | 51.35 |
| GCGI ¥8.5 billion Term Loan | 5.25% | 23.50 | 53.72 | - | - | 77.22 |
| Floating Rate | | | | | | |
| Long-term debts: | | | | | | |
| FGPC Term Loan Facility | 2.92% | 71.43 | 142.86 | 107.14 | - | 321.43 |
| FGP Term Loan Facility | 4.14% | - | 155.88 | - | - | 155.88 |
| EBWPC Loans | | | | | | |
| \$37.5 million Commercial Debt Facility | 3.89% | 2.44 | 5.06 | 5.44 | 16.50 | 29.44 |
| \$150.0 million ECA Debt Facility | 4.24% | 9.75 | 20.25 | 21.75 | 66.00 | 117.75 |
| ¥5.6 billion Commercial Debt Facility | 6.19% | 6.65 | 4.99 | 4.99 | 70.36 | 86.99 |

*Including effect of interest rate swap

Interest on financial instruments classified as floating rate is repriced semi-annually on each interest payment date. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument. The other financial instruments of First Gen Group that are not included in the foregoing tables are noninterest-bearing and are therefore not subject to cash flow interest rate risk.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates for the years ended December 31, 2020 and 2019, with all other variables held constant, of First Gen Group's income before income tax and equity (through the impact of floating rate borrowings, derivative assets and liabilities):

| | Increase (Decrease) | | |
|--------------------------|-------------------------------------|-----------------------------|-------------------------------|
| | Increase (Decrease) in Basis Points | in Income Before Income Tax | Increase (Decrease) in Equity |
| December 31, 2020 | | | |
| U.S. Dollar | +100 | (\$8.04 million) | \$6.90 million |
| | -100 | 8.04 million | (6.64 million) |
| December 31, 2019 | | | |
| U.S. Dollar | +100 | (\$8.33 million) | \$9.26 million |
| | -100 | 8.33 million | (9.24 million) |

The effect of changes in interest rates in equity pertains to the fair valuation of derivatives designated as cash flows hedges and is exclusive of the impact of changes affecting First Gen Group's consolidated statement of income.



Foreign Currency Risk

Foreign Currency Risk with Respect to Philippine Peso, Euro and Other Foreign Currencies.

First Gen Group's exposure to foreign currency risk arises as the functional currency of the Parent Company and certain subsidiaries, the U.S. dollar, is not the local currency in its country of operations. Certain financial assets and liabilities as well as some costs and expenses are denominated in various foreign currencies. To manage the foreign currency risk, First Gen Group may consider entering into derivative transactions, as necessary.



The following table sets out the foreign currency-denominated monetary assets and liabilities (translated into U.S. dollar) as of December 31, 2020 and 2019 that may affect the consolidated financial statements of First Gen Group (amounts in millions):

| | 2020 | | | | | | | | | |
|---------------------------------------|--|---------------------------------|--|---|---|---|--|--|--|--|
| | Original Currency | | | | | | | | | |
| | Philippine Peso- denominated Balances | Euro- denominated Balance | Japanese Yen- denominated Balance | Chilean Peso denominated Balance | New Zealand dollar denominated Balance | Peruvian Sol Denominated Balance | Indonesian Rupiah denominated Balance | Great Britain Pound denominated Balance | Australian Dollar denominated Balance | Equivalent U.S. Dollar Balances ¹ |
| Financial Assets | | | | | | | | | | |
| Assets at amortized cost: | | | | | | | | | | |
| Cash and cash equivalents | ₱17,168.7 | €- | ¥- | CHL₱318.5 | NZ\$- | PEN0.3 | IDR23,567.1 | £- | AUS- | \$364.5 |
| Receivables | 9,517.7 | - | - | - | - | - | - | - | - | 198.2 |
| DSRA | 45.3 | - | - | - | - | - | - | - | - | 0.9 |
| Long-term receivables | 1,078.5 | - | - | - | - | - | - | - | - | 22.5 |
| | 27,810.2 | - | - | 318.5 | - | 0.3 | 23,567.1 | - | - | 586.1 |
| Financial assets at FVPL | 2,571.4 | - | - | - | - | - | - | - | - | 53.5 |
| Total financial assets | 30,381.6 | - | - | 318.5 | - | 0.3 | 23,567.1 | - | - | 639.6 |
| Financial Liabilities | | | | | | | | | | |
| Liabilities at amortized cost: | | | | | | | | | | |
| Accounts payable and accrued expenses | 20,067.2 | 7.9 | 189.2 | - | 0.4 | - | - | 0.1 | 6.2 | 429.6 |
| Dividends payable | 3,157.3 | - | - | - | - | - | - | - | - | 65.7 |
| Long-term debts | 42,633.2 | - | - | - | - | - | - | - | - | 887.8 |
| Total financial liabilities | 65,857.7 | €7.9 | ¥189.2 | - | 0.4 | - | - | 0.1 | 6.2 | 1,383.1 |
| Net financial liabilities (assets) | ₱35,476.1 | €7.9 | ¥189.2 | (CHL₱318.5) | NZ\$0.4 | (PEN0.3) | (IDR23,567.1) | £0.1 | AUS6.2 | \$742.9 |

¹ US\$1=₱48.023, US\$1=€0.818, US\$1=¥103.744, US\$1=CHL₱710.399, US\$1=NZD1.408, US\$1=IDR14,124.41, US\$1=PEN0.062, US\$1=GB£0.743 and US\$1=AUS1.319 as of December 31, 2020

| | 2019 | | | | | | | | | |
|---------------------------------------|--|---------------------------------|--|---|---|---|--|--|--|--|
| | Original Currency | | | | | | | | | |
| | Philippine Peso- denominated Balances | Euro- denominated Balance | Japanese Yen- denominated Balance | Chilean Peso denominated Balance | New Zealand dollar denominated Balance | Peruvian Sol Denominated Balance | Indonesian Rupiah denominated Balance | Great Britain Pound denominated Balance | Swedish Krona denominated Balance | Equivalent U.S. Dollar Balances ¹ |
| Financial Assets | | | | | | | | | | |
| Assets at amortized cost: | | | | | | | | | | |
| Cash and cash equivalents | ₱12,623.3 | €- | ¥- | CHL₱379.3 | NZ\$- | PEN0.1 | IDR21,426.4 | £- | SEK- | \$253.3 |
| Receivables | 12,386.4 | - | - | - | - | - | - | - | - | 244.6 |
| DSRA | 689.2 | - | - | - | - | - | - | - | - | 13.6 |
| Long-term receivables | 113.1 | - | - | - | - | - | - | - | - | 2.2 |
| | 25,812.0 | - | - | 379.3 | - | 0.1 | 21,426.4 | - | - | 513.7 |
| Financial assets at FVPL | 1,258.2 | - | - | - | - | - | - | - | - | 24.8 |
| Total financial assets | 27,070.2 | - | - | 379.3 | - | 0.1 | 21,426.4 | - | - | 538.5 |
| Financial Liabilities | | | | | | | | | | |
| Liabilities at amortized cost: | | | | | | | | | | |
| Accounts payable and accrued expenses | 14,743.2 | 0.6 | 498.3 | - | 1.1 | - | - | 0.1 | 6.2 | 298.1 |
| Dividends payable | 436.2 | - | - | - | - | - | - | - | - | 8.6 |
| Long-term debts | 39,249.6 | - | - | - | - | - | - | - | - | 775.1 |
| Total financial liabilities | 54,429.0 | €0.6 | ¥498.3 | - | 1.1 | - | - | 0.1 | 6.2 | 1,081.8 |
| Net financial liabilities (assets) | ₱27,358.8 | €0.6 | ¥498.3 | (CHL₱379.3) | NZ\$1.1 | (PEN0.1) | (IDR21,426.4) | £0.1 | SEK6.2 | \$543.3 |

¹ US\$1=₱50.635, US\$1=€00.899, US\$1=¥109.623, US\$1=CHL₱739.197, US\$1=NZD1.496, US\$1=IDR14,685.14, US\$1=PEN0.059, US\$1=GB£0.767 and US\$1=SEK9.391 as of December 31, 2019



The following tables demonstrate, for the years ended December 31, 2020 and 2019, the sensitivity to a reasonably possible change in the foreign currency exchange rates applicable to First Gen Group, with all other variables held constant, to First Gen Group's income before income tax and equity (due to changes in the revaluation of monetary assets and liabilities):

| | 2020 | | |
|---------------------|---|---|----------------------------------|
| | Foreign Currency Appreciates (Depreciates) By | Increase (Decrease) in Income Before Income Tax | Increase (Decrease) in Equity |
| | <i>(Amounts in Millions)</i> | | |
| Philippine Peso | 4% | (\$1.73) | (\$30.04) |
| | (4%) | 1.59 | 32.55 |
| European Euro | 2% | (0.18) | (0.11) |
| | (2%) | 0.18 | 0.11 |
| Japanese Yen | 10% | (0.17) | - |
| | (10%) | 0.20 | - |
| Chilean Peso | 10% | (0.04) | - |
| | (10%) | 0.05 | - |
| New Zealand Dollar | 10% | (0.02) | - |
| | (10%) | 0.03 | - |
| Peruvian Sol | 10% | (0.45) | - |
| | (10%) | 0.55 | - |
| Indonesian Rupiah | 10% | (0.15) | - |
| | (10%) | 0.19 | - |
| Great Britain Pound | 10% | (0.01) | - |
| | (10%) | 0.01 | - |
| Australian Dollar | 10% | (0.01) | - |
| | (10%) | 0.01 | - |
| | 2019 | | |
| | Foreign Currency Appreciates (Depreciates) By | Increase (Decrease) in Income Before Income Tax | Increase (Decrease) in Equity |
| | <i>(Amounts in Millions)</i> | | |
| Philippine Peso | 1% | (\$0.56) | (\$5.90) |
| | (1%) | 0.55 | 6.02 |
| European Euro | 5% | (0.50) | (0.02) |
| | (5%) | \$0.50 | 0.02 |
| Japanese Yen | 10% | (0.41) | - |
| | (10%) | 0.51 | - |
| Chilean Peso | 10% | (0.05) | - |
| | (10%) | 0.06 | - |
| New Zealand Dollar | 10% | (0.07) | - |
| | (10%) | 0.08 | - |
| Peruvian Sol | 10% | (0.18) | - |
| | (10%) | 0.21 | - |
| Indonesian Rupiah | 10% | (0.14) | - |
| | (10%) | 0.17 | - |
| Great Britain Pound | 10% | (0.02) | - |
| | (10%) | 0.02 | - |
| Swedish Krona | 10% | (0.06) | - |
| | (10%) | 0.07 | - |

The effect of changes in foreign currency rates in equity pertains to the fair valuation of the derivatives designated as cash flow hedges and is exclusive of the impact of changes affecting First Gen Group's consolidated statement of income.



Foreign Currency Risk with Respect to U.S. Dollar. In the case of entities within First Gen Group with Philippine Peso as its functional currency, they are mainly exposed to foreign currency risk through monetary assets and liabilities denominated in U.S. dollar. Any depreciation of the U.S. dollar against the Philippine peso posts foreign exchange losses relating to its monetary assets and liabilities.

The U.S. dollar denominated monetary assets are translated to Philippine peso using the exchange rate of ₱48.023 to \$1.00 and ₱50.635 to \$1.00 as at December 31, 2020 and 2019, respectively.

For EDC, its exposure to foreign currency risk is mitigated to some degree by some provisions of its GRESCs, SSAs, PPAs, and Renewable Energy Payment Agreement (REPA). The service contracts allow full cost recovery while its sales contracts include billing adjustments covering the movements in Philippine peso and the U.S. dollar rates, U.S. Price and Consumer Indices, and other inflation factors. To further mitigate the effects of foreign currency risk, EDC will prepay, refinance or hedge its foreign currency denominated loans whenever deemed feasible or enter into derivative contracts.

The table below summarizes First Gen Group's exposure to foreign exchange risk with respect to U.S. dollar as at December 31:

| | 2020 | | 2019 | |
|---|----------------------------------|----------------------------|----------------------------------|----------------------------|
| | U.S. Dollar-denominated Balances | Philippine Peso Equivalent | U.S. Dollar-denominated Balances | Philippine Peso Equivalent |
| <i>(Amounts in Millions)</i> | | | | |
| Financial Assets | | | | |
| Assets at amortized cost: | | | | |
| Cash equivalents | \$110.4 | ₱5,302.6 | \$63.9 | ₱3,238.0 |
| Cash on hand and in banks | 8.6 | 411.6 | 3.4 | 170.1 |
| Short-term investments | 83.6 | 4,013.8 | – | – |
| Derivative assets designated as cash flow hedges | – | – | 0.8 | 43.0 |
| Total financial assets | \$202.6 | ₱9,728.0 | \$68.1 | ₱3,451.1 |
| Financial Liabilities | | | | |
| Liabilities at amortized cost: | | | | |
| Accounts payable | \$19.5 | ₱934.3 | \$20.8 | ₱1,051.8 |
| Long-term debt | 362.3 | 17,397.1 | 323.9 | 16,400.8 |
| Accrued interest on long-term debts | 5.6 | 268.9 | 5.6 | 282.2 |
| Derivative liabilities designated as cash flow hedges | 13.7 | 658.6 | 5.6 | 281.1 |
| Total financial liabilities | \$401.1 | ₱19,258.9 | \$355.9 | ₱18,015.9 |

The following table sets out the impact of the range of reasonably possible movement in the U.S. dollar exchange rates with all other variables held constant on First Gen Group's income before income tax and equity for the years ended December 31, 2020 and 2019.

| | Change in Exchange Rate in U.S dollar against Philippine peso | Effect on | |
|------------------------------|---|-------------------------------------|-------------------------------|
| | | Income Before Income Tax | Equity |
| <i>(Amounts in Millions)</i> | | | |
| 2020 | 10% (10%) | (₱887.2) 887.2 | (₱65.9) 65.9 |
| 2019 | 10% (10%) | (₱1,432.7) 1,432.7 | (₱23.6) 23.6 |

The effect of changes in foreign currency rates in equity pertains to the fair valuation of the derivatives designated as cash flow hedges and is exclusive of the impact of changes affecting First Gen Group's consolidated statement of income.



Credit Risk

First Gen Group trades only with recognized, reputable and creditworthy third parties and/or transacts only with institutions and/or banks which have demonstrated financial soundness. It is First Gen Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the level of the allowance account is reviewed on an ongoing basis to ensure that First Gen Group's exposure to doubtful accounts is not significant.

For EDC, the geothermal and power generation businesses trade with two major customers, NPC and TransCo, both are government-owned-and-controlled corporations. Any failure on the part of NPC and TransCo to pay their obligations to EDC would significantly affect EDC's business operations. As a practice, EDC monitors closely its collections from NPC and TransCo, and may charge interest on delayed payments following the provisions of the PPAs and REPA, respectively. Receivable balances are monitored on an ongoing basis to ensure that EDC's exposure to bad debts is not significant. The maximum exposure of trade receivable is equal to its carrying amount.

Set out below is the information about the credit risk exposure on EDC's trade receivables using a provision matrix as of December 31, 2020 and 2019:

| | Current | Days past due | | | | Past Due | Total |
|--|-----------|---------------|------------|------------|----------|----------|-----------|
| | | <30 days | 30-60 days | 61-90 days | >91 days | | |
| 2020 | | | | | | | |
| Expected credit loss rate | 0.0% | 0.0% | 0.0% | 15.9% | 1.5% | 100% | 14.4% |
| Estimated total gross carrying amount at default | \$102,501 | \$8,349 | \$174 | \$60 | \$5,810 | \$19,567 | \$136,461 |
| Expected credit loss | - | - | - | 10 | 89 | 19,567 | 19,666 |
| 2019 | | | | | | | |
| Expected credit loss rate | 0.0% | 1.6% | 26.3% | 6.0% | 3.9% | 100% | 12.4% |
| Estimated total gross carrying amount at default | \$117,390 | \$5,511 | \$37 | \$97 | \$8,174 | \$18,158 | \$149,367 |
| Expected credit loss | 11 | 89 | 10 | 6 | 320 | 18,153 | 18,589 |

With respect to credit risk arising from the other financial assets of First Gen Group, which comprise of cash and cash equivalents (excluding cash on hand), trade and other receivables, financial assets at FVPL, and short-term investments, First Gen Group's exposure to credit risk arises from a possible default of the counterparties with a maximum exposure equal to the carrying amount of these instruments before taking into account any collateral and other credit enhancements.

Credit Risk Exposure

The table below shows the gross maximum exposure to credit risk of First Gen Group's financial assets as of December 31, 2020 and 2019.

| | 2020 | 2019 |
|---|------------------|------------------|
| Accounted for as cash flow hedge | | |
| Derivative assets | \$194 | \$963 |
| Financial assets at FVPL | | |
| Designated as at FVPL | 53,545 | 30,848 |
| At amortized cost | | |
| Cash and cash equivalents* | 761,327 | 622,448 |
| Receivables: | | |
| Trade | 412,385 | 398,627 |
| Due from related parties | 2,126 | 2,328 |
| Others | 30,782 | 33,735 |
| Short-term investments | 166,481 | 26,778 |
| DSRA | - | 13,860 |
| Long-term receivables | 22,457 | 2,233 |
| Special deposits and funds | 4,648 | 3,934 |
| Other current assets | 1,661 | 1,211 |
| Total financial assets at amortized cost | 1,401,867 | 1,105,154 |



| | 2020 | 2019 |
|------------------------------------|--------------------|--------------------|
| Financial assets at FVOCI | | |
| Debt instruments | \$3,536 | \$3,101 |
| Equity instruments | 1,259 | 1,254 |
| Proprietary club membership shares | 709 | 703 |
| Total financial assets at FVOCI | 5,504 | 5,058 |
| | \$1,461,110 | \$1,142,023 |

*Excluding cash on hand

First Gen Group does not hold collateral for its financial assets as security.

