SEC FORM 20-IS

COVER SHEET

1	8	8	9	0

S.E.C. Registration Number

D A G U P A N   E L E C T R I C

C O R P O R A T I O N

(Company's Full Name)

A . B .   F E R N A N D E Z   S T .

D A G U P A N   C I T Y ,   P A N G A S . I N A N

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

c/o Atty. Erwin Mark A. Gavino
Contact Person

+632 83743039 +632 83743040
Company Telephone Number

Month Day
Fiscal Year

2 0 I S
FORM TYPE

Month Day
Annual Meeting

Secondary License Type; If Applicable

MS R D
Dept. Requiring this Doc.

Amended Articles Number / Section

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

Remarks = Pls. use black ink for scanning purposes

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 20-IS

**INFORMATION STATEMENT PURSUANT TO SECTION 20
OF THE SECURITIES REGULATION CODE**

1. Check the appropriate box:

[ ] Preliminary Information Statement

[✓] Definitive Information Statement

2. Name of Registrant as specified in its charter: **DAGUPAN ELECTRIC CORPORATION**

3. **DAGUPAN CITY, PANGASINAN, PHILIPPINES**
Province, country or other jurisdiction of incorporation or organization

4. SEC Identification Number: **18890**

5. BIR Tax Identification Code: **000-202-524-000**

6. **AB FERNANDEZ ST., DAGUPAN CITY, PANGASINAN, PHILIPPINES2400**
Address of principal office
PostalCode

7. Registrant's telephone number, including area code: **(632) 8374 3039**

8. Date: **JULY 26, 2024; Time: 2:00 PM; Place of Meeting: The meeting will be conducted virtually using google meet platform. The Presiding Officer shall preside the Meeting in Quezon City**
Date, time and place of the meeting of security holders

9. Approximate date on which the Information Statement is first to be sent or given to security holders: 8 July 2024

10. In case of Proxy Solicitations: **19 July 2024**

11. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the RSA (information on number of shares and amount of debt is applicable only to corporate registrants):

Title of Each Class	Number of Shares of Common Stock Outstanding or Amount of Debt Outstanding
COMMON SHARES	**14,662,000**

12. Are any or all of registrant's securities listed in a Stock Exchange?

Yes ______ No ✓

If yes, disclose the name of such Stock Exchange and the class of securities listed therein:
NOT APPLICABLE

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PART I. INFORMATION REQUIRED IN INFORMATION STATEMENT

A. General Information

Item 1. Date, Time, and Place of Meeting of Shareholders

Date of Meeting : July 26, 2024

Time of Meeting : 2:00 PM

Place of Meeting : Virtually from the Corporation's office at Veria I Building 62 West Avenue, Quezon City

Complete Mailing Address:

Dagupan Electric Corporation
Veria I Building, 62 West Avenue
Quezon City

The Information Statement shall be sent to security holders on or before 08 July 2024 via posting in the Corporation's website.

Item 1(a)

On 27 March 2024, the Corporation informed the Securities and Exchange Commission via the filing of the requisite Form 17-C of the resolution made by the Board of Directors of the Corporation during the Meeting held on 27 March 2024 approving the postponement of the schedule of the Annual Shareholders Meeting to June 26, 2024.

On 31 May 2024, the Corporation informed the Securities and Exchange Commission via the filing of the requisite Form 17-C of the resolution made by the Board of Directors of the Corporation during the Meeting held on 29 May 2024 approving the postponement of the schedule of the Annual Shareholders Meeting to July 26, 2024.

The postponement of the Annual Shareholders Meeting was approved by the Board of Directors of the Corporation in both instances due to the need for more time for the Corporation to prepare the required submissions with the Securities and Exchange Commission leading up to the Annual Shareholders Meeting.

Item 1(b)

The Corporation shall be using alternative mode of distributing copies via publication of the Notice of Meeting, and via the posting in the Corporation's website of the Information Statement, Management Report and such other documents in connection with the holding of the Annual Stockholders Meeting.

Item 2. Dissenters' Right of Appraisal

There are no matters or proposed corporate actions included in the Agenda of the 2024 Annual Stockholders' Meeting (2024 ASM) that may give rise to a possible exercise by security holders of their appraisal rights as provided under Title X of Republic Act (RA) No. 11232, or the Revised Corporation Code of the Philippines

Generally, the stockholders of the company have the right to dissent and demand payment of the fair value of the shares in the following instances:

(a) In case an amendment to the articles of incorporation has the effect of changing or restricting the rights of any stockholder or class of shares, or of authorizing preferences in any respect superior to those of outstanding shares of any class, or of extending or shortening the term of corporate existence;
(b) In case of sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets as provided in this Code;
(c) In case of merger or consolidation; and
(d) In case of investment of corporate funds for any purpose other than the primary purpose of the corporation

The dissenting stockholder who votes against a proposed corporate action may exercise the right of appraisal by making a written demand on the corporation for the payment of the fair value of shares held within thirty (30) days from the date on which the vote was taken. Failure to make the demand within such period shall be deemed a waiver of the appraisal right.

If the proposed corporate action is implemented, the corporation shall pay the stockholder, upon surrender of the certificate or certificates of stock representing the stockholders' shares, the fair value thereof as of the day before the vote was taken, excluding any appreciation or depreciation in anticipation of such corporate action.

If, within sixty (60) days from the approval of the corporate action by the stockholders, the withdrawing stockholder and the corporation cannot agree on the fair value of the shares, it shall be determined and appraised by three (3) disinterested persons, one of whom shall be named by the stockholder, another by the corporation, and the third by the two (2) thus chosen. The findings of the majority of the appraisers shall be final, and their award shall be paid by the corporation within thirty (30) days after such award is made. No payment shall be made to any dissenting stockholder unless the corporation has unrestricted retained earnings in its books to cover such payment.

Item 3. Interest of Certain Persons or Opposition to Matters to be Acted Upon

The directors and executive officers do not have any substantial interest, direct or indirect, in any matter to be acted upon in the stockholders' meeting, other than election to office.

The registrant has not received any written information from any of the directors that intends to oppose any action to be taken by the registrant at the meeting.

B. Control and Compensation Information

Item 4. Voting Securities and Principal Holders Thereof

a.) Class of Voting Shares as of March 31, 2024

Nationality	Class of Voting Shares	Number of Shares	Percentage
Filipino	Common	13,858,708	94.52%
Non-Filipino	Common	803,292	5.48%
Total No. of Shares Entitled to Vote		14,662,000	100.00%

Every stockholder shall be entitled to one (1) vote for each share of stock held as of the established record date.

b.) Record Date

All common stockholders of record as of March 31, 2024 are entitled to notice of and to vote at the DECORP's 2024 ASM.

c.) Election of Directors and Cumulative Voting Rights

As of 21 June 2024, the total number of shares outstanding and entitled to vote in the annual stockholders' meeting is 14,662,000 common shares. Each share is entitled to (1) one vote in accordance with the By-laws of the Company.

The record date for purposes of determining the stockholders entitled to notice of and to vote at the annual stockholders' meeting is 31 March 2024.

A stockholder may vote such number of shares for as many persons as there are directors to be elected. He may cumulate said shares and give one candidate as many votes as the number of directors to be elected multiplied by the number of his shares, or he may distribute them on the same principle among as many candidates as he shall see fit: *Provided*, That the total number of votes cast by him shall not exceed the number of shares owned by him as shown in the books of the Company multiplied by the whole number of directors to be elected. The stockholder must be a stockholder of record as of 31 March 2024 in order that he may exercise cumulative voting rights. There are no conditions precedent to the exercise of the stockholders' cumulative voting right.

d.) Security Ownership of Certain Record and Beneficial Ownership and Management

1. Security Ownership of Certain Records and Beneficial Owners (more than 5% of the voting shares) as of March 31, 2024.

Title of Class of Shares	Name and Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held and Nature of Ownership (Record and/or Beneficial)	Percentage of Ownership
Common	Rene Bernard L. Llames[1] 103 Mother Ignacia Ave., Quezon City Stockholder	Rene Bernard L. Llames	Filipino/ American	3,606,006 (Record and Beneficial Owner)	24.59%
Common	Cynthia Irene L. Llames 103 Mother Ignacia Ave., Quezon City Stockholder	Cynthia Irene L. Llames	Filipino	3,606,004 (Record and Beneficial Owner)	24.59%
Common	Angelique Maxime L. Llames-James 103 Mother Ignacia Ave., Quezon City Stockholder	Angelique Maxime L. Llames-James	Filipino	3,606,003 (Record and Beneficial Owner)	24.59%
Common	Deon Peter James 103 Mother Ignacia Ave., Quezon City Stockholder	Deon Peter James	South African	803,292 (Record and Beneficial Owner)	5.48%

[1]A dual citizen by birth

2. Security Ownership of Management as of March 31, 2024 (Record and Beneficial)

Title of Class of Shares	Name of Owner and Position	No. of Shares and Nature of Ownership (Direct and/or Indirect)	Citizenship	Percentage of Ownership
Common	Angelique Maxime L. Llames-James Chairperson of the Board	3,606,003 Direct	Filipino	24.59%
Common	Rene Bernard L. Llames[1] President and CEO	3,606,006 Direct	Filipino/ American	24.59%
Common	Cynthia Irene L. Llames Treasurer	3,606,004 Direct	Filipino	24.59%
Common	Deon Peter James Director	803,292 Direct	South African	5.48%
Common	Jose Maria A. Abaya Director	378,310 Direct	Filipino	2.58%
Common	Ranulfo M. Ocampo Independent Director	84,071 Direct	Filipino	0.57%
Common	Geromin T. Nepomuceno Jr. Independent Director	1 Direct	Filipino	0.00%

[1]A dual citizen by birth

3. Voting Trust Holders of Five Percent (5%) or More of Common Equity

There are no voting trust holders in respect of more than five percent (5%) of the Company's voting shares.

4. Changes in Control

There are no arrangements that may result in change in control of the Company during the period covered by this report.