The following tables show First Gen Group's aging analysis of financial assets as of December 31, 2020 and 2019:

| 2020 | | | | | | | |
|--|-------------------------------------|---------------------------|----------------------|---------------------------------|-----------------|--------------------|--------------------|
| | Neither Past Due nor Impaired | Past Due but Not Impaired | | | | Credit Impaired | Total |
| | | Less than 30 Days | 31 Days to 1 Year | Over 1 Year up to 3 Years | Over 3 Years | | |
| Financial assets at amortized cost: | | | | | | | |
| Cash and cash equivalents* | \$761,327 | \$- | \$- | \$- | \$- | \$- | \$761,327 |
| Trade receivables | 361,901 | 3 | 14,758 | - | 35,723 | 19,666 | 432,051 |
| Due from related parties | 2,126 | - | - | - | - | - | 2,126 |
| Other receivables | 30,782 | - | - | - | - | 244 | 31,026 |
| Long-term receivables | - | - | 811 | 1,015 | 20,631 | 2,050 | 24,507 |
| Special deposits and funds | 4,648 | - | - | - | - | - | 4,648 |
| Short-term investments | 166,481 | - | - | - | - | - | 166,481 |
| Other current assets | 1,661 | - | - | - | - | - | 1,661 |
| Financial assets at FVOCI: | | | | | | | |
| Debt instruments | 3,536 | - | - | - | - | - | 3,536 |
| Equity instruments | 1,259 | - | - | - | - | - | 1,259 |
| Proprietary club membership shares | 709 | - | - | - | - | - | 709 |
| Financial assets at FVPL - Designated as at FVPL | 53,545 | - | - | - | - | - | 53,545 |
| Financial assets accounted for as cash flow hedge - Derivative assets | 194 | - | - | - | - | - | 194 |
| Total | \$1,388,169 | \$3 | \$15,569 | \$1,015 | \$56,354 | \$21,960 | \$1,483,070 |

*Excluding cash on hand

| 2019 | | | | | | | |
|--|-------------------------------------|---------------------------|----------------------|---------------------------------|-----------------|--------------------|--------------------|
| | Neither Past Due nor Impaired | Past Due but Not Impaired | | | | Credit Impaired | Total |
| | | Less than 30 Days | 31 Days to 1 Year | Over 1 Year up to 3 Years | Over 3 Years | | |
| Financial assets at amortized cost: | | | | | | | |
| Cash and cash equivalents* | \$622,448 | \$- | \$- | \$- | \$- | \$- | \$622,448 |
| Trade receivables | 357,208 | 922 | 5,648 | - | 34,849 | 18,589 | 417,216 |
| Due from related parties | 2,328 | - | - | - | - | - | 2,328 |
| Other receivables | 33,735 | - | - | - | - | 214 | 33,949 |
| Long-term receivables | 484 | - | 365 | 1,384 | - | 1,944 | 4,177 |
| Special deposits and funds | 3,934 | - | - | - | - | - | 3,934 |
| Short-term investments | 26,778 | - | - | - | - | - | 26,778 |
| DSRA | 13,860 | - | - | - | - | - | 13,860 |
| Other current assets | 1,211 | - | - | - | - | - | 1,211 |
| Financial assets at FVOCI: | | | | | | | |
| Debt instruments | 3,101 | - | - | - | - | - | 3,101 |
| Equity instruments | 1,254 | - | - | - | - | - | 1,254 |
| Proprietary club membership shares | 703 | - | - | - | - | - | 703 |
| Financial assets at FVPL - Designated as at FVPL | 30,848 | - | - | - | - | - | 30,848 |
| Financial assets accounted for as cash flow hedge - Derivative assets | 963 | - | - | - | - | - | 963 |
| Total | \$1,098,855 | \$922 | \$6,013 | \$1,384 | \$34,849 | \$20,747 | \$1,162,770 |

*Excluding cash on hand



Credit Quality of Financial Assets

The evaluation of the credit quality of First Gen Group’s financial assets considers the payment history of the counterparties.

Financial assets are classified as ‘high grade’ if the counterparties are not expected to default in settling their obligations, thus, credit risk exposure is minimal. These counterparties normally include banks, related parties, and customers who pay on or before due date. Financial assets are classified as ‘standard grade’ if the counterparties settle their obligations to First Gen Group with tolerable delays.

As of December 31, 2020 and 2019, substantially all financial assets that are neither past due nor impaired are viewed by management as ‘high grade’ considering the collectability of the receivables and the credit history of the counterparties. Meanwhile, past due but not impaired financial assets are classified as standard grade.

Concentration of Credit Risk

The Parent Company, through its operating subsidiaries FGP and FGPC, earns substantially all of its revenue from Meralco. Meralco is committed to pay for the capacity and energy generated by the San Lorenzo and Santa Rita power plants under the existing long-term PPAs which are due to expire in September 2027 and August 2025, respectively. The PPAs provide for the mechanisms by which certain costs and obligations including fuel costs, among others, are pass-through to Meralco or are otherwise recoverable from Meralco, it is the intention of the Parent Company, FGP and FGPC to ensure that the pass-through mechanisms, as provided for in their respective PPAs, are followed. On June 26, 2018, the San Gabriel Plant has started delivering power to Meralco following the grant of an Interim Relief by the ERC for the implementation of the PSA between FNPC and Meralco. The PSA will expire on February 23, 2024 and can be extended upon mutual agreement of the parties.

EDC’s geothermal and power generation businesses trade with two major customers, namely NPC and TransCo. Any failure on the part of NPC and TransCo to pay their obligations to EDC would significantly affect EDC’s business operations.

First Gen Group’s exposure to credit risk arises from default of the counterparties, with a maximum exposure equal to the carrying amounts of the receivables from Meralco, in the case of FGP, FGPC, and FNPC, and the receivables from NPC and TransCo, in the case of EDC.

The table below shows the risk exposure in respect to credit concentration of First Gen Group as of December 31, 2020 and 2019:

| | 2020 | 2019 |
|--|------------------|-----------|
| Trade receivables from Meralco | \$216,657 | \$193,390 |
| Trade receivables from NPC and TransCo | 34,163 | 66,649 |
| Total credit concentration risk | \$250,820 | \$260,039 |
| Total receivables | \$445,293 | \$434,689 |
| Credit concentration percentage | 56.33% | 59.82% |

Liquidity Risk

First Gen Group’s exposure to liquidity risk refers to the lack of funding needed to finance its growth and capital expenditures, service its maturing loan obligations in a timely fashion, and meet its working capital requirements. To manage this exposure, First Gen Group maintains its internally generated funds and prudently manages the proceeds obtained from fund-raising in the debt and equity markets. On a regular basis, First Gen Group’s Treasury Department monitors the available cash balances by preparing cash position reports. First Gen Group maintains a level of cash and cash equivalents deemed



sufficient to finance the operations. In addition, First Gen Group has short-term deposits and available credit lines with certain banking institutions.

EDC, GCGI, BGI, and EBWPC, in particular, each maintained a DSRA to sustain the debt service requirements for the next payment period until December 2019. In 2020, GCGI, BGI, and EBWPC each executed a surety agreement with EDC guaranteeing the funding of the DSRA in accordance with their respective loan agreements for the benefit of the lenders in lieu of the DSRA. Meanwhile, FGPC and FGP each secured SBLCs from investment grade SBLC providers in 2018, which were subsequently renewed, to fully fund their obligations under their respective financing agreements. As part of its liquidity risk management, First Gen Group regularly evaluates its projected and actual cash flows. It also continuously assesses the financial market conditions for opportunities to pursue fund raising activities.

As of December 31, 2020 and 2019, 37.9% and 30.5%, respectively, of First Gen Group's debt will mature in less than a year based on the carrying value of borrowings reflected in the consolidated financial statements.

The tables below summarize the maturity profile of First Gen Group's financial assets used for liquidity management and financial liabilities as of December 31, 2020 and 2019 based on the contractual undiscounted payments:

| | 2020 | | | | | Total |
|---|-----------|--------------------|----------------|---------------------------|--------------|-------------|
| | On Demand | Less than 3 Months | 3 to 12 Months | Over 1 Year up to 5 Years | Over 5 Years | |
| Financial Assets: | | | | | | |
| Cash and cash equivalents | \$231,187 | \$541,043 | \$- | \$- | \$- | \$772,230 |
| Trade receivables | - | 376,197 | 465 | - | 35,723 | 412,385 |
| Total financial assets at amortized cost | 231,187 | 917,240 | 465 | - | 35,723 | 1,184,615 |
| Derivative contract receipts | - | 5,216 | - | - | - | 5,216 |
| Derivative contract payments | - | (5,022) | - | - | - | (5,022) |
| Total financial assets accounted for as cash flow hedge | - | 194 | - | - | - | 194 |
| Financial assets at FVOCI - | | | | | | |
| Debt instruments | 3,536 | - | - | - | - | 3,536 |
| Total financial assets | \$234,723 | \$917,434 | \$465 | \$- | \$35,723 | \$1,188,345 |
| Financial liabilities: | | | | | | |
| Accounts payable and accrued expenses* | \$108,968 | \$311,434 | \$7,813 | \$- | \$- | \$428,215 |
| Loans payable | - | 20,037 | - | - | - | 20,037 |
| Dividends payable | - | 65,749 | - | - | - | 65,749 |
| Lease liabilities (current and non-current portion) | - | 1,454 | 3,093 | 11,950 | 11 | 16,508 |
| Long-term debts | - | 238,455 | 290,875 | 1,240,854 | 461,978 | 2,232,162 |
| Total financial liabilities | \$108,968 | \$637,129 | \$301,781 | \$1,252,804 | \$461,989 | \$2,762,671 |

*Excluding output VAT, local, and other taxes payables to government agencies.

| | 2019 | | | | | Total |
|---|-----------|--------------------|----------------|---------------------------|--------------|-------------|
| | On Demand | Less than 3 Months | 3 to 12 Months | Over 1 Year up to 5 Years | Over 5 Years | |
| Financial Assets: | | | | | | |
| Cash and cash equivalents | \$623,881 | \$- | \$- | \$- | \$- | \$623,881 |
| Trade receivables | - | 362,767 | 246 | - | 34,849 | 397,862 |
| DSRA | - | - | 14,412 | - | - | 14,412 |
| Total financial assets at amortized cost | 623,881 | 362,767 | 14,658 | - | 34,849 | 1,036,155 |
| Derivative contract receipts | - | - | 473 | - | - | 473 |
| Derivative contract payments | - | - | (356) | - | - | (356) |
| Total financial assets accounted for as cash flow hedge | - | - | 117 | - | - | 117 |
| Financial assets at FVOCI - | | | | | | |
| Debt instruments | 3,101 | - | - | - | - | 3,101 |
| Total financial assets | \$626,982 | \$362,767 | \$14,775 | \$- | \$34,849 | \$1,039,373 |



| | 2019 | | | | | Total |
|---|------------------|--------------------|------------------|---------------------------|------------------|--------------------|
| | On Demand | Less than 3 Months | 3 to 12 Months | Over 1 Year up to 5 Years | Over 5 Years | |
| Financial liabilities: | | | | | | |
| Accounts payable and accrued expenses* | \$182,787 | \$239,834 | \$- | \$- | \$- | \$422,621 |
| Loans payable | - | - | 12,505 | - | - | 12,505 |
| Dividends payable | - | 8,615 | - | - | - | 8,615 |
| Lease liabilities (current and non-current portion) | - | 1,128 | 3,159 | 9,804 | 128 | 14,219 |
| Long-term debts | - | 43,237 | 340,594 | 1,443,570 | 444,228 | 2,271,629 |
| Total financial liabilities | \$182,787 | \$292,814 | \$356,258 | \$1,453,374 | \$444,356 | \$2,729,589 |

*Excluding output VAT, local, and other taxes payables to government agencies.

Merchant Risk

In 2017, First Gen Group had two (2) fully-merchant power plants, namely FNPC's San Gabriel and Prime Meridian's Avion. These gas plants were exposed to the volatility of spot prices because of supply and demand changes, which are mostly driven by factors that are outside of First Gen Group's control. These factors include (but are not limited to) unexpected outages, weather conditions, transmission constraints, and changes in fuel prices. These have caused and are expected to cause variability in the operating results of the merchant plants. In March 2018, FNPC was awarded with a six-year PSA for 414 MW of its baseload capacity by Meralco. On June 26, 2018, the San Gabriel Plant has started delivering power to Meralco following the grant of an Interim Relief by the ERC for the implementation of the PSA between FNPC and Meralco. The PSA will expire on February 23, 2024 and can be extended upon mutual agreement of the parties. Meanwhile, in March 2020, the ERC granted an Interim Relief to implement the ASPA between NGCP and Prime Meridian for a firm ASPA contract for 36 MW and a non-firm ASPA contract for another 36 MW. The ASPA was implemented on May 26, 2020 and will be effective until May 25, 2025.

First Gen Group plans to mitigate these risks by having a balanced portfolio of contracted and spot capacities. As of December 31, 2020 and 2019, First Gen Group was 95% and 90% contracted in terms of installed capacity, respectively.

Capital Management

The primary objective of First Gen Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business, comply with its financial loan covenants and maximize shareholder value. Core capital includes long-term debt and equity.

First Gen Group manages its capital structure and makes adjustments to it, in light of changes in business and economic conditions. To maintain or adjust the capital structure, First Gen Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No significant changes were made in the objectives, policies or processes during the years ended December 31, 2020 and 2019.

First Gen Group monitors capital using a debt ratio, which is total debt (net of debt issuance costs) divided by total debt plus total equity. The amounts considered as total debt are mostly interest-bearing debt, and First Gen Group's practice is to keep the debt ratio lower than 75:25.

| | 2020 | 2019 |
|--|--------------------|--------------------|
| Long-term debts (current and non-current portions) | \$1,924,294 | \$1,922,069 |
| Loans payable | 20,000 | 12,493 |
| Total debt | \$1,944,294 | \$1,934,562 |

(Forward)



| | 2020 | 2019 |
|---|--------------------|--------------------|
| Equity attributable to equity holders of the Parent | | |
| Company | \$2,423,481 | \$2,124,979 |
| Non-controlling interests | 532,570 | 466,520 |
| Total equity | \$2,956,051 | \$2,591,499 |
| Total debt and equity | \$4,900,345 | \$4,526,061 |
| Debt ratio | 40:60 | 43:57 |

First Gen Group's subsidiaries are obligated to perform certain covenants with respect to maintaining specified debt-to-equity and minimum debt-service coverage ratios, as set forth in their respective agreements with the creditors. As of December 31, 2020 and 2019, First Gen Group is in compliance with those covenants.

24. Financial Instruments

Set out in the following table is a comparison by category of the carrying values and fair values of First Gen Group's financial instruments as at December 31, 2020 and 2019 that are carried in the consolidated financial statements:

| | 2020 | | 2019 | |
|--|--------------------|--------------------|--------------------|--------------------|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Financial Assets | | | | |
| Financial assets accounted for as cash flow | | | | |
| hedges - Derivative assets | \$194 | \$194 | \$963 | \$963 |
| Financial assets FVPL - | | | | |
| Designated at FVPL | 53,545 | 53,545 | 30,848 | 30,848 |
| Financial assets at amortized cost: | | | | |
| Cash and cash equivalents | 772,230 | 772,230 | 623,881 | 623,881 |
| Receivables: | | | | |
| Trade | 412,385 | 412,385 | 398,627 | 398,627 |
| Due from related parties | 2,126 | 2,126 | 2,328 | 2,328 |
| Others | 30,782 | 30,782 | 33,735 | 33,735 |
| Long-term receivables | 22,457 | 21,666 | 2,233 | 2,082 |
| Special deposits and funds | 4,648 | 4,648 | 3,934 | 3,934 |
| Short-term investments | 166,481 | 166,481 | 26,778 | 26,778 |
| DSRA | - | - | 13,860 | 13,860 |
| Other current assets | 1,661 | 1,661 | 1,211 | 1,211 |
| Total financial assets at amortized cost | 1,412,770 | 1,411,979 | 1,106,587 | 1,106,436 |
| Financial assets at FVOCI: | | | | |
| Debt instruments | 3,536 | 3,536 | 3,101 | 3,101 |
| Equity instruments | 1,259 | 1,259 | 1,254 | 1,254 |
| Proprietary club membership shares | 709 | 709 | 703 | 703 |
| Total financial assets at FVOCI | 5,504 | 5,504 | 5,058 | 5,058 |
| | \$1,472,013 | \$1,471,222 | \$1,143,456 | \$1,143,305 |
| Financial Liabilities | | | | |
| Financial liabilities carried at amortized cost: | | | | |
| Accounts payable and accrued expenses* | \$428,215 | \$ 428,215 | \$377,453 | \$377,453 |
| Dividends payable | 65,749 | 65,749 | 53,784 | 53,784 |
| Loans payable | 20,000 | 20,000 | 12,493 | 12,493 |
| Lease liabilities | 15,278 | 15,429 | 13,019 | 12,598 |
| Long - term debts | 1,924,294 | 2,096,044 | 1,922,069 | 2,098,933 |
| Total financial liabilities at amortized cost | 2,453,536 | 2,625,437 | 2,378,818 | 2,555,261 |
| Financial liability accounted for as cash flow | | | | |
| hedges - Derivative liabilities | 13,715 | 13,715 | 5,550 | 5,550 |
| | \$2,467,251 | \$2,639,152 | \$2,384,368 | \$2,560,811 |

*Excluding output VAT, local and other taxes and payables to government agencies.