Item 5. Directors and Executive Officers

a.) Directors

The Company's Board is composed of seven (7) directors, two (2) of whom are Independent Directors, three (3) are Executive Directors, and two (2) are Non-Executive Directors. Below are the profiles of each director with their corresponding positions, offices, and business experience held for the past five (5) years. Except for Mr. Geromin T. Nepomuceno Jr., who assumed his directorship on 21 December 2023, the directors were elected during DECORP's 2023 ASM to serve for a term for one (1) year, and until their successors are duly elected and qualified. All the incumbent members have been nominated for re-election at the upcoming annual meeting.

<table>
<tr>
<td>ANGELIQUE MAXIME L. LLAMES-JAMES
Chairperson and Vice President</td>
<td>Ms. Angelique Maxime L. Llames-James, 52, Filipino, has served as the Chairperson of the Board of Dagupan Electric Corporation since 2022. When she joined the Company in 1996, she was elected as a member of the Board of Directors and appointed as Assistant to the President until 2022. In 2023, in addition to being the Chairperson, she also became the Vice President of the Company.

As a Board Member and Assistant to the President from 1996 to 2022, she was among those who oversee and direct the business operations, set policies, and approve business decisions.

Ms. Angelique Maxime L. Llames-James is also a director and/or officer of the following non-reporting company

<table>
<tr><th>Company</th><th>Position</th></tr>
<tr><td>VERIA Realty Inc.</td><td>Chairperson</td></tr>
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</td>
</tr>
</table>

<table>
<tr><td>RENE BERNARD L. LLAMES
President and CEO</td><td>Mr. Rene Bernard L. Llames, 63, Filipino/American[1], with a Ph.D. in Electrical Engineering, has served as a member of the Board of Directors of the Company since 2002. In addition to being a director, he was also the Treasurer of the Company until he was elected as its CEO in 2021 and later became the President and CEO in 2022. Mr. Llames has also acted as the Management Information System ("MIS") Manager of the Company since 2002.

Mr. Llames is also a director and/or officer of the following non-reporting companies:

<table><tr><th>Company</th><th>Position</th></tr><tr><td>VERIA Realty Inc.</td><td>Treasurer</td></tr></table></td></tr>
<tr><td>DEON PETER JAMES
Director</td><td>Mr. Deon James, 63, South African, a Mechanical Engineer by profession, is a member of the Board of Directors of the Company. He has been serving as a director since 2004. As a member of the Board of the Company, he among other directors, is responsible for the governance, oversight, and major decision-making, representing the interests of the shareholders and stakeholders.

Mr. James worked for an electric utility company in South Africa as Generation Power Station Engineering Manager and Distribution Regional Engineering Manager from 1994 to 2003.

Mr. James became a director of the Philippine Electricity Market Corporation ("PEMC") from 2004 to 2019. He is also currently a director of the following non-reporting companies:

<table><tr><th>Company</th><th>Position</th></tr><tr><td>Private Electric Power Power Operators Association</td><td>Director</td></tr><tr><td>Cagayan Electric Power & Light Corporation</td><td>Director</td></tr></table></td></tr>
</table>

<table>
<tr><td>CYNTHIA IRENE L. LLAMES
Treasurer</td><td>Ms. Cynthia Irene L. Llames, 57, Filipino, an Electrical Engineer by profession, is the Treasurer of the Company. She was elected to the position of Treasurer in 2022. She joined the Company in 1987 as Purchasing Specialist handling the requirements of the MIS Department. In 2002, she was appointed as Corporate Secretary of the Company until 2021.

Ms. Cynthia Irene L. Llames is also the Corporate Secretary of VERIA Realty Inc., a non-reporting company.</td></tr>
<tr><td>GEROMIN T. NEPOMUCENO, JR.
Independent Director</td><td>Geromin T. Nepomuceno, 69, Filipino, Jr. was recently elected as an independent director in DECORP. Gerry is a graduate of Bachelor of Science in Mechanical Engineering from De La Salle University and is a licensed mechanical engineer. He holds a Master's Degree in Business Management from the Asian Institute of Management.

He has been the Chairman of the Board of Angeles Electric Corporation ("AEC"), a distribution utility recently registered with the SEC, since December 2019. He has vast experience in the electric power industry having been the President of AEC from 2001 to 2019, and the Treasurer and Director of Angeles Power, Inc. from 1993 up to the present. Gerry is an active member of the Executive Committee of the Board of Trustees of Holy Angel University where he became the interim President from 2014 to 2015.

Apart from AEC, he is also currently a director of the following non-reporting companies:

<table><tr><th>Company</th><th>Position</th></tr><tr><td>Angeles Industrial Park, Inc.</td><td>Chairman & Director</td></tr><tr><td>Crismin Realty Corporation</td><td>Chairman</td></tr><tr><td>M.S.N. Foods Inc.</td><td>Chairman</td></tr><tr><td>Angeles Ice Plant, Inc.</td><td>President</td></tr><tr><td>Clark Electric Distribution Corp.</td><td>Director</td></tr><tr><td>Angeles Power, Inc.</td><td>Director & Treasurer</td></tr><tr><td>Raslag Corp.</td><td>Director (Vice-Chairman) and Treasurer</td></tr></table></td></tr>
</table>

	<table><tr><td>TGN Realty, Inc.</td><td>Director & Treasurer</td></tr><tr><td>Teresa Waterworks, Inc.</td><td>Director & Treasurer</td></tr><tr><td>J Ten Equities, Inc.</td><td>Director & Treasurer</td></tr><tr><td>Holy Angel University,</td><td>Trustee</td></tr><tr><td>JDN Sons, Inc</td><td>Director</td></tr><tr><td>Wespan Development Corporation</td><td>Director</td></tr></table>
Jose Maria A. Abaya Director	Jose Maria A. Abaya, 51, Filipino, has served as Director for Cagayan Electric Power & Light Company, Inc. since July 2010, and was elected as the Chairman of the Board in October 2020. He has also been serving as Director and President of Olongapo Electricity Distribution Company, Inc. since September 2012, as Chairman of Cepalco Energy Services since July 2015, as Director of Mindanao Energy Systems, Inc. since May 2008, as Director of Bubunawan Power Company, Inc. since January 2011, and Minergy Power Corporation since May 2013.
RANULFO M. OCAMPO Independent Director	Atty. Ranulfo M. Ocampo, a practicing lawyer, is a member of the Board of Director of DECORP. He has been a Director since 2015. He is an independent director of the Company. Atty. Ocampo has been the President of the Private Electric Power Operators Association since 2006. He also became a member of the National Renewable Energy Board representing the private electric distribution utilities from December 2010 to June 2016.

b.) Executive Officers

The name, age, citizenship, position, and a brief description of the business experience for the last five (5) years of each of the executive officer are as follows:

ANGELIQUE MAXIME L. LLAMES-JAMES Chairperson and Vice President	Ms. Angelique Maxime L. Llames-James, 52, Filipino, has served as the Chairperson of the Board of Dagupan Electric Corporation since 2022. When she joined the Company in 1996, she was elected as a member of the Board of Directors and appointed as Assistant to the President until 2022. In 2023, in addition to being the Chairperson, she also became

<table>
<tr><td></td><td>the Vice President of the Company.

As a Board Member and Assistant to the President from 1996 to 2022, she was among those who oversee and direct the business operations, set policies, and approve business decisions.

Ms. Angelique Maxime L. Llames-James is also a director and/or officer of the following non-reporting company

<table><tr><th>Company</th><th>Position</th></tr><tr><td>VERIA Realty Inc.</td><td>Chairperson</td></tr></table></td></tr>
<tr><td>RENE BERNARD L. LLAMES
President and CEO</td><td>Mr. Rene Bernard L. Llames, 63, Filipino/American[1], with a Ph.D. in Electrical Engineering, has served as a member of the Board of Directors of the Company since 2002. In addition to being a director, he was also the Treasurer of the Company until he was elected as its CEO in 2021 and later became the President and CEO in 2022. Mr. Llames has also acted as the Management Information System ("MIS") Manager of the Company since 2002.

Mr. Llames is also a director and/or officer of the following non-reporting companies:

<table><tr><th>Company</th><th>Position</th></tr><tr><td>VERIA Realty Inc.</td><td>Treasurer</td></tr></table></td></tr>
<tr><td>CYNTHIA IRENE L. LLAMES
Treasurer</td><td>Ms. Cynthia Irene L. Llames, 57, Filipino, an Electrical Engineer by profession, is the Treasurer of the Company. She was elected to the position of Treasurer in 2022. She joined the Company in 1987 as Purchasing Specialist handling the requirements of the MIS Department. In 2002, she was appointed as Corporate Secretary of the Company until 2021.

Ms. Cynthia Irene L. Llames is also the Corporate Secretary of VERIA Realty Inc., a non-reporting company.</td></tr>
</table>

ERWIN MARK A. GAVINO Corporate Secretary	Atty. Erwin A. Gavino, 55, Filipino, is the Corporate Secretary of the Company. He was appointed as Corporate Secretary in 2022. He is also the legal consultant of the Company since 2004. Atty. Gavino is a graduate of the University of the Philippines College of Law, and has been a member of the Philippine Bar since February 1996. He is a practicing lawyer and is the Managing Partner of Divino & Gavino Law Offices. He is also a member of the Board of Directors and Corporate Secretary of companies engaged in varied business lines, including: Spiderhook Capital Inc., Spiderhook Corporate Governance Inc., Metro Kitchens Innovations, Inc., and Altus Capital Corporation.
AUGUSTO D. SARMIENTO Chief Operating Officer	Augusto D. Sarmiento, 64, Filipino, is a professional Electrical Engineer, and has been the COO of the Company since 2019. He joined the Company in 1981 as Cadet Engineer and became the Network Operations Manager in 2004 until 2019. Mr. Sarmiento also became a member of the Rules Change Committee of PEMC from 2010 to 2013. As the COO, Mr. Sarmiento is primarily responsible for overseeing the reliable and efficient distribution of electricity to customers.

c.) Term of Office of a Director

Pursuant to the Company's Amended By-Laws, the directors are elected every one year by the stockholders for the term of one year and shall serve until the election and acceptance of their duly qualified successors. Any vacancies may be filled by the remaining members of the Board of Directors by a majority vote constituting a quorum, and the Director or Directors so chosen shall serve for the unexpired term.

d.) Significant Employees

The Company considers the contribution of every employee important to the fulfillment of its goals.

e.) Family Relationships

The Company's Chairperson, Angelique Maxime L. Llames-James, President and CEO, Rene L. Llames, and Treasurer, Ms. Cynthia Irene L. Llames are brothers and sisters.