Fair Value and Categories of Financial Instruments

The fair values of cash and cash equivalents, receivables, other current assets, accounts payable and accrued expenses, dividends payable and loans payable approximate the carrying values at financial reporting date, due to the short-term maturities of the transactions.

Long-term receivables

The fair value of long-term receivables was computed by discounting the expected cash flows using the applicable rates of 1.81% and 3.58% in 2020 and 2019, respectively.

Financial assets at FVOCI

Fair values of quoted debt and equity securities are based on quoted market prices and other observable data.

Financial instruments at FVPL

The fair values of financial instruments at FVPL are based on quotations provided by the investment manager.

FGP and FGPC long-term debts

The fair values of long-term debts were computed by discounting the instruments' expected future cash flows using the prevailing credit adjusted U.S. dollar interest rates ranging from 0.18600% to 0.3250% and 1.4556% to 1.7695% as of December 31, 2020 and 2019, respectively.

Parent Company and FNPC long-term debts

The fair values of the Parent Company's and FNPC's U.S. dollar-denominated long-term debts were computed by discounting the instruments' expected future cash flows using the prevailing credit adjusted U.S. dollar interest rates on December 31, 2020 and 2019 ranging from 0.156% to 0.740% and 1.584% to 1.928%, respectively.

Long-term debts of EDC

The fair values for long-term debts are estimated using the discounted cash flow methodology with the applicable rates ranging from 1.75% to 2.88% and 1.75% to 3.07% as of December 31, 2020 and 2019, respectively.

Lease liabilities

The fair values for lease liabilities are estimated using prevailing interest rates ranging from 2.45% to 3.86% and 1.75% to 3.07% as of December 31, 2020 and 2019, respectively.

Fair Value Hierarchy of Financial Assets and Liabilities

The table below summarizes the fair value hierarchy of First Gen Group's financial assets and liabilities.

| | 2020 | | | |
|--|------------|---------|---------|-----------|
| | Fair value | Level 1 | Level 2 | Level 3 |
| Financial assets at amortized cost - | | | | |
| Long-term receivables | \$21,666 | \$- | \$- | \$21,666 |
| Financial assets at FVOCI: | | | | |
| Debt instruments | 3,536 | 3,536 | - | - |
| Equity instruments | 1,259 | - | 1,259 | - |
| Financial assets accounted for as cash flow hedges - Derivative assets | 194 | - | 194 | - |
| Financial assets designated at FVPL | 53,545 | 19,216 | 34,329 | - |
| Long-term debts | 2,096,044 | - | - | 2,096,044 |
| Financial liabilities accounted for as cash flow hedges - Derivative liabilities | 13,715 | - | 13,715 | - |
| Lease liabilities | 15,429 | - | - | 15,429 |



| | 2019 | | | |
|---|------------|---------|---------|-----------|
| | Fair value | Level 1 | Level 2 | Level 3 |
| Financial assets at amortized cost - | | | | |
| Long-term receivables | \$2,082 | \$- | \$- | \$2,082 |
| Financial assets at FVOCI: | | | | |
| Debt instruments | 3,101 | 3,101 | - | - |
| Equity instruments | 1,254 | - | 1,254 | - |
| Financial assets accounted for as cash flow | | | | |
| hedges - Derivative assets | 963 | - | 963 | - |
| Financial assets designated at FVPL | 30,848 | 26,804 | 4,044 | - |
| Long-term debts | 2,098,933 | - | - | 2,098,933 |
| Financial liabilities accounted for as cash | | | | |
| flow hedges - Derivative liabilities | 5,550 | - | 5,550 | - |
| Lease liabilities | 12,598 | - | - | 12,598 |

As of December 31, 2020 and 2019, there were no transfers between Level 1 and Level 2 fair value measurements, and there were no transfers into and out of Level 3 fair value measurements.

Derivative Financial Instruments

First Gen Group enters into derivative transactions such as interest rate swaps to hedge its interest rate risks arising from its floating rate borrowings, cross currency swaps, and foreign currency forwards to hedge the foreign exchange risk arising from its loans and payables. These derivatives (including embedded derivatives) are accounted for either as derivatives not designated as accounting hedges or derivatives designated as accounting hedges.

The table below shows the fair values of First Gen Group's outstanding derivative financial instruments, reported as assets or liabilities, together with their notional amounts as of December 31, 2020 and 2019. The notional amount is the basis upon which changes in the value of derivatives are measured.

| | 2020 | | | 2019 | | |
|--|-------------------|------------------------|-----------------|-------------------|------------------------|-----------------|
| | Derivative Assets | Derivative Liabilities | Notional Amount | Derivative Assets | Derivative Liabilities | Notional Amount |
| Derivatives Designated as Accounting Hedges | | | | | | |
| Freestanding derivatives: | | | | | | |
| Interest rate swaps | \$- | \$12,082 | \$130,500 | \$116 | \$5,133 | \$191,422 |
| Call spread swaps | - | 1,633 | \$115,000 | 847 | 417 | \$60,000 |
| Foreign currency forwards | 194 | - | €4,241 | - | - | - |
| Total derivatives | \$194 | \$13,715 | | \$963 | \$5,550 | |
| Presented as: | | | | | | |
| Current | \$194 | \$1,599 | | \$115 | \$425 | |
| Noncurrent | - | 12,116 | | 848 | 5,125 | |
| Total derivatives | \$194 | \$13,715 | | \$963 | \$5,550 | |

Derivatives not Designated as Accounting Hedges

These derivatives may include freestanding derivatives used to economically hedge certain exposures but were not designated by management as accounting hedges. Such derivatives are classified as at FVPL with changes in fair value directly taken to the consolidated statement of income. As of December 31, 2020 and 2019, First Gen Group has no derivatives not designated as accounting hedges.

Derivatives Designated as Accounting Hedges

First Gen Group has interest rate swaps accounted for as cash flow hedges for its floating rate loans and cross-currency swaps and foreign currency forwards accounted for as cash flow hedges of its Philippine peso and U.S. dollar denominated borrowings and Euro denominated payables, respectively. Under a cash flow hedge, the effective portion of changes in fair value of the hedging instrument is



recognized as cumulative translation adjustments in other comprehensive income (loss) until the hedged item affects earnings.

Interest Rate Swap - FGP

In April 2013, FGP entered into two IRS agreements with ING Bank and Standard Chartered Bank to hedge its floating rate exposure on \$80.0 million of its \$420.0 million term loan facility (see Note 14). Under the IRS agreements, FGP pays a fixed rate of 1.425% and receives a floating rate of U.S. LIBOR, on a semi-annual basis, simultaneous with the interest payments every June and December on the hedged loan.

In May 2013, FGP entered into another IRS agreement with RCBC to hedge its floating rate exposure on another \$20.0 million of the \$420.0 million term loan facility. Under the IRS agreement, FGP pays a fixed rate of 1.28% and receives a floating rate of U.S. LIBOR, on a semi-annual basis, simultaneous with the interest payment every June and December on the hedged loan. The notional amounts of the IRS are amortizing based on the repayment schedule of the hedged loan. The IRS are designated as cash flow hedges and will mature on June 10, 2020.

On June 10, 2013, FGP designated the IRS as hedging instruments to hedge the variability in the cash flows from the Term Loan Facility, attributable to the movements of six-month U.S. LIBOR. The hedges are accounted for as cash flow hedges.

As of December 31, 2020 and 2019, the positive fair values of the IRS that were deferred to “Cumulative translation adjustments” account in the consolidated statements of financial position amounted to nil and \$0.8 million (net of related deferred income tax effect of nil in 2020 and \$0.3 million in 2019), respectively.

There was no ineffective portion recognized in the consolidated statements of income for the years ended December 31, 2020, 2019 and 2018.

The outstanding aggregate notional amounts and the related cumulative mark-to-market gains of the IRS designated as cash flow hedges as of December 31, 2020 and 2019 are as follows:

| | 2020 | 2019 |
|---------------------------------|-------------|----------|
| Notional amounts | \$— | \$50,122 |
| Cumulative mark-to-market gains | — | 115 |

The net movements in the fair value of the interest rate swaps of FGP are as follows:

| | 2020 | 2019 |
|--|--------------|-------------|
| Fair value at beginning of year | \$115 | \$1,130 |
| Fair value changes taken into equity during the year | (4) | (322) |
| Fair value changes realized during the year | (111) | (693) |
| Fair value at end of year | — | 115 |
| Deferred income tax effect on cash flow hedges | — | (34) |
| Fair value deferred into equity | \$— | \$81 |

Fair value changes during the year, net of deferred income tax, are recorded in the consolidated statement of comprehensive income, and under the “Cumulative translation adjustments” account in the consolidated statement of financial position. The fair value changes realized during the year were taken into “Interest expense and financing charges” account in the consolidated statement of income.



This pertains to the net difference between the fixed interest paid/accrued and the floating interest received/accrued on the interest rate swap agreements as at financial reporting date.

For the years ended December 31, 2020 and 2019, fair value changes taken to the consolidated statements of income amounted to \$0.1 million and \$0.7 million, respectively.

Foreign Currency Forwards - FGPC, FGP and FNPC

On August 10, 2020, FGPC, FGP and FNPC entered into several currency forwards with ING Bank N.V. Manila Branch (ING) to purchase European Euro at fixed Euro to U.S. dollar exchange rates. FGPC, FGP and FNPC designated these derivatives as effective hedging instruments that will address the risk on variability of cash flows due to foreign exchange fluctuations in Euro to U.S. dollar exchange rates related to its Euro denominated liabilities arising from the monthly operations and maintenance fees to SEI (formerly, SPOI).

Under the agreements, FGPC, FGP, FNPC are obligated to buy Euro from ING amounting to €7.4 million, €3.8 million and €2.1 million, respectively, based on the agreed strike exchange rates. The settlement of each of the forward contract was from September 2, 2020 up to February 2, 2021 which coincides with the settlement of the outstanding and forecasted monthly payables to SPOI.

Pertinent details of the foreign currency forwards are as follows:

| Trade Date | Settlement Date | Notional amounts (in thousands Euro) | | |
|------------|-----------------|--------------------------------------|------|------|
| | | FGPC | FGP | FNPC |
| 08/10/20 | 9/02/20 | €1,318 | €600 | €363 |
| 08/10/20 | 10/02/20 | 1,121 | 640 | 411 |
| 08/10/20 | 11/04/20 | 1,223 | 623 | 422 |
| 08/10/20 | 12/02/20 | 1,255 | 640 | 432 |
| 08/10/20 | 01/05/21 | 1,222 | 655 | 245 |
| 08/10/20 | 02/02/21 | 1,255 | 640 | 224 |

As of December 31, 2020, the outstanding notional amount of the foreign currency forward contracts designated as cash flow hedges amounted to €4.2 million. As of December 31, 2020, the aggregate fair value of the foreign currency forward contracts that was deferred to “Cumulative translation adjustments” account in the consolidated statements of financial position amounted to \$0.2 million.

Interest Rate Swap - EBWPC

In the last quarter of 2014, EBWPC entered into four (4) IRS with aggregate notional amount of \$150.0 million. This is to partially hedge the interest rate risks on its ECA and Commercial Debt Facilities (the Foreign Facility) that is benchmarked against U.S. LIBOR and with flexible interest reset feature that allows EBWPC to select the interest reset frequency to be applied. Under the IRS agreement, EBWPC will receive semi-annual interest of 6-month U.S. LIBOR and will pay fixed interest. EBWPC designated the interest rate swap as hedging instruments in cash flow hedge against the interest rate risk arising from the Foreign Facility. In the first quarter of 2016, EBWPC entered into three (3) additional IRS with aggregate notional amount of \$30.0 million.

Pertinent details of the IRS are as follows:

| Notional amount (in million) | Trade Date | Trade | | Fixed rate | Variable rate |
|---------------------------------|------------|----------------|---------------|------------|---------------|
| | | Effective Date | Maturity Date | | |
| US\$48.67 | 10/20/14 | 12/15/14 | 10/23/29 | 2.635% | 6-month LIBOR |
| 31.40 | 10/20/14 | 12/15/14 | 10/23/29 | 2.635% | 6-month LIBOR |

(Forward)



| Notional amount (in million) | Trade Date | Effective Date | Maturity Date | Fixed rate | Variable rate |
|---------------------------------|---------------|----------------|---------------|------------|---------------|
| US\$30.62 | 10/20/14 | 12/15/14 | 10/23/29 | 2.635% | 6-month LIBOR |
| 14.72 | 02/12/16 | 06/15/16 | 10/23/29 | 1.825% | 6-month LIBOR |
| 7.07 | 10/20/14 | 12/15/14 | 10/23/29 | 2.508% | 6-month LIBOR |
| 4.91 | 02/12/16 | 06/15/16 | 10/23/29 | 1.825% | 6-month LIBOR |
| 4.91 | 02/12/16 | 06/15/16 | 10/23/29 | 1.825% | 6-month LIBOR |

The maturity date of the seven (7) IRS coincides with the maturity date of the Foreign Facility.

As of December 31, 2020 and 2019, the outstanding aggregate notional amounts of EBWPC's IRS amounted to \$130.5 million and \$142.3 million, respectively. The aggregate fair value losses on these IRS amounting to \$15.2 million and \$8.6 million, respectively, were recognized under "Cumulative translation adjustments" account in the consolidated statements of financial position as of December 31, 2020 and 2019.

As of December 31, 2020 and 2019, the fair values of the outstanding IRS amounted to \$11.6 million loss and \$5.1 million loss, respectively. Since the critical terms of the Foreign Facility and IRS match, EBWPC recognized the aggregate fair value changes on these IRS under "Cumulative translation adjustments" account in the consolidated statements of financial position.

Call Spread Swap Contracts - EDC

In July 2017, EDC entered into four (4) call spread swaps (CSS) with an aggregate notional amount of \$20.0 million. These derivative contracts are designed to hedge the possible foreign exchange loss of its then \$300.0 million Notes.

In January 2018, EDC entered into two (2) additional CSS with an aggregate notional amount of \$10.0 million and another two (2) CSS in August 2018 with an aggregate notional amount of \$20.0 million. An additional two (2) CSS were entered by EDC in November 2018 with an aggregate amount of \$10.0 million. These derivative contracts are designated to hedge the possible foreign exchange loss of its \$181.0 million Notes.

In April 2020, EDC entered into five (5) CSS with an aggregate notional amount of \$50.0 million. These derivative contracts were designated to hedge possible foreign exchange loss of the \$50.0 million loan with Mizuho bank.

The aggregate fair value changes on these CSS contracts amounted to \$2.0 million and \$0.9 million as of December 31, 2020 and 2019, respectively.

As of December 31, 2020 and 2019, the fair values of the outstanding CSS amounted to \$1.6 million and \$0.4 million, respectively. Since the critical terms of the CSS match, EDC recognized the aggregate fair value changes on these under "Mark-to-market gain (loss) on derivatives" account in the consolidated statements of income.

As of December 31, 2020 and 2019, the net movement of changes made to "Cumulative translation adjustments" account for EDC's cash flow hedges are as follows:

| | 2020 | 2019 |
|--|-------------------|-----------|
| Balance at beginning of year | (\$10,322) | \$1,114 |
| Fair value changes taken into equity during the year | (9,767) | (11,746) |
| Fair value changes realized during the year | 1,920 | 310 |
| | (18,169) | (10,322) |
| Deferred income tax effect on cash flow hedges | 1,964 | 1,480 |
| Balance at end of year | (\$16,205) | (\$8,842) |



25. Significant Contracts, Franchise, Commitments and Contingencies

a. PPAs/PSAs/ASPAs/RSC

FGP and FGPC

FGP and FGPC each has an existing PPA with Meralco, the largest power distribution company operating in the island of Luzon and the Philippines and the sole customer of both companies. Under the PPA, Meralco will purchase in each contract year from the start of commercial operations, a minimum number of kWh of the net electrical output of FGP and FGPC for a period of 25 years. Billings to Meralco under the PPA are substantially in U.S. dollar and a small portion is billed in Philippine peso.

On January 7, 2004, Meralco, FGP and FGPC signed the amendment to their respective PPAs. The negotiations resulted in a package of concessions including the assumption of FGP and FGPC of community taxes at current tax rate, while conditional concessions include increasing the discounts on excess generation, payment of higher penalties for non-performance up to a capped amount, recovery of accumulated deemed delivered energy until 2011 resulting in the non-charging of Meralco of excess generation charge for such energy delivered beyond the contracted amount but within a 90% capacity quota. The amended terms under the respective PPAs of FGP and FGPC were approved by the ERC on May 31, 2006.

FNPC

FNPC entered into a PSA with Meralco for the sale and purchase of approximately 414 MW of baseload capacity and the associated net electrical output. The power will be sourced from 414 MW San Gabriel Plant which is located within the First Gen Clean Energy Complex in Batangas City. The term of the PSA is approximately six (6) years using gas from the Malampaya field, with a possibility for extension upon mutual agreement with Meralco.

On June 5, 2018, the ERC granted an Interim Relief for the implementation of the PSA subject to certain conditions. On June 26, 2018, FNPC agreed to implement the Interim Relief granted by the ERC and has started its commercial sale to Meralco. The PSA is set to expire on February 23, 2024, unless otherwise extended by the parties.