The Company's Director, Deon Peter James, is related to the Chairperson, Ms. Angelique Maxime L. Llames-James, by marriage.

Aside from the foregoing, there are no other family relationships between other directors, executive officers, or other persons nominated or chosen by the Company to become directors or executive officers.

f.) Involvement of the Directors and Officers in Certain Legal Proceedings

To the knowledge and information of the Company, none of its directors or its executive officers have been involved in any of the following during the past five (5) years:

i. Any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer at the time of the bankruptcy or within two years prior to that time;

ii. Any conviction by final judgment, including the nature of the offense, in a criminal proceeding, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses;

iii. Being subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his/her involvement in any type of business, securities, commodities or banking activities; and

iv. Being found by a domestic or foreign court of competent jurisdiction (in a civil action), the Commission or comparable foreign body, or a domestic or foreign exchange or other organized trading market or self-regulatory organization, to have violated a securities or commodities law or regulation and the judgment has not been reversed, suspended, or vacated.

g.) Certain Relationships and Related Transactions

The Company, in its regular conduct of business, has related party transactions involving the lease of office spaces with Veria Realty Inc., a company with a common ownership with DECORP. The transactions are made on an arm's length basis as they occurred.

In the last two (2) years, the Company has a lease expense of Four Million Four Hundred Fifty-Nine Thousand Five Hundred Fifty-Three (₱4,459,553) in 2022 and Four Million Three Hundred Twenty Thousand Seventy-Nine (₱4,320,079) in 2023. The related party transaction is discussed in Note 16 of the Company's 2023 Audited Financial Statements

There is no outstanding balance related to the above transactions as of 31 December 2023.

No other transactions, without proper disclosure, were undertaken by the Company in which any director, executive officer, or any beneficial owner was involved or had a direct or indirect material interest other than what has been discussed in this document and the Company's 2023 Audited Financial Statements.

h.) Parent Company

i. List all parents of the registrant showing the basis of control and as to each parent, the percentage of voting securities owned or other basis of control by its immediate parent, if any.

Not applicable.

ii. Resignation or Refusal to Stand for Re-election by Members of the Board of Directors

No director has resigned or declined to stand for re-election to the Board since the date of the Company's last ASM because of disagreement with the Company on matters relating to its operations, policies, and practices.

Item 6. Compensation of Directors and Executive Officers

The summary of the annual compensation of directors and executive officers for the past two years and the estimated compensation for the year 2024.

NAME AND PRINCIPAL POSITION	YEAR COVERED	SALARY	BONUS	OTHER ANNUAL COMPENSATION
Angelique Maxime L. Llames-James	2022	2,822,059	500,000	33,900
Chairperson of the Board and Vice	2023	3,600,000	988,800	36,600
President	2024	4,250,000	1,126,000	47,600
Rene Bernard L. Llames	2022	2,844,118	738,000	13,500
President and CEO	2023	3,600,000	951,000	14,850
	2024	4,250,000	1,126,000	16,200
Cynthia Irene L. Llames	2022	720,000	125,000	28,700
Treasurer	2023	900,000	150,000	35,400
	2024	1,192,500	195,000	44,750
Deon Peter James	2022	2,144,118	572,400	13,500
Director	2023	2,700,000	741,600	16,200
	2024	3,187,500	844,500	16,200
Other Officers	2022	3,095,880	854,678	99,873
	2023	3,281,640	897,753	56,186
	2024	3,478,560	1,001,451	124,923

The corporate officers of the Company, as identified in its Amended By-Laws approved by the Securities and Exchange Commission (SEC) on 12 September 2012, are as follows: the President, the Vice-President, the Treasurer, the Corporate Secretary, and the Chief Executive Officer. For the year 2023, the Company's summary of compensation of executive officers covers the compensation of officers as reported under Item 5(a) of this document.

Compensation of Directors

Standard Arrangements

The directors receive a per diem of Fifteen Thousand Pesos (₱15,000.00) for each meeting attended.

Pursuant to the Company's Manual on Corporate Governance, which was approved by the Company on 02 October 2023, the Company shall have three (3) committees namely, the Corporate Governance Committee, Board Risk Oversight Committee, and Audit Committee. The Committee chairpersons and committee members shall be entitled to a per diem of Ten Thousand Pesos (₱10,000.00) for each meeting attended.

No other compensation, in any form, is paid to the directors for the services they provide as directors of the Company.

The total per diems received by each director for the years 2022 and 2023 are shown below:

Name	Position	2022	2023
Angelique Maxime L. Llames-James	Chairperson and Vice President	60,000	45,000
Rene L. Llames	President and CEO	60,000	45,000
Cynthia Irene L. Llames	Treasurer	60,000	45,000
Deon Peter James	Director	60,000	45,000
Jose Maria A. Abaya	Director	60,000	45,000
Ranulfo M. Ocampo	Independent Director	60,000	45,000

Employment Contracts and Termination of Employment and Change-in-Control Arrangement

There is no compensatory plan or arrangement between the Company and any executive officers in case of resignation or any other termination of employment or from a change in the management or control of the Company.

Warrants and Options Outstanding

To date, the Company has not granted any stock options to its directors or officers

Item 7. Independent Public Accountant

The accounting firm of Diaz Murillo Dalupan and Company (DMD) has been DECORP's Independent Accountant for the last 23 years. Mr. Alexes B. Abella has been DECORP's signing audit partner starting in 2023. DMD is being recommended for re-appointment as external auditor for the current year.

Based on the representations of DMD, they comply with Paragraph (3)(b)(ix) of Part I of the Revised Securities Regulation Code Rule 68 on long association of personnel (including partner rotation) with an audit client as prescribed in the Code of Ethics for Professional Accountants in the Philippines as adopted by the Board of Accountancy and the Philippine Regulatory Commission and such other standards as maybe adopted by the Commission.

The aggregate fees, exclusive of out-of-pocket expenses and value added tax (VAT), billed by DMD for the audit of the Company's financial statements for 2023 with comparative figures for 2022 and 2021 are as follows:

Nature	Fees Paid to Auditors For the Years Ended December 31, 2023	2022	2021
Audit of Financial Statements	465,000	455,000	440,000

Except for the abovementioned services, the independent auditors provided no other type of services to the Company.

In DMD's audit of the 2021 Financial Statements of the Company, DMD disclosed the following:

"As described in Note 4 to the financial statements, the Company's Utility plant and equipment and Other property equipment are carried at revalued amount. Under Philippine Accounting Standard 16, Property, Plant and Equipment, revaluation shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. If the property, plant and equipment experience significant and volatile changes in fair value, annual revaluation may be necessary. For items of property, plant and equipment with only insignificant changes in fair value, it may be necessary to revalue the items only three to five years. However, the Company's latest revaluation was made as of December 29, 2015; hence, we cannot ascertain whether the carrying amounts of the Company's utility plant and equipment and other property and equipment do not materially differ from their fair values as at December 31, 2021. "

The above resulted in DMD issuing a qualified opinion for their audit of the Company's financial statements for the year ended 31 December 2021.

In 2023, the Company had its utility plant and equipment and other property and equipment re-appraised by an independent firm of appraisers accredited by the SEC for the period ended 31 December 2021. The valuation was performed in accordance with the International Valuation Standards (2022 Edition) and Philippine Valuation Standards (2nd Edition, 2018), causing a prior period adjustment arising from the re-appraisal of utility plant and equipment and other property and equipment.

Accordingly, DMD, in its report on the audit of 2022 Financial Statements of the Company, it opined that –

"*x x x* the financial statements present fairly, in all material respects, the financial position of **Dagupan Electric Corporation** as at December 31, 2022 and 2021, and its financial performance and its cash flows for the years then ended, in accordance with Philippine Financial Reporting Standards (PFRSs)."

The Company has had no other disagreements with its independent auditors on any matter of accounting principles or practices, financial statement disclosure, or auditing scope except for the matters discussed above from the periods ended 31 December 2021, 31 December 2022, and 31 December 2023.

DMD representatives are not expected to be present during the ASM. However, should representatives of DMD attend, they shall have an opportunity to make a statement and respond thereafter to appropriate questions that may arise during the stockholders' meeting.

Item 8. Compensation Plans

There are no actions to be taken up in the meeting with respect to any compensation plan.

C. Issuance and Exchange of Securities

Item 9. Authorization or Issuance of Securities Other than for Exchange

There are no matters or actions to be acted upon in the Meeting with respect to authorization or issuance of any securities.

Item 10. Modification or Exchange of Securities

There are no matters or actions to be acted upon in the meeting with respect to the issuance or authorization for the issuance of one class of securities in exchange for outstanding securities of another class

Item 11. Financial and Other Information

There are no matters or actions to be acted upon in the meeting with respect to the authorization or issuance of securities other than for exchange and modification or exchange of securities.

Item 12. Mergers, Consolidations, Acquisitions and Similar Matters

There are no matters or actions to be acted upon in the meeting with respect to any transaction involving (i) merger or consolidation of DECORP into or with any other person or of any other person into or with DECORP (ii) acquisition by DECORP or any of its security holders of securities of another person, (iii) acquisition by DECORP of any other business or of the asset thereof, (iv) sale or other transfer of all or any substantial part of the assets of DECORP or (v) liquidation or dissolution of DECORP.

Item 13. Acquisition or Disposition of Property

There are no matters or actions to be acted upon in the meeting with respect to any acquisition or disposition of any property requiring the approval of stockholders.

Item 14. Restatement of Accounts

There are no matters or actions to be acted upon in the meeting with respect to any restatement of any asset, capital, or surplus account of DECORP.

D. OTHER MATTERS

Item 15. Action with Respect to Reports

During the 2023 Annual Meeting held on 22 August 2023, the action taken was the election of the Board of Directors. The following were elected as members of the board of Directors of the Corporation for year 2023-2024:

Rene Bernard L. Llames
Anglelique Maxime L. James
Deon Peter James
Vivencio M. Romero Jr.
Jose Maria A. Abaya
Ranulfo M. Ocampo
Cynthia Irene L. Llames

Item 16. Matters not required to be submitted

There are no matters or actions to be acted upon in the meeting that will not require the vote of the stockholders as of the record date

Item 17. Amendment of Charter, By-Laws or Other Documents

The following Resolution of the Board of Directors during the 29 May 2024 Special Meeting of the Board of Directors to amend Article II of the Corporation's By Laws to read as follows:

ARTICLE II

1.The annual meeting of the stockholders of the Company shall be held at the principal office of the Company at Dagupan City, Philippines, on the Third Wednesday of July in each year at the hour of 10:00 o;clock A.M." (As amended on 29 May 2024)

shall be submitted to the stockholders for approval during the upcoming stockholders meeting.

The following Table shows the Original Provision, the proposed amendment, and the reasons for the proposed amendment:

Original Provision	Proposed Amendment	Reasons for the Proposed Amendment
"The annual meetings of the stockholders of the Company shall be held at the principal office of the Company at Dagupan City, Philippines, on the Third Tuesday of April of each year at the hour of 10:00	"The annual meeting of the stockholders of the Company shall be held at the principal office of the Company at Dagupan City, Philippines, on the Third Wednesday of July in each year at the hour of 10:00	The date of the annual meeting is proposed for amendment because: i. The third Tuesday of April of each year does not allow enough time for the Corporation to complete and approve its Audited

o;clock A.M."	o;clock A.M."	Financial Statements for the preceding fiscal year; and ii. The change of date of the third Wednesday of July of each year will also allow the Corporation suffiicient time to comply with the reportorial and submission requirements of the SEC leading up to the annual shareholders meeting.

Item 18. Other Proposed Action

There are no other proposed actions to be acted upon in the meeting that will require the vote of the stockholders as of the record date.

Item 19. Voting Procedures

(a) Vote required for approval.

The approval of the Minutes of the 2023 Annual Meeting, the approval of the audited financial statements for the year ended 2023, the election of the Directors, the appointment of the external auditor for 2024, and the amendment of Article II of the Articles of Incorporation of the Corporation shall be decided by the majority vote of the stockholders present in person or by proxy and entitled to vote thereat, a quorum being present. A stockholder voting electronically *in absentia* shall be deemed present for purposes of quorum.

In the election of the members of the Board of Directors, the candidates garnering the seven (7) highest number of votes shall be declared elected as directors of the Company to serve as such for the year 2024-2025.

(b) Method by which votes will be counted.

A stockholder may vote by appointing the Company's Chairman as proxy. After validation, the stockholder will receive an email with instructions regarding the ballot. The ballots submitted shall then be counted by the Corporate Secretary. The results of the voting shall be announced during the meeting.

Item 20. Participation of Stockholders by Remote Communication

Stockholders may attend and participate in the meeting only by remote communication, voting *in absentia* and/or appointing the Chairman of the meeting as their proxy.

Prior to the meeting, the Company will send email instructions to stockholders who have successfully registered, which shall be sent to the email address of the stockholder indicated in the registration form, on how they can attend the meeting through remote communication and have access to the livestream of the meeting.

Only those stockholders who successfully registered in the stockholder registration system, together with the stockholders who voted *in absentia* or by proxy, will be included in determining the existence of a quorum.

Stockholders may send any questions and/or comments relating to the agenda on or before 18 July 2024 to corpsec@decorp.com.ph. Questions or comments received on or before 18 July 2024 may be responded to during the meeting. Any questions not answered during the meeting may be answered *via* email.

Stockholders who register and participate in the meeting are hereby deemed to have given their consent to the collection, use, storing, disclosure, transfer, sharing and general processing of their personal data by the Corporation, and by any other relevant third party for the purpose of voting for the Annual Stockholders' Meeting and for all other purposes for which the stockholder can cast his/her/its vote as a stockholder of the Company.

PART II. INFORMATION REQUIRED IN A PROXY FORM

The Proxy Form shall include the following matters:

- Approval of the Minutes of the 2023 Annual Meeting
- Ratification of the 2023 Audited Financial Statements
- Election of Directors
- Appointment of the external auditor
- Ratification of the Resolution of the Board of Directors to amend Article II of the Articles of Incorporation of the Corporation.

PART III. SIGNATURE PAGE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in the City of San Juan on 21 June, 2024

By:

ERWIN MARK A. GAVINO
Corporate Secretary

ANNEX A

MANAGEMENT REPORT

1. Financial Statements

The Company's Audited Financial Statements and Supplementary Information as of and for the year ended 31 December 2023 and the Unaudited Interim Financial Statements as of and for the period ended 31 March 2024 are attached as Annexes A.1 and A.2, respectively.

2. Management's Discussion and Analysis

The discussion and analysis of the Company's financial condition and results of operations should be read in conjunction with the Company's Audited Financial Statements as of and for the year ended 31 December 2023, attached as Annex A.1, and the Unaudited Condensed Interim Financial Statements as of and for the period ended 31 March 2024, attached as Annex A.2

The Management's Discussion and Analysis (MD&A) for the comparative years 2023 and 2022, and 2022 and 2021, are provided in the Company's SEC Form 17-A, 2023 Annual Report, under Item No. 6. While the MD&A as of and for the period ended 31 March 2024 is discussed in the Company's SEC Form 17-Q, Quarterly Report, under Item 2. The MD&A as of and for the year ended 31 December 2023 and as of and for the period ended 31 March 2024 are attached hereto as Annexes A.3 and A.4

A. Key Performance Indicators (KPIs)

The following are the relevant key performance indicators of the Company as of and for the period ended 31 December 2023, 2022, 2021, and for the interim period ended 31 March 2024:

	31 March 2024	2023	2022	2021
Return on Equity *Net Profit divided by Total Equity*	.07	.09	.04	.06
Return on Assets *Net Profit divided by Average Assets*	.06	.06	.04	.09
Debt to Equity Ratio	.31	0.39	0.31	0.30

Total Liabilities divided by Total Equity				
Current Ratio *Total Current Assets divided by Total Current Liabilities*	4.15	2.55	4.28	4.42
Average Collection Period *Average Accounts Receivable divided by Average Sales per day (Sale of Electricity divided 365 days)*	52 days	57 days	50 days	97 days

The above KPIs are included in the Company's SEC Form 17-A, Annual Report as of and for the year ended 31 December 2023 and the Company's SEC Form 17-Q, Quarterly Report for the interim period ended 31 March 2024.

B. Key Variable and Other Qualitative and Quantitative Factors

The liquidity risks discussed below were included in the Company's SEC Form 17-A, Annual Report as of and for the year ended 31 December 2023 and the Company's SEC Form 17-Q, Quarterly Report for the interim period ended 31 March 2024.

Liquidity Risks

The Company considers the following elements to constitute a risk to its capacity to fulfill its commitments when they become due: a typhoon or other occurrence that would constitute a force majeure, non-payment or delays in the payment by its customers, and unexpected economic disruption.

The Company monitors and maintains a level of funds deemed adequate by management to finance the Company's operations and mitigate the effects of cash flows. Any excess funds are placed with reputable banks to generate interest income. As of 31 December 2023, the Company's financial liabilities have contractual maturities as follows:

	Due within one year	**Due beyond one year**
Trade payables	₱ 243,545,883	₱ -
Other payables*	100,969,171	-

Dividends payable	-	**-**
Customers' deposits	218,879,163	334,924,529
Total	**₱565,764,562**	**₱334,924,529**

As of 31 March 2024, the Company's financial liabilities have contractual maturities as follows:

	Due within one year	Due beyond one year
Trade payables	₱253,622,885	
Other payables*	109,881,045	
Dividend payable		
Customers' deposits	227,259,747	334,722,270
	₱590,763,677	₱334,722,270

Other Qualitative and Quantitative Factors

The Company does not foresee that it will have any cashflow or liquidity problems within the next twelve (12) months from the date of this report.

The Company is not aware of any event that will trigger direct or contingent financial obligations that are material to the Company, including default or acceleration of any obligations.

The Company does not have any off-balance sheet transactions, arrangements, obligations, including contingent obligations, and other relationships with unconsolidated entities or other persons created during the relevant period.

The Company is not in default or breach of any note, loan, lease, or other indebtedness or financing arrangement requiring it to make payments.

The Company is not aware of any trends, events, or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales, revenues, income from continuing operations.

The Company does not have any significant elements of income or loss that did not arise from its continuing operations.

The Company does not have any seasonal aspects that had a material effect on the financial conditions or results of operations.

3. Description of the Business

The Company is a domestic corporation duly organized under and by virtue of the laws of the Philippines. It is a private electric distribution utility holding a congressional franchise under R.A. 9969 to construct, operate, and maintain a distribution system for the conveyance of electric power to the end-users in the City of Dagupan, the Municipalities of Calasiao, Sta. Barbara, San Fabian, San Jacinto, and Manaoag, and Barangays Bolingit and Cruz in the City of San Carlos, all in the province of Pangasinan, for a period of twenty-five (25) years from February 2010. A Certificate of Public Convenience and Necessity (CPCN) was issued by the ERC to the Company on 21 June 2011 for the operation of electric service within its franchise areas.

The Company has an authorized capital stock of One Billion Five Hundred Million Pesos (₱ 1,500,000,000.00), divided into 15,000,000 common shares with a par value of One Hundred Pesos (₱ 100.00).