Prime Meridian

On March 14, 2019, Prime Meridian entered into an ASPA with NGCP, with a term of five (5) years commencing upon receipt of approval by the ERC. In an order dated March 12, 2020, ERC granted an Interim Relief to implement the ASPA beginning on the next billing cycle from receipt of the order. Prime Meridian received an approval from the ERC for a firm ASPA contract with NGCP for 36 MW and a non-firm ASPA contract for another 36 MW. The ASPA was implemented on May 26, 2020 and will be effective until May 25, 2025.

FG Bukidnon

On January 9, 2008, FG Bukidnon and Cagayan Electric Power and Light Co., Inc. (CEPALCO), an electric distribution utility operating in the City of Cagayan de Oro, signed a PSA for the FG Bukidnon plant. Under the PSA, FG Bukidnon shall generate and deliver to CEPALCO and CEPALCO shall take, and pay for even if not taken, the available energy for a period commencing on the date of ERC approval until March 28, 2025.

On June 14, 2012, FG Bukidnon signed a Transmission Service Agreement with NGCP for the latter's provision of the necessary transmission services to FG Bukidnon. The charges under this agreement are as provided in the Open Access Transmission Service Rules and/or applicable ERC orders/issuances. Under the PSA, these transmission-related charges shall be passed through to CEPALCO.



FG Hydro

FG Hydro had contracts which were originally transferred by NPC to FG Hydro as part of the acquisition of PAHEP/MAHEP for the supply of electric energy with several customers within the vicinity of Nueva Ecija. All contracts expired as of December 31, 2010.

Upon renegotiation with the customers and as stipulated by the ERC, the expired contracts were renewed except for the contract with Pantabangan Municipal Electric System (PAMES).

On October 25, 2020 and December 25, 2020, the contracts with NIA-Upper Pampanga River Integrated Irrigation System (UPRIIS) and Edong Cold Storage and Ice Plant (ECOSIP) expired, respectively. These contracts may be renewed upon renegotiation with the customers and approval by the ERC. The customers requested FG Hydro to continue the supply of electricity while waiting for the DOE's approval of the application for renewal of their status as Directly Connected Customer (DCC). In response, FG Hydro agreed to source the customers' electricity requirements from the WESM at the applicable WESM rates pending the resolution of the customers' application with the DOE. As of December 31, 2020, FG Hydro continues to supply electricity sourced from WESM while waiting from DOE's approval and negotiations for new contract is on-going.

There was no new agreement signed between FG Hydro and PAMES. However, FG Hydro has continued to supply PAMES' electricity requirements with PAMES' compliance to the agreed restructured payment terms.

FG Hydro entered into a PSA with FGES, BGI and GCGI for the delivery of electricity to various contestable customers with contract periods of 10 years beginning February 1, 2016 for FGES and BGI, and beginning March 1, 2017 for GCGI. Under these contracts, FG Hydro shall generate and deliver the contracted energy on a monthly basis.

On February 26, 2016, FG Hydro entered into a PSA with BGI for the delivery of electricity to a customer of FG Hydro for a period of thirty (30) months. The contract ended on August 25, 2018 and was not renewed.

The PSA with Nueva Ecija II Electric Cooperative, Inc., Area 1 expired on August 25, 2018 and was not renewed.

PSA with Meralco

On September 16, 2019, FG Hydro signed a PSA with Meralco for the supply of 100 MW mid-merit capacity. The contract was a result of FG Hydro being awarded as a result of having one of the lowest bids under Meralco's Competitive Selection Process that concluded in September 2019. The contract has a term of five years.

On March 16, 2020, FG Hydro received the order of the ERC dated December 10, 2019 granting Provisional Approval to implement the PSA. However, due to the substantial decrease in demand across the Meralco franchise area brought about by the Luzon-wide Enhanced Community Quarantine (ECQ) at the time, Meralco and FG Hydro agreed to defer the operations effectivity date and all related dates until after the ECQ.

On June 5, 2020, FG Hydro filed a Motion for Reconsideration of the Provisional Approval. On June 22, 2020, Meralco and FG Hydro entered into an interim arrangement regarding supply and purchase based on the Provisional Approval rate. Under this arrangement, FG Hydro commenced selling electricity to Meralco in July 2020.



On December 16, 2020, FG Hydro received the order of the ERC dated November 11, 2020 granting its Motion for Reconsideration. The order also approved the retroactive implementation of the applicable rate from the date of actual delivery of energy by FG Hydro to Meralco. On January 28, 2021, FG Hydro and Meralco agreed to amortize the imposition, invoicing and collection of the differential adjustment resulting from such retroactive application to mitigate the impact on customers of the corresponding generation cost pass-through.

On January 8, 2021, FG Hydro received the order of the ERC dated November 26, 2020 granting the Interim Relief authorizing Meralco and FG Hydro to implement the PSA, subject to the same conditions as those provided in the ERC's orders dated December 10, 2019 and November 11, 2020, until revoked or until the issuance of a final decision by the ERC.

EDC, GCGI, BGI and ULGEI

- PPA's

- 588.4 MW Unified Leyte*

- The PPA provides, among others, that NPC shall pay EDC a base price per kilowatt-hour of electricity delivered subject to inflation adjustments. The PPA stipulates a contracted annual energy of 1,370 gigawatt-hour (GWH) for Leyte-Cebu and 3,000 GWh for Leyte-Luzon throughout the term of the PPA. It also stipulates that EDC shall specify the nominated energy for every contract year. The contract is for a period of 25 years, which commenced in November 1997.

- 52.0 MW Mindanao I*

- The PPA provides, among others, that NPC shall pay EDC a base price per kilowatt-hour of electricity delivered subject to inflation adjustments. The PPA stipulates a minimum offtake energy of 330 GWh for the first year and 390 GWh per year for the succeeding years. The contract is for a period of 25 years, which commenced in March 1997.

- 54.0 MW Mindanao II*

- The PPA provides, among others, that NPC shall pay EDC a base price per kilowatt-hour of electricity delivered subject to inflation adjustments. The PPA stipulates a minimum energy offtake of 398 GWh per year. The contract is for a period of 25 years, which commenced in June 1999.

- PSAs

- EDC, GCGI, BGI, and ULGEI entered into various PSAs with private distribution utilities, electric cooperatives, retail electricity supplier and industrial customers with contract periods ranging from 11 months to 26 years. These contracts will expire on November 25, 2019 at the earliest and December 25, 2040 at the latest. Under these contracts, the aforementioned entities shall generate and deliver to its bilateral customers the contracted energy on a monthly basis, and are paid based on price per kilowatt-hour of electricity delivered, subject to certain adjustments such as foreign exchange and inflation.

- ASPA

- EDC and GCGI each have entered into ASPAs with NGCP which is effective for a period of five (5) years starting September 26, 2017.



- **Retail Supply Contract (RSC)**
On February 14, 2017, the ERC approved BGI's application for a Retail Electricity Supplier (RES) license. The RES license grants BGI to engage in the supply of electricity to end-users in the contestable market.

BGI has entered into various retail supply contracts with contestable customers with contract periods of two years. Under the RSCs, BGI charges the customer both the basic energy and pass through charges, as may be applicable.

FGES

RSC

In 2020 and 2019, FGES entered into various RSCs with contestable customers ranging from a contract period of 2 to 10 years. These agreements provide for the supply of electricity at an agreed price on a per kWh basis to contestable customers. Under the respective RSCs, FGES charges the customer for both the basic energy and pass through charges, as may be applicable. As of December 31, 2020 and 2019, FGES has outstanding RSCs with 9 and 7 contestable customers, respectively. A total of 1 and 9 RSCs expired on December 31, 2020 and 2019, respectively.

Power Supply General Framework Agreement (PSGFA)

In 2020 and 2019, FGES entered into a PSGFA with several generation companies (GenCo's) for a total of 40.87 MW and 39.05 MW contracted demand, respectively. The said contracted demand is intended to serve the contracted energy requirement of the various RSCs entered into by FGES.

Registration with Philippine Economic Zone Authority

On November 15, 2016, the PEZA approved FGES application for registration as an Ecozone Utilities Enterprise engaged in establishing, operating and maintaining its RES project. As a PEZA registered entity, FGES is entitled to VAT zero rating on its transactions with its local supplier of goods, properties, and services for its RES project inside the Cebu Light Industrial Park (CLIP) Special Economic Zone, First Philippine Industrial Park (FPIP) and Gateway Business Park (GBP) Special Economic Zone.

b. **Stored Energy Commitment of EDC**

In 1996 and 1997, EDC entered into Addendum Agreements to the PPA related to the Unified Leyte power plants, whereby any excess generation above the nominated energy or take-or-pay volume will be credited against payments made by NPC for the periods it was not able to accept electricity delivered by EDC. As of December 31, 2020 and 2019, the commitment for stored energy is equivalent to 4,326.6 GWh.

c. **GSCs/GRESCs of EDC**

GSCs

Under P.D. 1442, all geothermal resources in public and/or private lands in the Philippines, whether found in, on or under the surface of dry lands, creeks, rivers, lakes, or other submerged lands within the waters of the Philippines, belong to the State, inalienable and imprescriptible, and their exploration, development and exploitation. Furthermore, the Philippine Government may enter into service contracts for the exploration, development and exploitation of geothermal resources in the Philippines.



Pursuant to P.D. 1442, EDC had entered into the following Geothermal Service Contracts (GSCs) with the Government of the Republic of the Philippines (represented by the DOE) for the exploration, development and production of geothermal fluid for commercial utilization:

- a. Tongonan, Leyte, dated May 14, 1981
- b. Southern Negros, dated October 16, 1981
- c. Bac-Man, Sorsogon, dated October 16, 1981
- d. Mt. Apo, Kidapawan, Cotabato, dated March 24, 1992
- e. Mt. Labo, Camarines Norte and Sur, dated March 19, 1994
- f. Northern Negros, dated March 24, 1994
- g. Mt. Cabalian, Southern Leyte, dated January 13, 1997

The exploration period under the service contracts shall be five (5) years from the effective date, renewable for another two (2) years if EDC has not been in default in its exploration, financial and other work commitments and obligations and has provided a work program for the extension period acceptable to the Government. Where geothermal resource in commercial quantity is discovered during the exploration period, the service contracts shall remain in force for the remainder of the exploration period or any extension thereof and for an additional period of 25 years thereafter, provided that, if EDC has not been in default in its obligations under the contracts, the Government may grant an additional extension of 15 to 20 years.

Under P.D. 1442, the right granted by the Government to EDC to explore, develop, and utilize the country's geothermal resource is subject to sharing of net proceeds with the Government. The net proceeds is what remains after deducting from the gross proceeds the allowable recoverable costs, which include development, production and operating costs. The allowable recoverable costs shall not exceed 90% of the gross proceeds. EDC pays 60% of the net proceeds as government share and retains the remaining 40%. The 60% government share is comprised of government share and income taxes. The government share is split between the DOE (60%) and the LGUs (40%) where the project is located.

GRESCs and Geothermal Operating Contracts

The RE Law, which became effective in January 2009, mandates the conversion of existing GSCs under P.D. 1442 into GRESCs to avail of the incentives under the RE Law. EDC submitted its letter of intent to register with the DOE as an RE Developer on May 20, 2009 and the conversion contracts negotiation with the DOE started in August 2009. On September 10, 2009, EDC was granted the Provisional Certificate of Registration as an RE Developer for its existing projects. With the receipt of the certificates of provisional registration as geothermal RE Developer, the fiscal incentives of the RE Law was availed of by EDC retroactive from the effective date of such law on January 30, 2009. Fiscal incentives include among others, the change in the applicable corporate tax rate from 30% to 10% for RE-registered activities. Aside from the tax incentives, the significant terms of the service concessions under the GRESCs are similar to the GSCs except that EDC has control over any significant residual interest over the steam fields, power plants, and related facilities throughout the concession period and even after the concession period.

The GSCs were fully converted to GRESCs upon signing of the parties on October 23, 2009; thereby EDC is now the holder of five (5) GRESCs and the corresponding DOE Certificate of Registration as an RE Developer for the following geothermal projects:

- 1) GRESC 2009-10-001 for Tongonan Geothermal Project;
- 2) GRESC 2009-10-002 for Southern Negros Geothermal Project;
- 3) GRESC 2009-10-003 for Bacon-Manito Geothermal Project;
- 4) GRESC 2009-10-004 for Mt. Apo Geothermal Project; and
- 5) GRESC 2009-10-005 for Northern Negros Geothermal Project



On February 19, 2010, EDC's GSC in Mt. Labo in Camarines Norte and Sur was converted to GRESC 2010-02-020, and on March 24, 2010, the DOE issued to EDC a new GRESC of Mainit Geothermal Project under DOE Certificate of Registration No. GRESC 2010-03-021.

The remaining service contract of EDC covered by P.D. 1442 as of December 31, 2013 was the Mt. Cabalian in Southern Leyte. In 2014, after thorough assessment, EDC surrendered to the DOE the GSC covering the Southern Leyte Geothermal Project located in Cabalian, Southern Leyte. EDC has found the project not viable after considering the size of the resource and the risks associated with the development and sustainability thereof.

EDC also holds geothermal resource service contracts, each with a five-year pre-development period expiring in 2017 and a 25-year contract period expiring between 2037 and 2040, for the following prospect areas:

- 1) Mt. Zion 2 Geothermal Project
- 2) Amacan Geothermal Project

In 2020, EDC surrendered the geothermal resource service contracts for Ampiro, Lakewood and Balingasag to the DOE.

In 2019, the exploration and evaluation costs incurred for Balingasag amounting to \$0.05 million (₱2.5 million) was assessed by management to be no longer recoverable. Accordingly, the book value of this exploration and evaluation asset and the related allowance for impairment losses were directly written off in 2020.

Under the GRESCs, EDC pays the Philippine Government a government share equivalent to 1.5% of the gross income from the sale of geothermal steam produced and such other income incidental to and arising from generation, transmission, and sale of electric power generated from geothermal energy within the contract areas. Under the GRESCs, gross income derived from business is an amount equal to gross sales less sales returns, discounts and allowances, and cost of goods sold. Cost of goods sold includes all business expenses directly incurred to produce the steam used to generate power under a GRESC.

The RE Law also provides that the exclusive right to operate geothermal power plants shall be granted through a Renewable Energy Operating Contract with the Philippine Government through the DOE. On May 8, 2012, EDC, through its subsidiaries GCGI and BGI secured three (3) Geothermal Operating Contracts (GOCs), each with a 25-year contract period expiring in 2037 and renewable for another 25 years, covering the following power plant operations:

- 1) Tongonan Geothermal Power Plant (under DOE Certificate of Registration No. GOC 2012-04-038);
- 2) Palinpinon Geothermal Power Plant (under DOE Certificate of Registration No. GOC 2012-04-037); and
- 3) Bacon-Manito Geothermal Power Plant (under DOE Certificate of Registration No. GOC No. 2012-04-039)

The Government share, presented as "Government share" under the "Costs of sale of electricity" account, for both the GRESCs and GOCs is allocated between the DOE (60%) and the LGUs (40%) within the applicable contract area (see Note 13).



d. SSAs of EDC

Under the SSA, NPC agrees to pay EDC a base price per kWh of gross generation, subject to inflation adjustments, and based on a guaranteed take-or-pay (TOP) rate at certain percentage plant factor. The SSA is for a period of 20 to 25 years.

Details of the existing SSAs are as follows:

| <u>Contract Area</u> | <u>Guaranteed TOP</u> |
|----------------------|--|
| BacMan I | 75% plant factor |
| BacMan II | 50% for the 1st year, 65% for the 2nd year, 75% for the 3rd and subsequent years |

Following the expiration of the then SSA for BacMan I in May 2018, EDC and BGI entered into an interim arrangement on June 1, 2018 for the supply of steam for BacMan I effective from the date of expiration of the SSA until the new SSA takes effect or December 25, 2020, whichever is earlier. On December 24, 2020, the term of such interim agreement was extended for another three (3) years, or until December 25, 2023.

With the expiry of BacMan II's Cawayan Unit SSA in March 2019, EDC and BGI entered into an interim arrangement on April 30, 2019 for the supply of steam for BacMan II's Cawayan Unit effective from the date of expiration of the SSA until the new SSA takes effect or December 25, 2020, whichever is earlier. On December 24, 2020, the term of such interim agreement was extended for another three (3) years, or until December 25, 2023.

Following the commercial operations of the BacMan units, PSALM/NPC, EDC, and BGI have agreed to allow EDC bill BGI directly, on behalf of PSALM/NPC, starting October 1, 2013 for BacMan II and January 28, 2014 for BacMan I.

e. GSPAs

FGP and FGPC

FGP and FGPC each has an existing GSPA with the consortium of Shell Philippines Exploration B.V., UC38 LLC (formerly, Chevron Malampaya, LLC-Philippine Branch), and PNO Exploration Corporation (collectively referred to as Gas Sellers), for the supply of natural gas in connection with the operations of their respective power plants. The GSPAs, now on their nineteenth (19th) Contract Year, are for a total period of approximately 22 years.

Total cost of natural gas consumed amounted to \$168.9 million in 2020, \$218.6 million in 2019 and \$217.1 million in 2018, for FGP; and \$336.4 million in 2020, \$436.2 million in 2019 and \$432.6 million in 2018, for FGPC.