On December 27, 2023, the SEC rendered effective the Company’s application for the registration of Fourteen Million Six Hundred Sixty-Two Thousand (14,662,000) common shares, of which Two Million Two Hundred Thousand (2,200,000) shares were issued and offered for sale to the public by way of an initial public offering at an offer price of Five Hundred Thirty-Three Pesos (₱ 533.00) per share. As of February 2, 2024, the Two Million Two Hundred Thousand (2,200,000) common shares offered to the public were fully subscribed and paid.

The Company has a franchise area of 349.33 km^2 or 6.5% of total Pangasinan land area and currently services five (5) consumer classes consisting of: Residential, General Retail, General Power, Bulk Power, and Street Lights.

As of 31 March 2024, the Company provides the electricity requirements of around one hundred forty thousand eighty-eight (140,088) end-users within its franchise areas.

The Company is not dependent on any one or group of customers for at least 20% of its distribution revenues. The loss of a single customer or a few customers will not have a material adverse effect on DECORP.

The Company has three (3) power suppliers, namely GNPower Mariveles Energy Center Ltd. Co. (“GMEC”), Energy Development Corporation (“EDC”), and OneManaoagSolar Corporation (“OMSC”) (formerly Sun Asia Energy, Inc.). Below are the details of DECORP’s power supply contracts:

Supplier	Contracted Capacity	Duration of Contract

GMEC	30 MW	26 February 2014 – 25 February 2029
EDC	20 MW	26 December 2022 – 25 December 2032
OMSC	20 MW	26 September 2022 – 25 September 2047

The Company also procures its electricity from the Wholesale Electricity Spot Market (“WESM”) where it has been a direct member since 26 November 2009.

The Company is dependent on the above-named suppliers for its supply of electric power because it can only procure from other suppliers once approved by the ERC.

The Company has an existing contract with the NGCP for transmission and metering services to expire on 25 July 2026. The Company is dependent on NGCP for its transmission and metering services because it is the sole provider thereof.

The Company is not limited or dependent with any other supplier of materials and services.

The Company has a related party transaction, specifically a Lease Agreement with Veria Realty. Inc., an entity under a common ownership with some shareholders of the Company for the lease of office spaces. The total rental fee is ₱1,061,700 for the three-month ended 31 March 2024.

There is no outstanding balance related to the above transactions as of 31 March 2024.

The related party transactions as of and for the year ended 31 December 2023 are disclosed in Note 16 of the 2023 Audited Financial Statements, while the balance as of and for the period ended 31 March 2024 is presented in Note 16 of the Unaudited Interim Financial Statements

4. Market Price of and Dividends on Issuer’s Common Equity and Related Stockholders’ Matters

A. Market Price of and Dividends on Issuer’s Common Equity and Related Stockholders’ Matters

1) Market Information

a) Principal Market

The shares of the Company are not traded in any stock exchange

2) Holders

As of 31 March 2024, the Company has a total of Fourteen Million Six Hundred Sixty-Two Thousand (14,662,000) issued and outstanding common shares divided among fifty-five stockholders.

The following are the top twenty (20) stockholders of the Company

	Name of Stockholder	No. of Shares Held	% to Total Outstanding Shares
1	Rene Bernard L. Llames	3,606,006	24.59%
2	Cynthia Irene L. Llames	3,606,004	24.59%
3	Angelique Maxime L. Llames	3,606,003	24.59%
4	Deon Peter James	803,292	5.48%
5	PentaCapital Holdings, Inc.	400,000	2.73%
6	Vivencio M. Romero Jr	378,310	2.58%
7	Jose Maria A. Abaya	378,310	2.58%
8	Penta Capital Management Corporation	360,000	2.46%
9	New Move Realty, Inc.	300,000	2.05%
10	ME-KA Corporation	229,000	1.56%
11	ETM Incorporated	215,000	1.47%
12	Ranulfo M. Ocampo	84,071	0.57%
13	Miriam G. San Pedro	50,000	0.34%
14	Christopher Grajo	50,000	0.34%
15	Benjomer D. Galang	50,000	0.34%
16	Emmanuel V. Cabario	50,000	0.34%
17	Gemma M. Recel	50,000	0.34%
18	Randy F. Castilan	50,000	0.34%
19	Randy J. Legaspi	50,000	0.34%
20	Sterwyn Paul B. De Guzman	50,000	0.34%

3) Dividends

On 29 September 2023, the Company adopted a dividend policy pursuant to which stockholders may be entitled to receive, upon declaration by the Company's Board of Directors, dividends equivalent to approximately thirty to fifty percent (30 – 50%) of the prior year's net income after tax, primarily in cash, based on the Company's net income after tax, subject to the availability of the unrestricted retained earnings and except: (i) when justified by definite corporate expansion projects or programs approved by the Board of Directors; (ii) when the corporation is prohibited under any loan agreement with any financial institution or creditor, whether local or foreign, from declaring dividends without their consent, and such consent has not yet been secured; or (iii) when it can be clearly shown that such retention is necessary under special circumstances obtaining in the corporation such as when there is a need for special reserve for probable contingencies.

However, the Board of Directors, in its discretion, may decide to declare dividends to be payable in properties or shares.

The Company will conduct a periodic review of the available unrestricted balance of retained earnings for purposes of earmarking surplus profit for future capital expenditures or for distributing the same as special cash or stock dividends.

The Board of Directors may, at any time, modify the dividend policy or declare special dividends, depending on capital expenditure plans and/or any terms of financing facilities entered into to fund current and future operations and projects.

Under the Revised Corporation Code, the Company may not make any distribution of dividends other than out of its unrestricted retained earnings.

The Board of Directors will review the amount of dividends periodically in light of the following factors:

1. The Company's earnings, cash flow, return on equity and retained earnings;

2. The Company's results and financial condition at the end of the year in respect of which the dividend is to be paid and its expected financial performance;

3. The Company's projected levels of capital expenditures and other investment programs;

4. Restrictions on payments of dividends that may be imposed on it by any future financing arrangements and current or prospective debt service requirements; and

5. Such other factors as the Board of Directors deems appropriate.

The declaration of dividends shall also take into account the need to maintain a level of capitalization that is commercially sound and sufficient to ensure that the Company can operate on a stand-alone basis.

a) Dividends Declared

The Company's Board of Directors approved the declaration of cash dividends in 2023 and 2022, as shown below:

Date of Declaration	Record Date	Dividend per Share	Total
2023			
16 June 2023	15 June 2023	128.39	1,600,000,000.00
2022			
Nil			

The cash dividends declared in 2023 has been fully paid as of 30 September 2023.

b) Appropriated Retained Earnings

On 16 December 2022, the Board of Directors (BOD) of the Company approved Four Million Pesos (₱ 400,000,000.00) for 2023 projects.

On 20 December 2023, the BOD approved the reversal of Four Hundred Million Pesos (₱ 400,000,000.00) appropriation for 2023 projects and approved the appropriation of Four Hundred Million (₱ 400,000,000.00) for 2024 projects.

4. Sale of Unregistered or Exempt Transactions

The Company has no recent sale of unregistered or exempt securities from 2021 to 31 March 2024

B. Description of the Issuer's Security

The Company has an authorized capital stock of One Billion Five Hundred Million Pesos (₱1,500,000,000.00) divided into Fifteen Million (15,000,000) common shares with a par value of One Hundred Pesos (₱100.00) each. Out of its total authorized capital stock, One Billion Four Hundred Sixty-Six Million Two Hundred Thousand Pesos (₱1,466,200,000) divided into Fourteen Million Six Hundred Sixty Two Thousand (14,662,000) common shares with a par value of one hundred pesos (₱100.00) each are presently issued and outstanding. The issued share capital of the Company is fully paid-up and is not being traded in any exchange. The Company's shares have not been previously offered to the public. No shares are subject to outstanding options or warrants to purchase.

The Company has no debt securities, stock options, securities subject to redemption or call, warrants and other securities other than the common shares described above.

5. Corporate Governance

The Company has always been dedicated in upholding a sound corporate governance even before adopting its Manual on Corporate Governance (the "Manual").

The Company, with the intention of strengthening its corporate governance standards to be comparable with or exceed the leading standards adopted the Manual on 02 October 2023 in compliance with SEC Memorandum Circular No. 24, Series of 2019.

Board Composition

The Board consists of seven (7) members, each elected by the common stockholders during the Annual Stockholders' Meeting (ASM). The Board members hold office for one (1) year until their successors are duly elected and qualified in accordance with the amended by-laws of the Company. The Company's Board is a combination of executive and non-executive that are possessed with qualifications and stature that enable them to effectively participate in the deliberations of the Board.

The Board includes two (2) independent directors selected based on the independence criteria as set forth under the SEC's revised Securities Regulation Code and implementing rules and regulations, and the Company's Manual of Corporate Governance (MCG).

Board Committees

The Board, to enhance its effectiveness in fulfilling its oversight responsibilities and aid in ensuring compliance with the principles of good corporate governance, shall establish and maintain the following board committees: 1.) the Corporate Governance Committee; 2.) the Board Risk Oversight Committee; and 3.) the Audit Committee

As of 31 March 2024, the Board has yet to appoint the members of the above Committees.

Board Assessment

The Board shall conduct an annual assessment of its performance, including the performance of the Chairman, individual members and committees. The Corporate Governance Committee shall oversee the assessment/evaluation process.

Every three (3) years, as far as practicable, the assessment may be supported by an external facilitator. The external facilitator can be any independent third party such as, but not limited to, a consulting firm, academic institution or professional organization appointed by the Board.

The Board assessment system shall provide a criteria and process to determine the performance of the Board, individual directors and committees. The system shall allow for a feedback mechanism from shareholders.

Compliance Measures

The Compliance Officer plays a pivotal role in ensuring that the Company adheres to all applicable laws and regulations, and that it operates within its boundaries while upholding the highest ethical standards. Duties and responsibilities are as follows:

1. Design, implement, and oversee the Company's compliance programs and policies to ensure adherence to all relevant laws and regulations.
2. Conduct regular risk assessments to identify potential compliance risks and develop strategies to mitigate them.
3. Stay updated on changes in laws, regulations, and industry standards that could impact the Company's operations.
4. Prepare and present compliance reports to the Board and report on compliance issues, investigations, and corrective actions taken.
5. Conduct or oversee internal investigations into alleged compliance violations, including fraud, misconduct, or breaches of policies and procedures.
6. Coordinate with external auditors and regulatory authorities during compliance audits and inspections.
7. Oversee and promote the Company's code of conduct and ethics policies.
8. Foster a culture of compliance within the Company and promote ethical behavior and accountability at all levels.

Deviation from Corporate Governance Practices

The Company is still in the process of establishing policies and procedures required under its Corporate Governance Manual, nonetheless, there are no major deviations noted.

Improvement of Corporate Governance Practices

The Company has continually worked to improve its corporate governance system so that it complies with the national regulatory agencies and best practices.

The Board sees corporate governance as a crucial component of the Company's corporate identity. The Company is thus committed to a process of continual improvement, guided by best practices and the evolving needs of shareholders and stakeholders. Governance practices will continue to contribute to the long-term success and sustainability of the Company.

The Board remains dedicated to upholding a culture of accountability, ethical conduct, and responsible leadership.

Annex A.1

SECURITIES AND EXCHANGE COMMISSION
THE SEC HEADQUARTERS 7907 Makati Avenue, Salcedo Village, Bel-Air, Makati City
1209 Trunk Line No:02-5322-7696 Email Us:www.sec.gov.ph/imessagemo@sec.gov.ph

The following document has been received:

Receiving: ICTD ERMD
Receipt Date and Time: May 09, 2024 04:57:14 PM

Company Information

SEC Registration No.: 0000018890
Company Name: DAGUPAN ELECTRIC CORP.
Industry Classification: E40100
Company Type: Stock Corporation

Document Information

Document ID: OST10509202482375309
Document Type: Financial Statement
Document Code: FS
Period Covered: December 31, 2023
Submission Type: Annual
Remarks: None

Acceptance of this document is subject to review of forms and contents

Dagupan Electric Corporation

Brando De Guzman <bbg@decorp.com.ph>

Your BIR AFS eSubmission uploads were received

3 messages

eafs@bir.gov.ph <eafs@bir.gov.ph> — Wed, May 1, 2024 at 7:58 AM
To: BBG@decorp.com.ph
Cc: BBG@decorp.com.ph

Hi DAGUPAN ELECTRIC CORPORATION,

Valid files

- EAFS000202524ITRTY122023.pdf
- EAFS000202524AFSTY122023.pdf

Invalid file

- <None>

Transaction Code: **AFS-0-CDA8D7KH0Q14TV244PRNTRZSZ067LDDHGG**
Submission Date/Time: **May 01, 2024 07:58 AM**
Company TIN: **000-202-524**

Please be reminded that you accepted the terms and conditions for the use of this portal and expressly agree, warrant and certify that:

- The submitted forms, documents and attachments are complete, truthful and correct based on the personal knowledge and the same are from authentic records;
- The submission is without prejudice to the right of the BIR to require additional document, if any, for completion and verification purposes;
- The hard copies of the documents submitted through this facility shall be submitted when required by the BIR in the event of audit/investigation and/or for any other legal purpose.

This is a system-generated e-mail. Please do not reply.

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

SEC Registration Number

1	8	8	9	0						

C O M P A N Y   N A M E

D A G U P A N   E L E C T R I C   C O R P O R A T I O N

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

A B   F E R N A N D E Z   S T   D A G U P A N   C I T Y

Form Type	Department requiring the report	Secondary License Type, If Applicable
A A F S	S E C	

C O M P A N Y   I N F O R M A T I O N

Company's email Address	Company's Telephone Number	Mobile Number
decorp@decorp.com.ph	(632) 8374 3040	9285066639

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
9	Every 3rd Tuesday of April	31-Dec

CONTACT PERSON INFORMATION

The designated contact person ***MUST*** be an Officer of the Corporation

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Lilian D. Saralde	lds@decorp.com.ph	(632) 8374 3040	9285066639

CONTACT PERSON's ADDRESS

VERIA I Bldg., 62 West Avenue, Quezon City

Note 1 *: In case of death, resgination or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated*

2 *: All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation frrom liability for its deficiencies.*

DAGUPAN ELECTRIC COMPANY
INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES

- Notarized Statement of Management's Responsibility for Financial Statements
- Report of Independent Auditors
- Statement of Financial Position as at December 31, 2023 (With Comparative Figures as at December 31, 2022)
- Statement of Comprehensive Income for the Year Ended December 31, 2023 (With Comparative Figures for the Years Ended December 31, 2022 and 2021)
- Statement of Changes in Equity for the Year Ended December 31, 2023 (With Comparative Figures for the Years Ended December 31, 2022 and 2021)
- Statement of Cash Flows for the Year Ended December 31, 2023 (With Comparative Figures for the Years Ended December 31, 2022 and 2021)
- Notes to Financial Statements
- Supplementary Schedules
    - Report of Independent Auditors on Supplementary Schedules
    - Schedule A. Financial Assets
    - Schedule B. Amounts Receivable From Directors, Officers, Employees Related Parties and Principal Stockholders (Other than Related Parties)
    - Schedule C. Amounts Receivable From Related Parties which are Eliminated during the Consolidation of Financial Statements
    - Schedule D. Long-term Debt
    - Schedule E. Indebtedness to Related Parties*
    - Schedule F. Guarantees of Securities of Other Issuers*
    - Schedule G. Capital Stock
    - Schedule H. Reconciliation of Retained Earnings Available for Dividend Declaration
    - Schedule I. Financial Soundness Indicators

******These schedules have been omitted because they are not applicable*

3/F Veria 1 Building, 62 West Avenue, Quezon City 1104, Philippines Tel.: (63+2) 374-2134 Fax: (63+2) 371-4683 E-Mail: decorp@decorp.com.ph

DAGUPAN ELECTRIC CORP.
DECORP
We energize your vision.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Management of **Dagupan Electric Corporation** (the Company) is responsible for the preparation and fair presentation of the financial statements which comprise the statements of financial position as at December 31, 2023 and 2022, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years ended December 31, 2023, 2022 and 2021 and notes to financial statements, including the schedules attached therein, in accordance with Philippine Financial Reporting Standards and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

The Board of Directors is responsible for overseeing the Company's financial reporting process.

The Board of Directors reviews and approves the financial statements including the schedules attached therein, and submits the same to the stockholders.

Diaz Murillo Dalupan and Company, the independent auditors, appointed by the stockholders, have audited the financial statements of the Company in accordance with Philippine Standards on Auditing, and in their reports to the stockholders, have expressed its opinion on the fairness of presentation upon completion of such audit.

Signature **ANGELIQUE MAXIME L. LLAMES-JAMES**
Printed Name of the Chairman of the Board or its equivalent

Rene Llames
Signature **RENE L. LLAMES**
Printed Name of Chief Executive Officer or its equivalent

Signature **CYNTHIA IRENE L. LLAMES**
Printed Name of Chief Financial Officer or its equivalent

Signed this 30th day of April 2024

Doc. No. 6
Page No. 2
Book No. XLVIII
Series of 2024

ATTY. JOHN RYAN E. SEGUIT
NOTARY PUBLIC, Q.C. VALID UNTIL DEC 31,2024
ROLL NO. 80421, TIN NO. 427-346-464-000
PTR No.4850864/ JAN. 03, 2024
IBP NO. 391453/ JAN. 03, 2024 QUEZON
MCLE COMP VII-0021683 4/14/2025
ADM MATTER NO. SP-045(2023-2024)
ADD. 99 WEST AVENUE BRGY. PHILAM, QUEZON CITY

A.B. Fernandez West, Dagupan City 2400, Pangasinan, Philippines Tels.: (63+75) 522-2782 (63+75) 522-2940

Dagupan Electric Corporation

Financial Statements
December 31, 2023, 2022 and 2021

and

Independent Auditors' Report

Independent Auditors' Report

The Board of Directors and Stockholders
DAGUPAN ELECTRIC CORPORATION
AB Fernandez St., Dagupan City
Province of Pangasinan

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of **Dagupan Electric Corporation** (the Company) which comprise the statements of financial position as at December 31, 2023 and 2022, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years ended December 31, 2023, 2022 and 2021, and notes to the financial statements, including a summary of material accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of **Dagupan Electric Corporation** as at December 31, 2023 and 2022, and its financial performance and its cash flows for each of the three years ended December 31, 2023, 2022 and 2021, in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on the supplementary information required under Revenue Regulation 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 28 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of management of **Dagupan Electric Corporation**. The information has been subjected to the auditing procedures applied in our audits of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Diaz Murillo Dalupan and Company
Tax Identification No. 003-294-822
BOA/PRC No. 0234, effective until June 23, 2026
BIR Accreditation No. 08-001911-000-2022, effective until March 25, 2025

Alexes B. Abella
Partner
CPA Certificate No. 96749
Tax Identification No. 201-766-994
PTR No. 10081051, January 6, 2024, Makati City
BIR Accreditation No. 08-001911-010-2022, effective until March 15, 2025

April 30, 2024

DAGUPAN ELECTRIC CORPORATION
Statements of Financial Position

	December 31	
	2023	2022
ASSETS		
Noncurrent Assets		
Utility plant and equipment - note 4	**₱3,846,754,440**	₱3,813,175,882
Other property and equipment - note 5	**85,133,271**	92,838,330
Financial assets at fair value through other comprehensive income (FVOCI) - note 6	**152,000,000**	152,000,000
Deferred tax assets - note 21	**25,974,360**	24,463,555
	4,109,862,071	4,082,477,767
Current Assets		
Cash and cash equivalents - note 7	**886,889,217**	1,821,967,472
Trade and other receivables (net) - note 8	**518,273,759**	754,917,648
Financial assets at fair value through profit or loss (FVPL) - note 9	**175,202,414**	270,202,414
Inventories - note 10	**82,676,821**	96,971,421
Prepayments and other current assets - note 11	**76,741,108**	57,626,758
	1,739,783,319	3,001,685,713
TOTAL ASSETS	**₱5,849,645,390**	₱7,084,163,480
EQUITY AND LIABILITIES		
Equity		
Capital stock - note 15	**₱1,246,200,000**	₱1,246,200,000
Additional paid-in capital	**189,124,320**	189,124,320
Revaluation reserve - notes 4 and 5	**1,549,621,292**	1,618,731,957
Remeasurement gain (loss) on retirement benefits - note 18	**2,962,764**	(5,870,347)
Retained earnings - note 14		
Appropriated	**400,000,000**	400,000,000
Unappropriated	**831,949,020**	1,967,758,063
	4,219,857,395	5,415,943,993
Current Liabilities		
Trade and other payables - note 12	**636,270,081**	700,865,191
Income tax payable	**46,152,714**	-
	682,422,795	700,865,191
Noncurrent Liabilities		
Customers' deposits - note 13	**334,924,529**	333,802,951
Deferred tax liability - note 21	**539,458,491**	560,849,685
Retirement benefits obligation - note 18	**72,982,180**	72,701,660
	947,365,200	967,354,296
TOTAL EQUITY AND LIABILITIES	**₱5,849,645,390**	₱7,084,163,480

(The accompanying notes are an integral part of these financial statements.)