Under the GSPA, FGP and FGPC are obligated to purchase and take (or pay for, if not taken) a minimum quantity of gas for each Contract Year (which runs from December 26 of a particular year up to December 25 of the immediately succeeding year), called the Take-Or-Pay Quantity (TOPQ). Thus, if the TOPQ is not taken within a particular Contract Year, FGP and FGPC incur an "Annual Deficiency" for that Contract Year equivalent to the total volume of unused gas (i.e., the TOPQ less the actual quantity of gas taken). FGP and FGPC are required to make payments to the Gas Sellers for such Annual Deficiency after the end of the Contract Year. After paying for Annual Deficiency gas, FGP and FGPC can, subject to the terms of the GSPA, "make-up" such Annual Deficiency by taking the unused-but-paid-for gas (without further charge)



within 10-Contract Years after the Contract Year for which the Annual Deficiency was incurred, in the order that it arose. Included in the June 9, 2010 Settlement Agreement is the GSPA amendment in which FGP, FGPC and the Gas Sellers agreed that where the Gas Sellers reschedule, reduce or cancel Scheduled Maintenance and fail to provide a rescheduling notice within the period required under clause 17.1.2 of the respective GSPAs of FGP and FGPC, Gas Sellers shall be permitted, subject to clause 17.5, to carry forward to succeeding Contract Years the number of Days within the originally scheduled period where no actual maintenance is carried out by the Gas Sellers provided that Gas Sellers tender for delivery, and FGP and FGPC actually take, gas equivalent to at least 61.429 Terajoules (TJ) and 122.9 TJ for San Lorenzo and Santa Rita, respectively. FGP and the Gas Sellers likewise agreed that references to “the Base TOPQ divided by 350” in certain clauses of the San Lorenzo GSPA shall be replaced by “61.429 TJ”.

FNPC and Prime Meridian

On April 12, 2017, FNPC and Prime Meridian each executed GSPAs with the Gas Sellers. Pursuant to their respective GSPAs, the Gas Sellers shall supply natural gas fuel until the aggregate natural gas deliveries reach their respective Total Contract Quantity (TCQ) of 12.458 PJ (NCV) for Prime Meridian and 80.499 PJ (NCV) for FNPC, or on February 23, 2024, whichever comes earlier. FNPC and Prime Meridian can request additional volume from the Gas Sellers as envisaged in their respective GSPAs.

Under their respective GSPAs, each Seller shall sell and tender for delivery to the buyer, and the buyer shall purchase and take from each Seller the quantity of natural gas nominated by the buyer in accordance with the terms and subject to the conditions specified in the agreement.

Total cost of natural gas consumed amounted to \$61.9 million in 2020, \$136.5 million in 2019 and \$106.2 million in 2018, for FNPC; and \$8.4 million in 2020, \$15.2 million in 2019 and \$9.3 million in 2018, for Prime Meridian.

f. WESC of EDC

On September 14, 2009, EDC entered into a WESC 2009-09-004 with the DOE granting EDC the right to explore and develop the Burgos Wind Project for a period of 25 years from effective date. The pre-development stage under the WESC shall be two years which can be extended for another one year if EDC does not default in its exploration or work commitments and provides a work program for the extension period upon confirmation by the DOE. The WESC also provides that upon submission of the declaration of commercial viability, as confirmed by the DOE, the WESC shall remain in force for the balance of the 25-year period for the development / commercial stage. The DOE shall approve the extension of the WESC for another 25 years under the same terms and conditions, provided that EDC is not in default in any material obligations under the WESC, and has submitted a written notice to the DOE for the extension of the contract not later than one (1) year prior to the expiration of the 25-year period. The WESC provides that all materials, equipment, plants and other installations erected or placed on the contract area by EDC shall remain the property of EDC throughout the term of the contract and after its termination.

On May 26, 2010, the BOD of EDC approved the assignment and transfer to EBWPC of all the contracts, assets, permits and licenses relating to the establishment and operation of the Burgos Wind Project under DOE Certificate of Registration No. WESC 2009-09-004. On May 16, 2013, EBWPC was granted a Certificate of Confirmation of Commerciality by the DOE.



As of December 31, 2020, EBWPC holds ten (10) WESC's with the DOE. Each WESC has a contract period of 25 years and will expire between 2034 and 2040. The WESC's cover the following projects:

| Projects | DOE Certificates of Registration |
|---|-------------------------------------|
| 1) 150 MW wind project in Burgos, Ilocos Norte | WESC 2009-09-004 (expiring in 2034) |
| 2) 84 MW wind project in Pagudpud, Ilocos Norte | WESC 2010-02-040 (expiring in 2035) |
| 3) Burgos 1 wind project in Burgos, Ilocos Norte | WESC 2013-12-063 (expiring in 2038) |
| 4) Burgos 2 wind project in Burgos, Ilocos Norte | WESC 2013-12-064 (expiring in 2038) |
| 5) Matnog 1 wind project in Matnog & Magdalena, Sorsogon | WESC 2014-07-075 (expiring in 2039) |
| 6) Matnog 2 wind project in Matnog, Sorsogon | WESC 2014-07-076 (expiring in 2039) |
| 7) Matnog 3 wind project in Matnog, Sorsogon | WESC 2014-07-077 (expiring in 2039) |
| 8) Iloilo 1 wind project in Batad & San Dionisio, Iloilo | WESC 2014-07-078 (expiring in 2039) |
| 9) Burgos 3 wind project in Burgos and Pasuquin, Ilocos Norte | WESC 2015-09-085 (expiring in 2040) |
| 10) Burgos 4 wind project in Burgos, Ilocos Norte | WESC 2015-09-086 (expiring in 2040) |

g. SESCOs of EDC

As of December 31, 2020, EDC holds two (2) SESCOs with the DOE with a 25-year contract period. The SESCO's cover the following projects:

| Projects | DOE Certificates of Registration |
|---|--|
| 1. 6.82 MW Burgos Solar Project in Burgos, Ilocos Norte | SESC No. 2014-07-088 (expiring in 2039) |
| 2. Gaisano Iloilo, Iloilo City Solar Rooftop Project* | SESC No. 2016-11-352 (expiring in 2042 and renewable for another 25 years) |

*SESC assigned to EDC Siklab Power Corporation

h. Operations and Maintenance (O&M) Agreements

O&M Agreements of FGP and FGPC

FGP and FGPC have separate full scope O&M Agreements with SEI (formerly, SPOI) mainly for the operation, maintenance, management and repair services of their respective power plants. As stated in the respective O&M Agreements of FGP and FGPC, SEI is responsible for maintaining adequate inventory of spare parts, accessories and consumables. SEI is also responsible for replacing and repairing the necessary parts and equipment of the power plants to ensure the proper operation and maintenance of the power plants to meet the contractual commitments of FGP and FGPC under their respective PPAs and in accordance with the Good Utility Practice.

Each signed contract took effect on August 1, 2010 (the Commencement Date) and will expire on the earlier of (i) the 20th anniversary of the Commencement Date, or (ii) the satisfactory completion of the major inspections of all units of the San Lorenzo and Santa Rita power plants, in each case nominally scheduled at 200,000 equivalent operating hours, as stipulated in their respective O&M Agreements. The monthly O&M charges include Euro, U.S. dollar and Philippine peso components.

FGPC's and FGP's total O&M costs (shown as part of the "Power plant operations and maintenance" in the "Costs of sale of electricity" account in the consolidated statements of income) amounted to \$34.8 million in 2020, \$35.2 million in 2019 and \$36.2 million in 2018.

In 2020, prepaid major spare parts totaling to \$20.2 million were reclassified to the "Property, plant and equipment" account as a result of the completion of the scheduled major maintenance outages of the Santa Rita power plants (see Note 10). As of December 31, 2020 and 2019, O&M charges amounting to \$89.9 million and \$83.7 million, respectively, which relate to major spare parts that are expected to be replaced during the next scheduled major maintenance outage, were presented as part of the "Other noncurrent assets" account in the consolidated statements of financial position (see Note 12).



O&M Agreement of FNPC

On December 16, 2013, FNPC signed an O&M Agreement with SPOI for the operation, maintenance, management and repair services of the San Gabriel Plant for a nominal period of 9 years and 9 months from O&M Agreement's commercial operations date of September 5, 2016. SPOI is responsible for the day-to-day administration of the power plant, maintaining adequate inventory of spare parts, accessories and consumables, and shall operate, maintain and repair the plant in accordance with Good Utility Practice.

Following the commercial operations of the San Gabriel Plant, total O&M costs (shown as part of the "Power plant operations and maintenance" in the "Costs of sale of electricity" account in the consolidated statements of income) amounted to \$10.9 million, \$12.7 million and \$11.7 million in 2020, 2019 and 2018, respectively.

As of December 31, 2020 and 2019, O&M charges amounting to \$17.2 million and \$13.4 million, respectively, which relate to major spare parts that are expected to be replaced during the next scheduled major maintenance outage, were presented as part of the "Other noncurrent assets" account in the consolidated statements of financial position (see Note 12).

O&M Agreement of EBWPC with Vestas

EBWPC will operate and maintain the wind farm under a 10-year O&M agreement with Vestas. The Vestas O&M contract is a service and energy-based availability agreement based on Vestas' AOM 5000 product. The agreement is a full-scope maintenance contract covering both scheduled and unscheduled maintenance with an energy-based availability on the wind turbines. The agreement covers the wind turbines, wind farm electrical balance-of-plant systems, the wind turbine yaw back-up generators, and the Burgos Substation as opposed to a traditional O&M contract that provides a guarantee that the turbines in a wind power plant are operational for a defined period of time on an annual basis (referred to as time-based availability), the AOM 5000 model provides an energy-based guarantee, which encourages the contractor to ensure that the turbines are fully-operational when the wind is blowing.

Maintenance Service Agreement (MSA) of Prime Meridian

On August 1, 2017, Prime Meridian executed a MSA with Maintenance Berlin Brandenburg (MTU) for a three (3) year period. The MSA covers the provision of several maintenance services to the Avion power plant which include the: (i) provision of a resident engineer, (ii) supply and installation of a remote monitoring system (including monthly reporting), (iii) performance of Scheduled Maintenance Services, (iv) carry out a Condition-based Maintenance Services, (v) supply of spare parts and (vi) other related services. Total cost pertaining to the MSA with MTU (shown as part of the "Power plant operations and maintenance" in the "Costs of sale of electricity" account in the consolidated statement of income) amounted to \$0.5 million, \$1.7 million, and \$0.8 million in 2020, 2019 and 2018, respectively.

Following the expiration of the MSA with MTU in December 2020, the negotiation for the new MSA is ongoing as of March 17, 2021.



i. SIA

FGPC

FGPC has an agreement with Meralco and NPC for: (a) the construction of substation upgrades at the NPC substation in Calaca and the donation of such substation upgrades to NPC; (b) the construction of a 35-kilometer transmission line from the power plant to the NPC substation in Calaca and subsequent donation of such transmission line to NPC; (c) the interconnection of the power plant to the NPC Grid System; and (d) the receipt and delivery of energy and capacity from the power plant to Meralco's point of receipt.

Following the assignment by NPC to TransCo of all of NPC's rights, title, interests and obligations in and to the SIA, FGPC, on July 15, 2015, agreed to give, transfer and convey to TransCo, by way of donation, the Substation Improvements amounting to \$1.2 million (see Note 11). As of March 17, 2021, FGPC is still in the process of transferring the 230 kilovolts (kV) Santa Rita to Calaca transmission line to TransCo.

Maintenance services related to the 230 kV Santa Rita to Calaca transmission line in Batangas are now being rendered by Hansei Corporation (Hansei) under a Transmission Line Maintenance Agreement (TLMA) that was signed and became effective on January 10, 2017. The TLMA requires a monthly payment of \$0.03 million (₱1.3 million) for the routine services and a monthly payment of \$0.006 million (₱0.30 million) as retainer fee, with both fees subject to periodic adjustment as set forth in the agreement. Total operations and maintenance expense (shown as part of the "Power plant operations and maintenance" in the "Costs of sale of electricity" account in the consolidated statement of income) amounted to \$0.5 million in 2020, and each amounted to \$0.4 million in 2019 and 2018.

Prime Meridian

Prime Meridian likewise signed a TLMA with Tan Delta Electric Corporation (Tan Delta) on August 15, 2017 wherein the latter shall be responsible for the intermittent maintenance services of the transmission line from Avion substation to Bay 8 of the San Lorenzo 230 kV switchyard. Avion's TLMA was renewed on September 20, 2019. No monthly retainer's fee is required for Prime Meridian but the latter will only pay Tan Delta if it will issue a Request for Intermittent Services setting out the pre-agreed services with corresponding rates which Prime Meridian wishes to engage. Total operations and maintenance expense (shown as part of the "Power plant operations and maintenance" in the "Costs of sale of electricity" account in the consolidated statement of income) amounted to \$0.06 million, \$0.03 million and \$0.04 million in 2020, 2019 and 2018, respectively.

j. Connection Agreements (CA), Metering Service Agreements (MSA), Transmission Service Agreements (TSA)

CA

FGP

FGP has an agreement with NPC and Meralco whereby NPC will be responsible for the delivery and transmission of all energy and capacity from FGP's power plant to Meralco's point of receipt.

FNPC and Prime Meridian

On November 26, 2015, ERC approved FNPC's application for authority to develop, own and operate a dedicated point to point transmission facility to connect to the existing San Lorenzo (SL) Switchyard. The San Gabriel to SL Connection Facility, an approximately 200-meter transmission



line from the San Gabriel plant to the existing SL Switchyard, is connected to the transmission system of NGCP via the existing SL Switchyard.

FNPC and Prime Meridian each has a CA with NGCP. It is envisaged in the CA that the obligations of FNPC, Prime Meridian and NGCP, respectively, shall be governed by Open Access Transmission Service, the Philippine Grid Code and relevant issuances. The CAs of FNPC and Prime Meridian with NGCP took effect on July 1, 2014 and each has a term of 20 years.

MSA

FGPC, FGP, FNPC and Prime Meridian each has entered into an MSA with NGCP. Pursuant to the MSA, NGCP agreed to provide revenue metering facilities and services for measuring the energy consumed by Santa Rita, San Lorenzo, San Gabriel and Avion power plants. FGPC and FGP's MSA took effect on December 26, 2016 and July 26, 2017, respectively. FNPC and Prime Meridian's MSA both took effect on May 26, 2016. Each of the four agreements has a term of 10 years.

TSA

FGPC, FGP, FNPC and Prime Meridian each has entered into a TSA with NGCP. Under the TSA, NGCP agreed to provide transmission services to Santa Rita, San Lorenzo, San Gabriel and Avion power plants. FGPC and FGP's TSA took effect on December 26, 2016 and July 26, 2017, respectively. FNPC and Prime Meridian's TSA both took effect on May 26, 2016. Each of the four agreements has a term of 10 years.

k. REPA

Under Section 2.2 of the ERC Resolution No. 24, Series of 2013, *A Resolution Adopting the Guidelines on the Collection of the FIT Allowance (FIT-All) and the Disbursement of the FIT-All Fund* (the FIT-All Guidelines), all eligible renewable energy (RE) plant shall enter into a Renewable Energy Payment Agreement (REPA) with TransCo for the payment of the FIT.

Pursuant to the FIT-All Guidelines, EBWPC entered into a REPA with TransCo for its Burgos Wind Power Plants. The REPA became effective after all the documents enumerated in Section 3.1 of the REPA have been submitted to and certified complete by TransCo. Included in those required documents is the FIT COC issued by the ERC on April 13, 2015.

The ERC granted on April 13, 2015 the FIT COC for the Burgos Wind Project - Phase I and II, which specifies that the project is entitled to the FIT rate of ₱8.53 per kilowatt-hour (kWh), subject to adjustments as may be approved by the ERC, from November 11, 2014 to November 10, 2034.

Similarly, on April 24, 2015, EDC entered into a REPA for its 4.16 MW Solar Power Plants with TransCo. In accordance with the REPA, all actual RE generation from the commercial operations date (COD) until the effective date of the REPA (effective date) were billed to and collected from the Philippine Electricity Market Corporation (PEMC) at market price.

After the effective date of the REPA, billings for all actual RE generation have been submitted directly to and collected from TransCo at the applicable FIT rates as approved by the ERC. In addition, the actual FIT differential from the COD until the effective date were also billed to TransCo over the number of months which lapsed during that period.



FIT rate adjustments

On May 26, 2020, the ERC approved Resolution No. 06, Series of 2020 which approves and adopts FIT rate adjustments, for the years 2016, 2017, 2018, 2019 and 2020 using 2014 as the base year for the consumer price index and foreign exchange. The said resolution was published in a newspaper of general circulation on November 17, 2020 and became effective 15 days after.

Total retroactive FIT revenue adjustment recognized in 2020 by EBWPC and EDC amounted to \$19.3 million (₱960.0 million) and \$0.6 million (₱28.6 million), respectively. This will be recovered from TransCo for a period of five (5) years.

As of December 31, 2020, the noncurrent portion of the receivable from TransCo amounting to \$19.9 million (₱957.8 million) is included in the “Long-term receivables” account under “Other noncurrent assets”, while the current portion amounting to \$0.5 million (₱26.2 million) is included under “Receivables” in the consolidated statement of financial position (see Notes 6 and 12).

l. Franchise

The Parent Company, through FGHC, has a franchise granted by the 11th Congress of the Philippines through R.A. No. 8997 to construct, install, own, operate and maintain a natural gas pipeline system for the transportation and distribution of the natural gas throughout the island of Luzon (the “Franchise”). The Franchise is for a term of 25 years until February 25, 2026. As of March 17, 2021, FGHC, through its subsidiary FG Pipeline, has an ECC for the Batangas to Manila pipeline project and has undertaken substantial pre-engineering works and design and commenced preparatory works for the right-of-way acquisition activities, among others.

m. Tax Contingencies

Deficiency Income Tax

FGPC was assessed by the BIR on July 19, 2004 for deficiency income tax for taxable years 2001 and 2000. FGPC filed its Protest Letter with the BIR on October 5, 2004. On account of the BIR’s failure to act on FGPC’s Protest within the prescribed period, FGPC filed with the CTA in June 2005 a Petition against the Final Assessment Notices and Formal Letters of Demand issued by the BIR. On February 20, 2008, the CTA granted FGPC’s Motion for Suspension of Collection of Tax until the final resolution of the case.

In a Decision dated September 25, 2012, the 3rd Division of the CTA granted the Petition and ordered the cancellation and withdrawal of the Final Assessment Notices and Formal Letters of Demand. In January 2013, the BIR filed with the CTA en banc a Petition for Review.

On October 7, 2014, the CTA En Banc denied the Motion for Reconsideration filed by the BIR and affirmed the tax position of FGPC mainly due to the legal infirmities on statutory waiver of prescription and validity of assessment forms issued by the BIR.

On December 7, 2014, the BIR filed an appeal with the SC within the 30-day extension requested by the BIR. In April 2015, FGPC filed its Comment on the Petition for Review filed by the BIR. The appeal filed by the BIR was its remaining legal recourse against the CTA En Banc’s decision affirming the tax position of FGPC. In August 2015, the SC issued a Resolution requiring the Office of the Solicitor General (OSG) to file a Reply to FGPC’s Comment. On December 7, 2015, FGPC’s legal counsel received from the SC a copy of the OSG’s Reply.



In a resolution dated June 21, 2018, the SC directed the CTA to elevate the records of the case to the SC. The CTA's compliance with the directive was noted by the SC in a resolution dated October 3, 2018. As of March 17, 2021, the case remains pending.

Management believes that the resolution of this assessment will not materially affect First Gen Group's consolidated financial statements.

Real Property Tax (RPT)

In June 2003, FGPC received various Notices of Assessment and Tax Bills from the Provincial Government of Batangas, through the Office of the Provincial Assessor, imposing an annual RPT on steel towers, cable/transmission lines and accessories (the T-Line) amounting to \$0.2 million (₱12 million) per year. FGPC, claiming exemption from said RPT, appealed the assessment to the Provincial LBAA and filed a Petition in August 2003 praying (1) that the Notices of Assessment and Tax Bills issued by the Provincial Assessor be recalled and revoked; and (2) that the Provincial Assessor drop from the Assessment Roll the 230 kV transmission lines from Sta. Rita to Calaca in accordance with Section 206 of the Local Government Code (LGC). FGPC argued that the T-Line does not constitute real property for RPT purposes and even assuming that the T-Line is regarded as real property, FGPC is still not liable for RPT as it is NPC/TransCo, a government-owned and controlled corporation (GOCC) engaged in the generation and/or transmission of electric power, which has actual, direct and exclusive use of the T-Line. Pursuant to Section 234 (c) of the LGC, a GOCC engaged in the generation and/or transmission of electric power and which has actual, direct and exclusive use thereof, is exempt from RPT.

FGPC sought, and was granted, a preliminary injunction by the Regional Trial Court (Branch 7) of Batangas City (RTC) to enjoin the Provincial Treasurer of Batangas City from collecting the RPT pending the decision of the LBAA. Despite the injunction, the LBAA issued an Order requiring FGPC to pay the RPT within 15 days from receipt of the Order. FGPC filed an appeal before the CBAA assailing the validity of the LBAA order. The CBAA in December 2006 set aside the LBAA Order and remanded the case to the LBAA. The LBAA was directed to proceed with the case on the merits without requiring FGPC to first pay the RPT on the questioned assessment. The LBAA case remains pending.

On May 23, 2007, the Province filed with the Court of Appeals (CA) a Petition for Review of the CBAA Resolution. The CA dismissed the petition in June 2007; however, it issued another Resolution in August 2007 reinstating the petition filed by the Province. In a decision dated March 8, 2010, the CA dismissed the petition for lack of jurisdiction.

In connection with the prohibition case pending before the RTC which issued the preliminary injunction, the Province filed a Motion to Dismiss in May 2011 which was denied by the RTC. FGPC was directed to amend its petition to include the Provincial Assessor as a party respondent, and in November 2012 FGPC filed its Compliance with Amended Petition.

In a Decision dated September 27, 2018, the RTC granted the petition and held that while the electric transmission lines are not exempt from real property tax, FGPC is not liable to pay the same because it is not the entity which has actual, direct and exclusive use of the transmission lines. The court also ruled that the respondents are prohibited from undertaking any remedies to collect from FGPC the disputed real property taxes, including the issuance, enforcement or implementation of a warrant of distraint or levy on the machineries, equipment and other assets of FGPC.

Respondents filed a Motion for Reconsideration of the said decision, which was denied by the RTC in its Resolution dated May 14, 2019. On July 3, 2019, FGPC received Respondents' Notice of Appeal appealing the Decision of the RTC. In a decision dated September 15, 2020, the CA dismissed the appeal for lack of jurisdiction.



Respondents filed a Motion for Reconsideration dated November 4, 2020. As of March 17, 2021, FGPC has not received any order from the CA directing it to comment on the Motion for Reconsideration.

n. Lease Commitments

- In June 2015, First Gen and certain subsidiaries each executed a non-cancelable lease agreement with Rockwell- Meralco BPO Venture on its office space at RBC Tower 3 for a period of five years commencing on July 1, 2015 to June 30, 2020. In June 2020, the lease agreement was renewed and the term was extended for an additional 5 years until June 30, 2025. The lease agreement is subject to an annual escalation rate of 5%.
- FGPC has a non-cancelable annual foreshore lease agreement with the DENR (“Foreshore Lease Contract”) for the lease of a parcel of land in Sta. Rita, Batangas where the power plant complex is located. The term of the lease is for a period of 25 years starting May 26, 1999 for a yearly rental of \$0.05 million (₱3.0 million) and renewable for another 25 years at the end of the term. The land will be appraised every ten (10) years and the annual rental after every appraisal shall not be less than 3% of the appraised value of the land plus 1% of the value of the improvements, provided that such annual rental cannot be less than \$0.05 million (₱3.0 million). The current DENR-approved yearly rental is at ₱4.3 million which took effect in May 2018.
- FGP and FGPC entered into a Sublease Agreement to sublease and use the parcel of land located in Sta. Rita, Batangas (“Leased Property”) which is covered by a Foreshore Lease Contract executed by and between FGPC and the DENR in May 1999. Under the Sublease Agreement, FGPC subleases, sublets and grants FGP the right to use the Leased Property in connection with and as may be necessary for the construction, operation and maintenance of the San Lorenzo plant on a non-exclusive basis. Such Sublease Agreement was approved by the DENR in November 1999 in accordance with the Seventh Paragraph of the Foreshore Lease Contract. The sublease term is for a period of 23 years or until May 25, 2023 or upon termination of the Foreshore Lease Contract. The term may be extended upon mutual agreement between the parties subject to an extension of the term of the Foreshore Lease Contract for an equivalent or greater period. FGP agrees to pay FGPC a yearly rental of \$0.01 million (₱0.31 million), subject to an equitable increase pursuant to the Foreshore Lease Contract.
- FGPC and FNPC entered a transfer of Leasehold Rights for the use of a portion of a parcel of land covered by the Foreshore Lease Contract executed by and between FGPC and the DENR in May 1999. The transferred area is where the intake-outfall pipeline systems of FNPC are located. The order of transfer of Leasehold Rights from FGPC to FNPC was approved by the DENR on September 22, 2017. FNPC pays a yearly rental of ₱1.4 million to DENR.
- FG Bukidnon has a non-cancelable lease agreement with PSALM on the land occupied by its power plant. The term of the lease is for a period of 20 years commencing on March 29, 2005, renewable for another period of 10 years or the remaining corporate life of PSALM, whichever is shorter. On November 23, 2020, FG Bukidnon and PSALM executed a Deed of Sale to purchase the land where the Agusan Plant and Administrative compound is located.
- EDC’s lease commitments pertain mainly to office space and warehouse rentals.



As of December 31, 2020 and 2019, First Gen Group’s future minimum rental payments under the non-cancelable operating leases are as follows:

| | 2020 | 2019 |
|---|-----------------|----------|
| Within one year | \$4,491 | \$4,960 |
| After one year but not more than five years | 11,666 | 9,890 |
| After five years | – | 894 |
| | \$16,157 | \$15,744 |

o. Income from Insurance Claims

Property damages

In 2020, 2019 and 2018, EDC received insurance proceeds totaling to \$7.4 million (₱369.3 million), \$11.8 million (₱615.6 million) and \$44.0 million (₱2,307.0 million), respectively, relating to property damages caused by calamities such as the Leyte earthquake, and numerous typhoons which include but are not limited to Typhoon Urduja, Yolanda, Seniang, Glenda and Lawin.

Business interruptions

In 2020 and 2019, EDC recognized income from insurance claims totaling to \$29.3 million (₱1,461.4 million) and \$31.7 million (₱1,647.8 million), respectively, relating to business interruptions caused by calamities and various events which include but are not limited to Typhoon Yolanda, Typhoon Glenda and machinery breakdowns. No similar income was recognized in 2018. As of December 31, 2020 and 2019, outstanding insurance receivable amounted to \$20.4 million (₱981.1 million) and \$25.6 million (₱1,296.2 million), respectively, which is included in “Others” under “Receivables” account in the consolidated statement of financial position. (see Note 6).

p. Drilling Service Agreement of EDC

Thermaprime is a subsidiary of First Balfour, a wholly owned subsidiary of FPH. Thermaprime provides drilling services such as, but not limited to, rig operations, rig maintenance, well design and engineering. Thermaprime provides drilling services and drilling rig preservation services to EDC.

On August 31, 2018, EDC entered into a contract with Thermaprime for the sale of Rigs and its ancillary items for an amount of \$0.02 million, exclusive of VAT. The loss on sale amounting to \$0.7 million was recognized under “Other income (charges)” account in the consolidated statement of income.

As of December 31, 2020 and 2019, the outstanding payable to Thermaprime amounted to \$6.5 million and \$3.8 million, respectively, recorded under “Accounts payable and accrued expenses” account in the consolidated statements of financial position (see Note 13).

q. Other Legal Proceedings

West Tower Condominium Corporation, et al. vs.
First Philippine Industrial Corporation, et al.
G.R. No. 194239, Supreme Court of the Philippines

On November 15, 2010, a Petition for the Issuance of a Writ of Kalikasan was filed before the SC by the West Tower Condominium Corporation, et al., against respondents First Philippine Industrial Corporation (FPIC), the Parent Company, their respective boards of directors and officers, and John Does and Richard Roes. The petition was filed in connection with the oil leak which is being attributed to a portion of FPIC’s white oil pipeline located in Bangkal, Makati City.



The petition was brought by the West Tower Condominium Corporation purportedly on behalf of its unit owners and in representation of the inhabitants of Barangay Bangkal, Makati City. The petitioners sought the issuance of a Writ of Kalikasan to protect the constitutional rights of the Filipino people to a balanced and healthful ecology, and prayed that the respondents permanently cease and desist from committing acts of negligence in the performance of their functions as a common carrier; continue to check the structural integrity of the entire 117-km white oil pipeline and replace the same; make periodic reports on findings with regard to the said pipeline and their replacement of the same; be prohibited from opening the white oil pipeline and allowing its use until the same has been thoroughly checked and replaced; rehabilitate and restore the environment, especially Barangay Bangkal and West Tower Condominium, at least to what it was before the signs of the leak became manifest; open a special trust fund to answer for similar contingencies in the future; and be temporarily restrained from operating the said pipeline until final resolution of the case.

On November 19, 2010, the SC issued a Writ of Kalikasan with Temporary Environmental Protection Order (TEPO) directing the respondents to: (i) make a verified return of the Writ within a non-extendible period of ten days from receipt thereof; (ii) cease and desist from operating the pipeline until further orders from the court; (iii) check the structural integrity of the whole span of the pipeline, and in the process apply and implement sufficient measures to prevent and avert any untoward incident that may result from any leak in the pipeline; and (iv) make a report thereon within 60 days from receipt thereof.

The Parent Company and its impleaded directors and officers filed a verified Return in November 2010, and a Compliance in January 2011, explaining that the Company is not the owner and operator of the pipeline, and is not involved in the management, day-to-day operations, maintenance and repair of the pipeline. For this reason, neither the Company nor any of its directors and officers has the capability, control, power or responsibility to do anything in connection with the pipeline, including to cease and desist from operating the same.

For the purpose of expediting the proceedings and the resolution of all pending incidents, the SC reiterated its order to remand the case to the CA to conduct subsequent hearings within a period of 60 days, and after trial, to render a report to be submitted to the SC.

On December 21, 2012, the former 11th Division of the CA rendered its Report and Recommendation in which the following recommendations were made to the SC: (i) that certain persons/organizations be allowed to be formally impleaded as petitioners subject to the submission of the appropriate amended petition; (ii) that FPIC be ordered to submit a certification from the DOE that the white oil pipeline is safe for commercial operation; (iii) that the petitioners' prayer for the creation of a special trust fund to answer for similar contingencies in the future be denied for lack of sufficient basis; (iv) that respondent Parent Company not be held solidarily liable under the TEPO; and (v) that without prejudice to the outcome of the civil and criminal cases filed against respondents, the individual directors and officers of FPIC and the Parent Company not be held liable in their individual capacities.

Petitioners filed a Motion for Partial Reconsideration in January 2013, in which they prayed, among others, that the Department of Science and Technology (DOST), specifically its Metal Industry Research and Development Center, be tasked to chair the monitoring of FPIC's compliance with the directives of the court and issue the certification required to prove that the pipeline is safe to operate before commercial operation is resumed; that stakeholders be consulted before a certification is issued; that a trust fund be created to answer for future contingencies; and that the Parent Company and the directors and officers of the Parent Company and FPIC also be held liable under the Writ of Kalikasan and the TEPO.



In a Compliance dated January 25, 2013, FPIC submitted to the SC a Certification signed by then DOE Secretary Carlos Jericho L. Petilla stating that the black oil pipeline is safe for commercial operation.

On July 30, 2013, the SC resolved to adopt the recommendations of the CA in its December 2012 resolution. Specifically, the SC ordered FPIC to secure a certification from the DOE that the white oil pipeline is safe to resume commercial operations, as well as consider FPIC's adoption of an appropriate leak detection system used in monitoring the entire pipeline's mass input versus mass output and the necessity of replacing pipes with existing patches and sleeves.

On October 25, 2013 the DOE issued a certification that the white oil pipeline is safe to return to commercial operations. FPIC submitted the DOE certification to the SC on October 29, 2013. On June 16, 2015, the SC issued another resolution recognizing the powers of the DOE to oversee the operation of the pipelines. The resolution also stated that the DOE is fully authorized by law to issue an order for the return to commercial operations of the pipeline following integrity tests. Petitioners have filed several motions for the SC to reconsider this resolution.

As of March 17, 2021, the final resolution of the Writ remains pending with the SC.

West Tower Condominium Corporation, et al. vs. First Philippine Industrial Corporation, et al. Civil Case No. 11-256, Regional Trial Court, Makati Branch 58

On March 24, 2011, a civil case for damages was filed by the West Tower Condominium Corporation and some residents of the West Tower Condominium against FPIC, the FPIC directors and officers, the Parent Company, Pilipinas Shell Petroleum Corporation, and Chevron Philippines, Inc. before the Makati City RTC. In their complaint, the Plaintiffs alleged that FPIC, its directors and officers, and the Company violated R.A. No. 6969 (Toxic Substances and Hazardous and Nuclear Wastes Control Act of 1990), R.A. 8749 (Philippine Clean Air Act of 1999) and Its Implementing Rules and Regulations, and R.A. 9275 (Philippine Clean Water Act of 2004).

The complaint sought payment by the Defendants of actual damages comprising incurred rentals for alternative dwellings, incurred additional transportation and gasoline expenses and deprived rental income; recompense for diminished or lost property values to enable the buying of new homes; incurred expenses in dealing with the emergency; moral damages; exemplary damages; a medical fund; and attorney's fees.

The Parent Company filed its Answer in May 2011, in which it was argued that the case is not an environmental case under the Rules of Procedure for Environmental Cases, but an ordinary civil case for damages under the Rules of Court for which the appropriate filing fees should be paid before the court can acquire jurisdiction thereof. In an Order dated August 22, 2011, Makati City RTC (Branch 158) Judge Eugene Paras ruled that the complaint is an ordinary civil action for damages and that the Plaintiff should pay the appropriate filing fees in accordance with the Rules of Court within 10 days from receipt of the Order. The other individual plaintiffs were ordered dropped as parties in the case. The Plaintiffs filed a Motion to Inhibit Judge Paras as well as a Motion for Reconsideration of the Order. In an Order dated October 17, 2011, the court reiterated that it has no jurisdiction over the case and ordered the referral of the case to the Executive Judge for re-raffle.



In an Order dated December 1, 2011, Judge Elpidio Calis of the Makati City RTC (Branch 133) declared that the records of the case have been transferred to his court. In an Order dated March 29, 2012, Judge Calis denied the plaintiffs' Motion for Reconsideration for lack of merit, and ordered the plaintiffs to pay the appropriate filing fees within ten (10) days from receipt of the Order, with a warning that non-compliance will constrain the court to dismiss the case for lack of jurisdiction. Instead of paying the filing fees, the plaintiffs filed a Petition for Certiorari with the CA to nullify the order of Branch 133.