DAGUPAN ELECTRIC CORPORATION
Statements of Comprehensive Income

	Years Ended December 31		
	2023	2022	2021
REVENUES - note 17	**₱4,044,639,397**	₱4,678,351,420	₱3,404,944,908
OPERATING EXPENSES			
Purchased power - note 22	**3,076,631,467**	3,865,894,454	2,707,510,988
Operations and maintenance - note 19	**270,232,453**	263,544,470	223,463,745
Depreciation - notes 4 and 5	**201,061,732**	185,360,524	95,398,094
Taxes other than income tax	**23,948,305**	52,440,862	28,884,148
	3,571,873,957	4,367,240,310	3,055,256,975
INCOME FROM OPERATIONS	**472,765,441**	311,111,110	349,687,933
OTHER INCOME (CHARGES) - note 20	**41,829,228**	33,804,680	17,186,787
INCOME BEFORE INCOME TAX	**514,594,669**	344,915,790	366,874,720
PROVISION FOR INCOME TAX - note 21	**142,551,266**	103,511,859	83,687,968
NET INCOME	**372,043,403**	241,403,931	283,186,752
OTHER COMPREHENSIVE INCOME			
Not to be reclassified to profit or loss in the subsequent periods			
Increase in revaluation reserve related to utility plant and equipment and other property and equipment, net of tax - note 4	-	-	1,476,060,979
Remeasurement loss on retirement benefits, net of tax - note 18	**8,833,111**	-	(9,296,391)
TOTAL COMPREHENSIVE INCOME	**₱380,876,514**	₱241,403,931	₱1,749,951,340
Earnings Per Share - note 23	**₱29.85**	₱19.37	₱22.72

(The accompanying notes are an integral part of these financial statements.)

DAGUPAN ELECTRIC CORPORATION

Statements of Changes in Equity

	Capital Stock - note 15	Additional Paid-in Capital	Revaluation Reserve - notes 4 and 5	Remeasurement Loss on Retirement Benefits - note 18	Appropriated Retained Earnings - note 14	Unappropriated Retained Earnings	Total Equity
Balance at January 1, 2021	₱1,246,200,000	₱189,124,320	₱219,579,595	₱3,426,044	₱600,000,000	₱1,140,622,558	₱3,398,952,517
Net income	-	-	-	-	-	283,186,752	283,186,752
Other comprehensive income	-	-	1,476,060,979	(9,296,391)	-	-	1,466,764,588
Total comprehensive income	-	-	1,476,060,979	(9,296,391)	-	283,186,752	1,749,951,340
Depreciation on appraisal increase transferred to unappropriated retained earnings	-	-	(9,622,607)	-	-	9,622,607	-
Income tax effect on the revaluation increment charged to operations through additional depreciation charges	-	-	2,405,651	-	-	-	2,405,651
Transfer to unappropriated retained earnings	-	-	-	-	(600,000,000)	600,000,000	-
	-	-	(7,216,956)	-	(600,000,000)	609,622,607	2,405,651
Balance at December 31, 2021	₱1,246,200,000	₱189,124,320	₱1,688,423,618	(₱5,870,347)	-	₱2,033,431,917	₱5,151,309,508
Balance at January 1, 2022	**₱1,246,200,000**	**₱189,124,320**	**₱1,688,423,618**	**(₱5,870,347)**	**₱-**	**₱2,033,431,917**	**₱5,151,309,508**
Net income	-	-	-	-	-	241,403,931	241,403,931
Depreciation on appraisal increase transferred to unappropriated retained earnings	-	-	(92,922,215)	-	-	92,922,215	- -
Income tax effect on the revaluation increment charged to operations through additional depreciation charges	-	-	23,230,554	-	-	-	23,230,554
Appropriation of retained earnings	-	-	-	-	400,000,000	(400,000,000)	-
	-	-	(69,691,661)	-	400,000,000	(65,673,854)	264,634,485
Balance at December 31, 2022	**₱1,246,200,000**	**₱189,124,320**	**₱1,618,731,957**	**(₱5,870,347)**	**₱400,000,000**	**₱1,967,758,063**	**₱5,415,943,993**
Balance at January 1, 2023	**₱1,246,200,000**	**₱189,124,320**	**₱1,618,731,957**	**(₱5,870,347)**	**₱400,000,000**	**₱1,967,758,063**	**₱5,415,943,993**
Net income	-	-	-	-	-	372,043,403	372,043,403
Depreciation on appraisal increase transferred to unappropriated retained earnings	-	-	(92,147,554)		-	92,147,554	- -
Income tax effect on the revaluation increment charged to operations through additional depreciation charges	-	-	23,036,889	-	-	-	23,036,889
Remeasurement gain on retirement benefits, net of tax	-	-	-	8,833,111	-	-	8,833,111
Transaction with owners of the Company Cash dividend declared	-	-	-	-	-	(1,600,000,000)	(1,600,000,000)
	-	-	(69,110,666)	8,833,111	-	(1,135,809,044)	(1,196,086,598)
Balance at December 31, 2023	**₱1,246,200,000**	**₱189,124,320**	**₱1,549,621,292**	**₱2,962,764**	**₱400,000,000**	**₱831,949,020**	**₱4,219,857,395**

(The accompanying notes are an integral part of these financial statements.)

DAGUPAN ELECTRIC CORPORATION
Statements of Cash Flows

	Years Ended December 31		
	2023	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱514,594,669**	₱344,915,790	₱366,874,720
Adjustments for:			
Depreciation - notes 4 and 5	**201,061,731**	185,360,524	95,398,094
Retirement benefit expense - note 18	**12,386,259**	14,188,982	9,250,809
Provision for ECL - note 8	**-**	13,584,985	1,350,709
Franchise tax	**4,026,762**	1,965,902	933,602
Interest expense - note 13	**169,492**	166,596	484,723
Fair value loss on financial assets at FVPL - note 9	**-**	2,486,014	353,019
Interest income - note 7	**(39,968,988)**	(33,902,159)	(13,334,734)
Gain on sale of transportation equipment - note 5	**-**	(56,384)	-
Operating income before working capital changes	**692,269,925**	528,710,250	461,310,942
Decrease (increase) in:			
Trade and other receivables	**236,643,889**	(233,474,821)	194,787,687
Short-term investments	**-**	-	23,000,000
Inventories	**14,294,600**	(15,554,285)	24,751,299
Prepayments and other current assets	**(19,114,350)**	9,981,888	(8,175,333)
Increase (decrease) in:			
Trade and other payables	**(64,923,368)**	115,845,636	31,635,458
Customers' deposits	**1,121,578**	(1,496,624)	5,091,625
Cash generated from operations	**860,292,274**	404,012,044	732,401,678
Interest received - note 7	**39,968,988**	33,902,159	13,334,734
Franchise tax paid - note 12	**(4,026,762)**	(1,965,902)	(933,602)
Income tax paid	**(99,208,033)**	(108,583,495)	(124,222,422)
Interest paid - note 13	**(169,492)**	(166,596)	(484,723)
Net cash provided by operating activities	**796,856,975**	327,198,210	620,095,665
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property and equipment - notes 4 and 5	**(226,935,230)**	(140,065,078)	(204,009,335)
Proceeds from disposal of financial assets at FVPL - note 9	**95,000,000**	-	-
Acquisition of financial assets at FVPL	**-**	-	(213,800,000)
Acquisition of financial assets at FVOCI	**-**	-	(152,000,000)
Proceeds from sale of transportation equipment - note 5	**-**	56,384	-
Net cash used in investing activities	**(131,935,230)**	(140,008,694)	(569,809,335)
CASH FLOW FROM A FINANCING ACTIVITY			
Cash dividend paid - note 14	**(1,600,000,000)**	-	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALE	**(935,078,255)**	187,189,516	50,286,330
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**1,821,967,472**	1,634,777,956	1,584,491,626
CASH AND CASH EQUIVALENTS AT END OF YEAR - note 7	**₱886,889,217**	₱1,821,967,472	₱1,634,777,956

(The accompanying notes are an integral part of these financial statements)

1. CORPORATE INFORMATION

Dagupan Electric Corporation (the Company) was incorporated in the Philippines on May 30, 1961. On May 20, 2008, the Securities and Exchange Commission (SEC) approved the amendment of the Articles of Incorporation of the Company extending its corporate life for another 50 years from May 20, 2011. The Company is majority owned by a group of Filipino individuals.