In a resolution dated June 30, 2014, the CA denied the petition of West Tower and affirmed the trial court's recognition of the case as being an ordinary action for damages. The CA, however, also ruled that the individual residents who joined West Tower in the civil case need not file separate cases, but instead can be joined as parties in the present case. West Tower and FPIC each filed a motion for partial reconsideration, with West Tower arguing that the case is an ordinary action for damages, and FPIC assailing the ruling that the individual residents can be joined as parties in the present case. Both motions were denied in a CA resolution dated December 11, 2014. Both parties subsequently filed separate Petitions for Certiorari with the SC assailing the CA's resolution.

As of March 17, 2021, the case remains pending.

Bayan Muna Representatives, et al. vs. ERC and Meralco (G.R. No. 210245)
NASECORE, et al. vs. Meralco, ERC and DOE (G.R. No. 210255)
Meralco vs. Philippine Electricity Market Corporation (PEMC), et al (G.R. No. 210502)
Supreme Court
Manila

In these cases, the SC issued separate Temporary Restraining Orders (TROs) restraining Meralco from increasing the generation charge rate it charges to its consumers during the November 2013 billing period, and similarly restraining PEMC and other generation companies, including certain subsidiaries of First Gen, namely, FGPC, FGP, FG Hydro, BGI, and BEDC, from demanding and collecting from Meralco the deferred amounts representing the costs raised by the latter. The TROs will remain effective until April 22, 2014, unless renewed or lifted ahead of such date.

On February 26, 2014, FGPC, FGP, FG Hydro, BGI and BEDC filed with the SC a Memorandum with Motion to Lift TRO. It is First Gen Group's position that its right to the payment of the generation charges owed by Meralco is neither dependent nor conditional upon Meralco's right to collect the same from its consumers. In the case of FGPC and FGP, Meralco's obligation to pay is contractual and thus governed by the terms and conditions of their respective PPAs. Ultimately, Meralco is bound to comply with its contractual obligations to FGPC and FGP, whether via the pass-through mechanism or some other means.

On April 22, 2014, the subject TRO was extended indefinitely and until further orders from the SC.

In the meantime, the SC ordered the parties to comment on the March 2014 Order of ERC declaring void the WESM prices for November and December 2013, and imposing regulated prices for the said months to be calculated by the PEMC. First Gen Group filed its Comment in May 2014, where it noted that the ERC has not made any adverse finding against the group or any ruling that the group committed an abuse of market power or anti-competitive behavior. There has been no further substantial movement in the case since then.



26. Other Matters

FG Hydro

a. Hydropower Operating Contract (RE Contract) with Department of Energy (DOE)

On February 22, 2017, the DOE approved FG Hydro's application for registration as an RE Developer and signed the RE Contract with FG Hydro for PAHEP. On February 27, 2017, the RE Contract for MAHEP was also signed by FG Hydro and the DOE. As a result, FG Hydro is now subject to 10% statutory income tax rate on its RE operations as an RE Developer in 2017.

b. HSC with DOE

On December 27, 2019, FG Hydro entered into a HSC with the DOE for the 120 MW Aya Pumped-Storage Hydroelectric Power Project in Pantabangan, Nueva Ecija. The HSC provides FG Hydro the exclusive right to explore, develop, and utilize the hydropower resource within the contract area.

c. O&M Agreement

In 2006, FG Hydro entered into an O&M Agreement with the NIA, with the conformity of NPC. Under the O&M Agreement, NIA will manage, operate, maintain and rehabilitate the Non-Power Components of the PAHEP/MAHEP in consideration for a service fee based on actual cubic meter of water used by FG Hydro for power generation. FG Hydro has fully funded the required Trust Fund amounting to \$2.2 million (₱100.0 million) since October 2008.

The O&M Agreement is effective for a period of 25 years commencing on November 18, 2006 and renewable for another 25 years under the terms and conditions as may be mutually agreed upon by both parties.

d. ASPA

FG Hydro entered into an agreement with the NGCP on February 3, 2011 after being certified and accredited by NGCP as capable of providing Contingency Reserve Service, Dispatchable Reserve Service, Regulating Reserve Service, Reactive Power Support Service and Black Start Service. Under the agreement, FG Hydro through the PAHEP facility shall provide any of the above-stated ancillary services to NGCP.

Upon expiration of the original three-year term, the ASPA was automatically renewed for another three (3) years subject to the same terms of the agreement. The extended agreement ended on February 23, 2017.

On April 10, 2017, FG Hydro and NGCP entered into a new ASPA with a term of five (5) years. The ERC granted provisional authority for the new ASPA on March 9, 2018 and implementation commenced in April 2018.

e. Memorandum of Agreement with NGCP (MOA with NGCP)

FG Hydro entered into a MOA with NGCP on August 31, 2011 for the performance of services on the operation of the PAHEP 230 kV switchyard and its related appurtenances (Switchyard). NGCP shall pay FG Hydro a monthly fixed operating cost of ₱0.1 million and monthly variable charges representing energy consumed at the Switchyard.



The MOA is effective for a period of five (5) years and renewable for another three (3) years under such terms as maybe agreed by both parties. The MOA with NGCP expired on August 31, 2016 after which FG Hydro continued to perform services on the operation of the Switchyard until the signing of a new contract.

A new MOA, effective for another period of five (5) years upon signing by the parties, was signed with NGCP on January 20, 2020. The MOA is renewable for another three (3) years under such terms and conditions as may be agreed by the parties.

f. MOA with Protected Area Management Board (MOA with PAMB)

PSALM entered into a MOA with PAMB on July 17, 2006. Under the MOA, PAMB granted FG Hydro the right to use the Masiway land, where the MAHEP power plant is situated in consideration for an annual user's fee. The MOA shall be effective for 25 years and renewable for a similar period subject to terms and conditions as may be mutually agreed upon by both parties.

FG Bukidnon

On October 23, 2009, FG Bukidnon entered into a HSC with the DOE, which grants FG Bukidnon the exclusive right to explore, develop, and utilize the hydropower resources within the Agusan river contract area.

FG Bukidnon shall furnish the services, technology, and financing for the conduct of its hydropower operations in the contract area in accordance with the terms and conditions of the HSC. The HSC is effective for a period of 25 years from the date of execution, or until October 2034. Pursuant to the RE Law and the HSC, the National Government and LGU's shall receive the Government's share equal to 1.0% of FG Bukidnon's preceding fiscal year's gross income for the utilization of hydropower resources within the Agusan river contract area.

FG Mindanao

On October 23, 2009, FG Mindanao also signed five HSCs with the DOE in connection with the following projects: (1) Puyo River Hydropower Project in Jabonga, Agusan del Norte; (2) Cabadbaran River Hydropower Project in Cabadbaran, Agusan del Norte; (3) Bubunawan River Hydropower Project in Baungon and Libona, Bukidnon; (4) Tumalaong River Hydropower Project in Baungon, Bukidnon; and (5) Tagoloan River Hydropower Project in Impasugong and Sumilao, Bukidnon. The five (5) HSCs give FG Mindanao the exclusive right to explore, develop, and utilize renewable energy resources within their respective contract areas, and will enable FG Mindanao to avail itself of both fiscal and non-fiscal incentives pursuant to the RE Law.

The pre-development stage under each of the HSCs is two years from the time of execution of said contracts (the "Effective Date") and can be extended for another one year if FG Mindanao has not been in default of its exploration or work commitments and has provided a work program for the extension period upon confirmation by the DOE. Each of the HSCs also provides that upon submission of declaration of commercial viability, as confirmed by the DOE, it is to remain in force during the remaining life of the of 25-year period from the Effective Date.

On July 2, 2013 and July 3, 2013, FG Mindanao obtained from the DOE the Certificate of Confirmation of Commerciality confirming the conversion of the five (5) HSCs from Pre-development to Development stage.

On August 5, 2013, FG Mindanao entered into respective Deeds of Assignments with FGen Bubunawan, FGen Puyo, FGen Cabadbaran, FGen Tagoloan and FGen Tumalaong to assign and transfer FG Mindanao's full rights and obligations over the five (5) HSCs. On March 11, 2014, the



DOE approved the assignment of Puyo, Bubunawan and Tagoloan hydro projects and issued the corresponding Certificates of Registration and Certificates of Confirmation of Commerciality under FGen Puyo, FGen Bubunawan, and FGen Tagoloan, respectively. On November 13, 2015 and December 9, 2015, the DOE approved the assignment of Cabadbaran and Tumalaong hydroelectric power projects, respectively, and issued the corresponding Certificates of Registration which FG Mindanao received on February 11, 2016.

On June 8, 2016, FGen Tumalaong notified the DOE regarding its intention to surrender the entire contract area covered by the HSC 2009-10-007 for the 9 MW Tumalaong Hydro Project in the Municipality of Baungon, Bukidnon. After several years of project development and considering the plans of NIA to develop its Bubunawan River Irrigation Project, FGen Tumalaong has concluded that the Tumalaong hydro project is no longer viable for future development. Such request was acknowledged by the DOE on October 24, 2016, and informed FGen Tumalaong that the said HSC was hereby terminated and requested to settle the remaining financial obligations pursuant to the HSC to fully and satisfactorily comply all obligations in view of the termination of the HSC.

As of March 17, 2021, FGen Tumalaong continues to coordinate with the DOE for the settlement of its remaining obligations.

On November 10, 2016, the DOE has issued three Certificates of Registration to FG Mindanao as an RE Developer of 175 MW Binongan-Tineg, 160 MW Cagayan 1N and 17.5 MW Cateel River hydroelectric power projects which are covered by HSCs executed between the DOE and FG Mindanao. On November 9, 2017, following viability assessment of the projects for future development, FG Mindanao notified the DOE regarding its intention to surrender the entire contract areas covered by HSC 2016-06-658 and HSC 2016-06-660 for the 175 MW Binongan-Tineg Hydro Project in the Municipalities of Tineg and Lagayan, Abra and the 17.5 MW Cateel Hydro Project in the Municipality of Baganga, Davao Oriental, respectively.

After review of technical feasibility and coordination with the host communities, FGen Tagoloan requested the DOE for the amendments on locations of major structures on August 24, 2017. This request was affirmed by the through issuance of amended HSC and Certificate of Registration dated December 23, 2019.

On December 17, 2019, FGEN San Isidro became the implementing corporation for Cagayan 1N HSC. In August 27, 2020, FG Mindanao executed the Deed of Assignment. As of March 17, 2021, the Cagayan 1N project remains and is still under pre-development stage.

FG Prime

On March 29, 2012, the DOE awarded to FG Prime an HSC to develop a 300 MW Pump Storage Hydroelectric Power Plant in Pantabangan, Nueva Ecija. The HSC provide the company with the exclusive right to explore, develop, and utilize renewable energy resources within FG Prime's contract area, and will enable FG Prime to avail itself of both fiscal and non-fiscal incentives pursuant to the RE Law.

On April 22, 2013, FG Prime engaged an international engineering consultancy firm to conduct feasibility study for its project. After the site selection review, the consultancy firm recommended to FG Prime to pursue the development of an alternative project site. The DOE has already approved FG Prime's request to amend the contract area under the HSC. In 2014, FG Prime continued to conduct preliminary engineering surveys and investigations based on the amended contract area in the new project site.



The pre-development stage under the HSC is two years from the time of execution of the said contract. This was extended by the DOE on October 13, 2014 for another year at the request of FG Prime. On November 24, 2014, in accordance with DOE Department Order No. DO2014-06-0010, FG Prime submitted a request for the application of a non-extendible period of five years pre-development stage under the HSC. On October 20, 2015, FG Prime notified the DOE on its request to amend the capacity of 300 MW Pump Storage Hydroelectric Power Plant to 600 MW. On October 28, 2016, the DOE amended the HSC of FG Prime considering the non-extendible period of five years pre-development stage and the new capacity of 600 MW. On March 23, 2017, FG Prime notified the DOE of the project's commercial feasibility. On November 22, 2019, FG Prime received the certificate of confirmation of commerciality. As of March 17, 2021, FG Prime continues to undertake development activities related to the project.

FGES

a. Distribution Wheeling Service Agreement

FGES entered into various Distribution Wheeling Service (DWS) agreement with distribution utilities such as Meralco, Mactan Electric Company, Negros Oriental II Electric Cooperative and Visayan Electric Co., Inc.

The DWS also requires FGES to post refundable security deposits equivalent to one month estimated billing period. The said bill deposit shall be adjusted annually to reflect the actual billing charges.

Based on the agreement, FGES shall pass on to its contestable customers all applicable distribution service and wheeling charges, transmission and ancillary charges, taxes and others charges as billed by distribution utilities to FGES.

b. Marketing Service Agreement (MS Agreement)

On June 15, 2017, FGES has entered into various MS agreements with EDC, BGI and GCGI engaging FGES to market electricity and assist and facilitate the sale of the various companies' available capacity to third party buyers and the WESM.

ELECTRIC POWER INDUSTRY REFORM ACT of 2001 (EPIRA)

R.A. No. 9136, otherwise known as the EPIRA, and the covering Implementing Rules and Regulations (IRR) provide for significant changes in the power sector, which include among others: the functional unbundling of the generation, transmission, distribution and supply sectors; the privatization of the generating plants and other disposable assets of the NPC, including its contracts with IPP; the unbundling of electricity rates; the creation of a WESM; and the implementation of open and nondiscriminatory access to transmission and distribution systems.

WESM

WESM Luzon has already been commercially operating for more than 10 years since its commencement on June 26, 2006. Annual average Luzon spot prices ranged from approximately ₱2.47/kWh, ₱4.93/kWh and ₱3.47/kWh for 2020, 2019 and 2018, respectively.

On the other hand, WESM Visayas was operated and integrated with the Luzon grid on December 26, 2010. Annual average Visayas spot prices ranged from approximately ₱2.43/kWh, ₱4.69/kWh and ₱3.47/kWh for 2020, 2019 and 2018, respectively.



Meanwhile in Mindanao, the WESM started its trial operations and live parallel operations last June 28, 2017. WESM participants were encouraged to actively participate in the enhanced WESM system. To get familiarized with WESM, participant's line-up of activities included registration, customer and generator enrolment, and introduction to a new registration and settlement system. Commercial operations in Mindanao will depend on readiness of all market participants and is targeted to start by second half of 2021.

On September 26, 2018, the Independent Electricity Market Operator of the Philippines, Inc. ("IEMOP") formally took over the market operations of the WESM from PEMC. This transition to an independent market operator was mandated under the EPIRA. PEMC remains as a governing body for the WESM to monitor compliance of market participants to the market rules. IEMOP's Board is composed of individuals not affiliated with any power industry players that trade in the WESM in view of its mandate to ensure a transparent, fair, competitive, and reliable market operations in the WESM.

Retail Competition and Open Access (RCOA)

The EPIRA provides for a system of RCOA. With RCOA, the end users will be given the power to choose its energy source. Prior to RCOA, distribution utilities procured power supply in behalf of its consumers. With RCOA, the RES chosen by the consumer will do the buying and selling of power and the distribution utility shall deliver the same.

RCOA shall be implemented in phases. During the first phase only end users with an average monthly peak demand of 1 MW for the 12 months immediately preceding the start of RCOA, shall have a choice of power supplier, as a contestable customer. Later, in the second phase, the peak demand threshold will be lowered to 0.75 MW, and will continue to be periodically lowered until the household demand level is reached.

In a joint statement issued by the DOE and ERC, dated September 27, 2012, the 1st phase implementation of RCOA was prescribed. December 26, 2012 was marked as the Open Access date. This signaled the beginning of the six-month transition period until June 25, 2013. The transition period involved the contracting of the retail supply contracts, metering installations, registration and trainings, trial operations by March 2013, and supplier of last resort service or disconnection.

The initial commercial operations of the RCOA commenced on June 26, 2013. For this, ERC issued Resolution No. 11, Series of 2013 providing that a contestable customer can stay with its respective distribution utility until such time that it is able to find a RES. In case a contestable customer decides to participate in the competitive retail market, it should advise the distribution utility that it will be leaving the distribution utility's regulated service at least 60 days prior to the effectivity of its RSC with a RES.

The current RCOA is governed by the Transitory Rules for the Implementation of Open Access and Retail Competition (ERC Resolution No. 16, Series of 2012) that was established last December 17, 2012 to ensure the smooth transition from the existing structure to a competitive market.

In June 2015, the DOE released a Circular (DC 2015-06-0010) that provided policies that will facilitate the full implementation of RCOA in the Philippines. This was supplemented by four (4) resolutions issued by ERC, namely:

1. ERC Resolution No. 5, Series of 2016 - Resolution Adopting the 2016 Rules Governing the Issuances of Licenses to Retail Electricity Suppliers and Prescribing the Requirements and Conditions Therefor;
2. ERC Resolution No. 10, Series of 2016 - Resolution Adopting the Revised Rules for Contestability;



3. ERC Resolution No. 11, Series of 2016 - Resolution Imposing Restrictions on the Operations of Distribution Utilities and Retail Electricity Suppliers in the Competitive Retail Electricity Market; and
4. ERC Resolution No. 28, Series of 2016 - Resolution on the Revised Timeframe for Mandatory Contestability, amending Resolution No. 10.

According to ERC Res. No. 28 Series of 2016, the mandatory switch dates are February 26, 2017 for contestable customers with an average monthly peak demand of at least 1 MW and June 26, 2017 for contestable customers with an average monthly peak demand of at least 750 kW.

On February 21, 2017, however, the SC issued a TRO on the DOE Circular 2015-06-0010 and the recent ERC resolutions. As a result, the switching of 750-999 kW contestable customers is put on hold. Contestable Customers (CCs) with 1 MW and up demand may still voluntarily switch. The DOE, ERC and PEMC are expected to release general guidelines on many other issues concerning the SC-issued TRO on RCOA implementation.

On November 29, 2017, DOE issued RCOA DCs 2017-12-0013 and 2017-12-0014. DC2017-12-0013 repealed mandatory contestability in previous RCOA DCs and changed it to voluntary participation for CCs with peak demand of 750kW and above. Subsequently, CCs with peak demand of 500kW and 749kW can voluntarily participate in RCOA by June 26. DC2017-12-0014 repealed Sec. 5 (h) of DC2015-06-0010 which prohibits DUs to participate as Local RES upon expiration of their RSCs.

On December 3, 2020, the ERC issued Resolution No. 12, Series of 2020 “A Resolution Prescribing the Timeline for the Implementation of Retail Competition and Open Access (RCOA)”. This resolution provided for the timeline of RCOA Phase III with the lower contestability threshold of 500kW to 799kW starting on February 26, 2021.

Proposed Amendments to the EPIRA

Below are proposed amendments to the EPIRA that, if enacted, may have a material effect on First Gen Group’s electricity generation business, financial condition and results of operations.

In the Philippine Congress, pending for committee approval as of December 31, 2020 are the following:

1. SBN-1877: Extension of Lifeline Rate
2. SBN-1583: Electric Power Industry Reform (Lifeline Rate Extension)
3. SBN-933: Expanded Senior Citizens Act of 2019 (5% Electricity Discount)
4. SBN-574: VAT Exemption on Sale of Electricity by Generation, Transmission and Distribution Companies
5. SBN-401: Waste to Energy Act of 2019
6. SBN-175: Microgrid Systems Act
7. SBN-48: The Solar Energy in National Government Offices Act
8. SBN-1992: National Energy Policy and Framework for Government-Initiated Petroleum Exploration and Development
9. SBN-1819: Midstream Natural Gas Industry Development Act
10. SBN-1382: Electric Vehicles and Charging Stations Act
11. SBN-1296: Philippine Energy Research and Policy Institute Act
12. HR01135: Resolution Directing the Committee On Energy to Conduct An Inquiry, In Aid Of Legislation, To Fill-In The Gaps Of EPIRA Law That Allow Electric Cooperatives Classified As High Performing To Continue Its Operations Despite Rampant Power Interruptions And Other Performance Related Issues As Well As Urge The National Electrification Administration, To Assist the Province Of Siquijor Electric Cooperative, Inc. To Improve Its Performance and Address the Demand Of Power In The Province Of Siquijor



13. HB06043: An Act Creating the Solar Energy Development Center and Appropriating Funds Therefor
14. HB07128: An Act Establishing the Use of Ecological Waste-To-Energy Management System, Amending for The Purpose Republic Act No. 8749, Otherwise Known As The Clean Air Act Of 1999, And For Other Purposes
15. HB07251: An Act Providing for The National Energy Policy and Regulatory Framework for The Philippine Liquefied Petroleum Gas Industry
16. HB07298: An Act Creating a Comprehensive National Energy Program and Regulatory Structure, To Foster the Use of Electric Vehicles, To Establish Electric Charging Stations, And for Other Purposes
17. HB07299: An Act Providing the National Energy Policy and Regulatory Framework for The Use of Electric Vehicles and the Establishment of Electric Charging Stations
18. HB07607: An Act Providing the National Energy Policy and Regulatory Framework for The Use of Electric Vehicles and the Establishment Of Electric Charging Stations And Appropriating Funds Therefor
19. HB07608: An Act Providing for the National Energy Policy and Framework for Electric Power Advocacy
20. HB07741: An Act Protecting the Rights of Indigenous Peoples and Indigenous Cultural Communities Affected by Renewable Energy Investments in Their Ancestral Lands, Amending Certain Provisions of Republic Act 9513, Otherwise Known as “The Renewable Energy Act of 2008”
21. HB07928: An Act Empowering the Energy Regulatory Commission in Monitoring Oil Prices Charged to Oil-Based Power Generation Facilities, Amending Republic Act No. 8479, Otherwise Known as The Downstream Oil Deregulation Act of 1998 For That Purpose
22. HB08786: An Act Providing for The National Policy and Framework for Energy Advocacy Through the Creation of the Energy Counsel Office

The aforementioned bills are currently being deliberated in the committees.

First Gen Group cannot provide any assurance whether these proposed amendments will be enacted in their current form, or at all, or when any amendment to the EPIRA will be enacted. Proposed amendments to the EPIRA, including the above bills, as well as other legislation or regulation could have a material impact on First Gen Group’s business, financial position and financial performance.

RENEWABLE ENERGY (RE) LAW OF 2008 (RE Law)

On January 30, 2009, R.A. No. 9513, “An Act Promoting the Development, Utilization and Commercialization of Renewable Energy Resources and for Other Purposes,” otherwise known as the “RE Law of 2008” or the “RE Law”, became effective. On May 25, 2009, DOE Circular No. DC2009-05-0008, otherwise known as the “Implementing Rules and Regulations (IRR) of R.A. No. 9513, was issued and became effective on June 12, 2009.

The RE Law aims to accelerate the exploration and development of RE resources, increase the utilization of renewable energy resources, increase the utilization of renewable energy, encourage the development and utilization of renewable energy resources as tools to effectively prevent or reduce harmful emissions, and establish the necessary infrastructure and mechanism to carry out mandates specified in the RE Law.

The RE Law also provides various fiscal and non-fiscal incentives to RE developers and manufacturers, fabricators, and suppliers of locally-produced RE equipment and components. The incentives to RE developers include, among others, the Renewable Portfolio Standards (RPS), the Green Energy Option Program (GEOP), and the Feed-in-Tariff Scheme.



Renewable Energy Law: Renewable Portfolio Standards

Last December 22, 2017, the DOE issued DC2017-12-0015 or the DOE circular promulgating the rules and guidelines governing the establishment of the RPS. The RPS will require DUs, RESs, and GenCo's for Directly Connected Customers to achieve a minimum annual incremental RE Percentage equal to 1% of Net Electricity Sales from the previous year. This is in view of the long-term objective to achieve at least 35% Renewable Energy share in the energy mix by 2030.

Renewable Energy Law: Green Energy Option (GEOP)

On July 18, 2018, the DOE issued DC 2018-07-0019 promulgating the rules and guidelines governing the establishment of GEOP pursuant to the RE Law. The GEOP program is a mechanism to be established by the DOE to provide end-users the option of choosing RE resources as their source of energy. The end-users with an average peak demand of 100 kW and above may directly enter into a GEOP supply contract from RE facilities their energy requirements distributed through their respective DUs, or with any eligible RE supplier, on a voluntary basis.

On April 22, 2020, the DOE issued DC 2020-04-0009 providing the "Guidelines Governing The Issuance Of Operating Permits To Renewable Energy Suppliers Under The Green Energy Option Program". Following this, FGES and BGI were awarded with GEOP operating permits on October 22, 2020.

Renewable Energy Law: Feed-In Tariff (FIT) Scheme

The Philippine FIT Scheme is a renewable energy policy mechanism that allows electricity generated from emerging RE technologies to be included in the supply of power at a guaranteed fixed rate per kWh, applicable for a period of 20 years. The FIT scheme involves a uniform charge to all electricity end consumers called the FIT All (Renewables) and the corresponding market prices of each eligible RE Plant to finance payments to actual electricity generated and delivered to the grid by FIT Eligible RE Plants.

This policy mechanism aims to accelerate the development of emerging RE resources such as wind, solar, ocean, run-of-river hydropower, and biomass energy resources in order to lessen our dependence on imported fossil fuels.

The following are the relevant approvals and issuances in the development and implementation of the FIT Scheme:

1. FIT Rules were issued by the ERC last July 12, 2010 under ERC Resolution No. 16, Series of 2010
2. Resolution Approving the FIT Rates was approved by the ERC last July 27, 2012 under ERC Resolution No. 10 Series of 2012
3. Guidelines for the Selection Process of Renewable Energy Projects Under FIT System and the Award of Certificate for FIT Eligibility were approved by the DOE last May 28, 2013
4. Guidelines on the Collection of the Feed-in Tariff Allowance ("FIT All") and Disbursement of the FIT All Fund were adopted by the ERC last December 16, 2013 under Resolution No. 24 Series of 2013
5. Provisional Authority for Collection of Feed-in Tariff Allowance and Disbursement of the FIT Allowance Fund was granted to TransCo last October 10, 2014 under ERC Case No. 2014-19 RC, FIT All (Renewables) was set at ₱0.0406/kWh for 2014 and 2015
6. The FIT-All rate was made permanent with ERC Case No. 2014-109 RC on September 29, 2015.
7. In May 2017, the DOE decided to end the FIT Scheme for Solar technology in view of the drastic reduction in solar technology costs in the world market.
8. In January 2018, the DOE announced that it intends to extend the FIT Scheme only for existing projects of Biomass and Run-of-River Hydro Technologies.



| RE Technology | Installation targets (MW) | Approved Rates¹ (₱/kWh) |
|----------------------|----------------------------------|---|
| Solar PV | 50 | ₱9.68 |
| | 450 | ₱8.69 ² |
| Ocean | 10 | Deferred |
| Wind | 200 | ₱8.53 |
| | 200 | ₱7.40 ³ |
| Biomass | 250 | ₱6.60 |
| Run-of-river Hydro | 250 | ₱5.90 |

¹ Initial FIT Rates were approved by the ERC under ERC Resolution No. 10 Series of 2012

² Solar FIT 2 was approved by the ERC under ERC Resolution No. 06 Series of 2015

³ Wind FIT 2 was approved by the ERC under ERC Resolution No. 14 Series of 2015

Certificates of Compliance (COCs)

FGPC, FGP, FG Hydro and FG Bukidnon successfully renewed their relevant COCs on December 11, 2018, September 1, 2015, March 1, 2016, and July 28, 2020, respectively. On August 18, 2016 and October 17, 2016, Prime Meridian and FNPC received their respective COCs from the ERC which enables both plants to sell power to the WESM. The COCs, which are valid for a period of five (5) years, signify that the companies in relation to their respective generation facilities have complied with all the requirements under relevant ERC guidelines, the Philippine Grid Code, the Philippine Distribution Code, the WESM rules, and related laws, rules and regulations.

FGES was first granted a Wholesale Aggregator's Certificate of Registration on May 17, 2007, effective for a period of five years, and the RES License on February 27, 2008, effective for a period of three (3) years. Subsequently, FGES was issued a Wholesale Aggregator Certificate on May 22, 2012 and a RES License on May 9, 2011. FGES's currently valid RES license was issued last May 2, 2016. On February 14, 2017, the ERC approved BGI's application for a RES license which grants BGI the right to engage in the supply of electricity to end-users in the contestable market.

On September 3, 2020, ERC granted FGP a Provisional Authority to Operate (PAO) after the expiration of its COC on September 1, 2020. The PAO is effective for a period of one (1) year from September 3, 2020 to September 3, 2021.

On December 2, 2020, ERC granted FG Hydro a PAO after the expiration of its COC for PAHEP and MAHEP on December 2, 2020 and December 6, 2020, respectively. The PAO is effective for a period of one (1) year from December 3, 2020 to December 2, 2021 and December 7, 2020 to December 6, 2021 for PAHEP and MAHEP, respectively.

Pursuant to the provisions of Section 36 of the EPIRA, Electric Power Industry Participants prepare and submit for approval of the ERC their respective Business Separation and Unbundling Plan (BSUP) which requires them to maintain separate accounts for, or otherwise structurally and functionally unbundle, their business activities.

Since each of FGP, FGPC, FG Bukidnon and FG Hydro is engaged solely in the business of power generation, to the exclusion of the other business segments of transmission, distribution, supply and other related business activities, compliance with the BSUP requirement on maintaining separate accounts is not reasonably practicable. Based on assessments of FGP, FGPC, FG Bukidnon, FG Hydro and FGES, they are in compliance with the provisions of the EPIRA and its IRR.

Tax Reforms

To equalize prices between imported and indigenous fuels, the EPIRA mandates the President of the Philippines to reduce the royalties, returns and taxes collected for the exploitation of all indigenous sources of energy, including but not limited to, natural gas and geothermal steam, so as to effect parity of tax treatment with the existing rates for imported coal, crude oil, bunker fuel and other imported



fuels. Following the promulgation of the implementing rules and regulations, former President Arroyo enacted Executive Order No. 100 on May 3, 2002, to equalize the taxes among fuels used for power generation. This mechanism, however, has yet to be implemented.

Clean Air Act

On November 25, 2000, the IRR of the Philippine Clean Air Act (PCAA) took effect. FGP, FGPC, FNPC and Prime Meridian comply with the DENR's requirements on permitting, monitoring and reporting for San Lorenzo, Santa Rita, San Gabriel and Avion Plants (collectively referred to as "Power plants").

The Power plants use natural gas as fuel and have emissions monitored using Continuous Emission Monitoring System on a real-time basis and that are way below the limits set under the National Emission Standards for Sources Specific Air Pollutants. Also, the ambient air quality surrounding the Power plants is within the National Ambient Air Quality Standards. This shows that the ground level concentration of air emissions from these Power plants do not significantly impact the quality of air within the surrounding community.

Based on the Power plants' past and recent environmental performances, FGP, FGPC, FNPC and Prime Meridian believe that they are in full compliance with requirements of the PCAA and its IRR.

27. Changes in Liabilities arising from Financing Activities

Details of the changes in liabilities arising from financing activities are as follows:

| | January 1, 2020 | Cash flows | Foreign exchange movement | Others | December 31, 2020 |
|---|-----------------|-------------|---------------------------|-----------|-------------------|
| Current and noncurrent portion of | | | | | |
| long-term debts | \$1,922,069 | (\$40,088) | \$38,085 | \$4,228 | \$1,924,294 |
| Loans payable* | 12,493 | 7,507 | – | – | 20,000 |
| Accrued interest payable | 20,213 | (95,186) | 883 | 94,541 | 20,451 |
| Dividends payable | 53,784 | (124,568) | 2,942 | 133,591 | 65,749 |
| Lease liabilities | 13,019 | (4,833) | 968 | 6,124 | 15,278 |
| Other noncurrent liabilities | 78,327 | 5,096 | 4,182 | 9,900 | 97,505 |
| Total liabilities from financing activities | \$2,099,905 | (\$252,072) | \$47,060 | \$248,384 | \$2,143,277 |

* Cash flow movement presented is net of availment and payments of loans payable

| | January 1, 2019 | Cash flows | Foreign exchange movement | Others | December 31, 2019 |
|---|-----------------|-------------|---------------------------|-----------|-------------------|
| Current and noncurrent portion of | | | | | |
| long-term debts | \$2,222,744 | (\$341,419) | \$33,483 | \$7,261 | \$1,922,069 |
| Loans payable* | – | 12,493 | – | – | 12,493 |
| Accrued interest payable | 23,289 | (112,386) | 224 | 109,086 | 20,213 |
| Dividends payable | 8,891 | (87,003) | 1,287 | 130,609 | 53,784 |
| Lease liabilities | – | (7,395) | 479 | 19,935 | 13,019 |
| Other noncurrent liabilities | 63,433 | (15,079) | 18,310 | 11,663 | 78,327 |
| Total liabilities from financing activities | \$2,318,357 | (\$550,789) | \$53,783 | \$278,554 | \$2,099,905 |

* Cash flow movement presented is net of availment and payments of loans payable

"Others" include the effect of reclassification of non-current portion of long-term debts, declaration of dividends on preferred and common stocks of the Parent Company and to non-controlling interests, accrued interest on long-term debts and accretion and adjustment of lease liabilities.



28. COVID-19

In a move to contain the COVID-19 outbreak, on March 13, 2020, the Office of the President of the Philippines issued a Memorandum directive to impose stringent social distancing measures in the National Capital Region effective March 15, 2020. On March 16, 2020, Presidential Proclamation No. 929 was issued, declaring a State of Calamity throughout the Philippines for a period of six (6) months and imposed an enhanced community quarantine throughout the island of Luzon until April 12, 2020, as subsequently extended to April 30, 2020. This was further extended to May 15, 2020 in selected areas including the National Capital Region (NCR). The community quarantine has been extended on a more relaxed form (general community quarantine) after the May 15, 2020 extension. On February 27, 2021, the general community quarantine was extended until March 31, 2021 in selected areas including the NCR. These measures have caused disruptions to businesses and economic activities, and its impact on businesses continue to evolve. First Gen Group was not materially affected by the COVID-19 outbreak as First Gen Group continued to operate normally and majority of its capacity is contracted. For the uncontracted capacity, it was affected by lower market prices in 2020 as a result of the decrease in demand during the community quarantine period.

Considering the evolving nature of this outbreak, First Gen Group will continue to monitor the situation in subsequent periods.

29. Events After the Financial Reporting Date

Parent Company

On February 15, 2021, the Parent Company purchased from the open market 51,546,960 Series “G” redeemable preferred stocks for ₱5,572.1 million (\$115.9 million).

On February 9, 2021, the Parent Company executed a 10-year Loan Term Agreement with BPI and BDO each amounting to ₱2,500.0 million.

EDC

On January 20, 2021, EDC fully paid its \$181.1 million Notes listed and quoted on the SGX-ST. The Notes were subsequently de-listed from the SGX-ST in accordance with the procedures thereof.

On February 18, 2021, EDC has drawn additional ₱2.0 billion from its BDO ₱4.5 Billion Term Loan Facility at a fixed rate of 4.25% per annum.

FGP

On February 10, 2021, FGP obtained a short-term loan amounting to \$10.0 million and \$6.0 million from PNB and MUFG Bank, Ltd., respectively. The short-term loans have an all-in interest rate of 1.06% per annum and payable on August 9, 2021.