The Company is engaged in the distribution of electricity and is granted with a legislative franchise to operate and service certain areas in the province of Pangasinan by virtue of Republic Act (R.A.) No. 9969, enacted by the Congress of the Philippines on February 6, 2010, entitled "An Act Amending R.A. No. 3221, Granting a Franchise to Dagupan Electric Corporation to Construct, Operate and Maintain a Distribution System for the Conveyance of Electric Power to the End-Users in the City of Dagupan, the Municipalities of Calasiao, Sta. Barbara, San Fabian, San Jacinto and Manaoag, and Barangays Bolingit and Cruz in the City of San Carlos, all in the Province of Pangasinan, and Renewing/ Extending the Term of the Franchise to Another Twenty-Five (25) Years from the Date of the Approval of this Act". The act became effective on February 27, 2010.

In compliance with Section 43(t) of R.A. No. 9136 and Rule 3, Section 4(m) of its IRR, the Company applied for registration of its public offering of 15% or 2,200,000 of its common shares with the SEC. The registration of the Company's shares was rendered effective by the SEC on December 27, 2023 under SEC MSRD Order No. 72, Series of 2023, in which the public offering was scheduled from January 8, 2024 to January 12, 2024 (see Note 27).

The Company is subject to the regulations and rate-making policies of the Energy Regulatory Commission (ERC).

The registered principal address of the Company is AB Fernandez St., Dagupan City, Province of Pangasinan. The accompanying financial statements were approved and authorized for issue by the Board of Directors (BOD) on April 30, 2024.

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES

The material accounting policies that have been used in the preparation of these financial statements are summarized below. The policies have been consistently applied to all the years presented, unless otherwise stated.

<u>Statement of Compliance</u>

The financial statements of the Company have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). The term PFRS in general includes all applicable PFRS, Philippine Accounting Standards (PAS) and Interpretations issued by the former Standing Interpretations Committee (SIC), the Philippine Interpretations Committee (PIC) and the International Financial Reporting Interpretations Committee (IFRIC), which have been approved by the Financial Reporting Standards Council (FRSC) and adopted by SEC.

Basis of Preparation

The financial statements have been prepared on a historical cost basis except for utility, plant and equipment and other property and equipment which are stated at revalued amount and financial assets at fair value through profit or loss (FVPL).

The financial statements are presented in Philippine peso (₱), the Company's functional currency. All amounts are rounded to the nearest peso except when otherwise indicated.

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial years except for the amended PFRS below which is mandatorily effective for annual periods beginning on or after January 1, 2023.

PAS 1 and PFRS Practice Statement 2 (Amendments) Disclosure of Accounting Policies. The narrow-scope amendments PAS 1, *Presentation of Financial Statements* require entities to disclose material accounting policy information instead of significant accounting policies. The amendments also clarify the following: (1) accounting policy information may be material because of its nature, even if the related amounts are immaterial; (2) accounting policy is material if users of an entity's financial statements would need it to understand other material information in the statements; and (3) if an entity discloses immaterial accounting policy information, such information shall not obscure material accounting policy information. Further, the amendments provide several paragraphs to explain how an entity can identify material accounting policy information and to give examples of when accounting policy information is likely to be material. In addition, PFRS Practice Statement 2 has been amended by adding guidance and examples to explain and demonstrate the application of 'four-step materiality process' to accounting policy information in order to support the amendments to PAS 1. The amendments are applied prospectively. The amendments are effective for annual periods beginning on or after January 1, 2023, with earlier application permitted. Once the entity applies the amendments to PAS 1, it is also permitted to apply the amendments to PFRS Practice Statement 2. The amendments do not have a material impact on the financial statements of the Company.

PAS 8 (Amendments) Definition of Accounting Estimates. The amendments to PAS 8, *Accounting Policies, Changes* focus entirely on accounting estimates and clarify the following:
- The definition of a change in accounting estimates is replaced with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty".
- Entities develop accounting estimates if accounting policies require items in financial statements to be measured in a way that involves measurement uncertainty.
- A change in accounting estimate that results from new information or new developments is not the correction of an error. In addition, the effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors.
- A change in an accounting estimate may affect only the current period's profit or loss, or the profit or loss of both the current period and future periods. The effect of the change relating to the current period is recognised as income or expense in the current period. The effect, if any, on future periods is recognised as income or expense in those future periods.

The amendments do not have a material impact on the financial statements of the Company.

New accounting standards and amendments to existing standards effective subsequent to January 1, 2023

Standards issued but not yet effective up to the date of the Company's financial statements are listed below. These amendments to standards issued are those that the Company reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Company intends to adopt these standards when they become effective.

PAS 1 (Amendments) Classification of Liabilities as Current or Noncurrent. The narrow-scope amendments to PAS 1, *Presentation of Financial Statements* clarify that liabilities are classified as either current or noncurrent, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (e.g. the receipt of a waver or a breach of covenant). The amendments also clarify what PAS 1 means when it refers to the 'settlement' of a liability. The amendments could affect the classification of liabilities, particularly for entities that previously considered management's intentions to determine classification and for some liabilities that can be converted into equity. The amendments are effective for annual periods beginning on or after January 1, 2024, with earlier application permitted. The amendments do not have a material impact on the financial statements of the Company.

Utility Plant and Equipment and Other Property and Equipment

The Company's utility plant and equipment and other property and equipment (fixed assets) are initially measured at cost. The initial cost comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to profit or loss in the period when the costs are incurred. Land is stated at cost less any impairment in value.

Subsequently, fixed assets are carried at revalued amounts which are the fair values at the date of revaluation, as determined by independent appraisers, less subsequent accumulated depreciation and any accumulated impairment losses. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The appraisal was performed by an independent firm of appraisers and the significant assumptions used by the appraiser are disclosed in Notes 4 and 5.

If the assets' carrying amount is increased as a result of a revaluation, the increase is recognized in other comprehensive income and accumulated in equity under the heading "Revaluation reserve". However, the increase shall be recognized in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognized in profit or loss.

If the assets' carrying amount is decreased as a result of a revaluation, the decrease shall be recognized in profit or loss. However, the decrease shall be recognized in other comprehensive income to the extent of any credit balance existing in the revaluation reserve in respect of that asset. The decrease recognized in other comprehensive income reduces the amount accumulated in equity under the heading "Revaluation reserve". Annually, an amount from the revaluation reserve is transferred to retained earnings for the depreciation relating to the revaluation. Revaluations are performed to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date.

Depreciation is computed on a straight-line method over the following estimated useful lives:

	Number of Years
Utility plant and equipment:	
Buildings and improvements	30
Distribution	25-45
Tools and equipment	10
Other property and equipment:	
Office furniture and equipment	5-10
Transportation equipment	5-10

Construction in progress represents properties under construction and is stated at cost. This includes the cost of construction, applicable borrowing cost and other direct costs. The account is not depreciated until such time that the assets are completed and available for use. A fixed asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

The depreciation method, residual values and estimated useful lives of utility plant and equipment and other property and equipment are reviewed and adjusted, if appropriate, at each reporting date.

An item of utility plant and equipment and other property and equipment is derecognized when either it has been disposed of or when it is permanently withdrawn from use and no future economic benefits are expected from its use or disposal. Any gain or loss arising on the retirement and disposal of an item of utility plant and equipment and other property and equipment (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period of retirement or disposal. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Impairment of Non-financial Assets

The Company assesses the utility plant and equipment and other property and equipment at each reporting date whether there is an indication that the asset may be impaired. All individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

An impairment loss is recognized for the amount by which the asset or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less cost to sell, and value in use, based on an internal evaluation of discounted cash flow. Impairment loss is charged to the assets in the cash-generating unit.

All fixed assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist and the carrying amount of the asset is adjusted to the recoverable amount resulting in the reversal of the impairment loss.

Financial Instruments

a. Initial recognition, measurement and classification of financial instruments

The Company recognizes financial assets and financial liabilities in the statements of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place are recognized on the settlement date.

With the exception of trade receivables that do not contain a significant financing component, financial assets and financial liabilities are recognized initially at fair value including transaction costs, except for those financial assets and liabilities at FVPL where the transaction costs are charged to expense in the period incurred. Trade receivables that do not contain a significant financing component are recognized initially at their transaction price. The Company classifies its financial assets as subsequently measured at amortized cost, fair value through other comprehensive income (FVOCI) and FVPL.

The classification of debt instruments at amortized cost or at FVOCI depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing the financial assets. The Company's business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Company's business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both.

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 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, debt instruments may be designated at FVPL on initial recognition if doing so eliminates or significantly reduces the measurement or recognition inconsistency and produce more relevant information.

Upon initial recognition, the Company may make an irrevocable election to present in other comprehensive income changes in the fair value of an equity investment that is not held for trading. The classification is determined on an instrument-by-instrument basis.

The Company classifies its financial liabilities as subsequently measured at amortized cost using the effective interest method or at FVPL.

Financial Assets at Amortized Cost

Financial assets are measured at amortized when both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial measurement, financial assets at amortized cost are subsequently measured using the effective interest method less allowance for impairment. Gains and losses are recognized in the statements of comprehensive income when the financial assets at amortized cost are derecognized, modified or impaired. These financial assets are included in current assets if maturity is within 12 months from the end of reporting period. Otherwise, these are classified as noncurrent assets.

The Company's financial assets at amortized cost comprise cash and cash equivalents, and trade and other receivables (see Notes 7 and 8). Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash depending on the immediate cash requirements of the Company and are subject to an insignificant risk of change in value.

Trade receivables are amounts due from the Company's customers for the power supplied to the customers and other related services performed in the ordinary course of business.

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.

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, debt instruments may be designated at FVPL on initial recognition if doing so eliminates or significantly reduces the measurement or recognition inconsistency and produce more relevant information. Financial assets at FVPL are carried in the statements of financial position at fair value with net changes in fair value recognized in the profit or loss.

As at December 31, 2023 and 2022, the financial assets at FVPL include unit investment trust funds and mutual funds that are not considered equity instruments designated at FVOCI and do not meet the amortized cost criteria (see Note 9).

Equity Instruments Designated at FVOCI

Upon initial recognition, the Company may make an irrevocable election to present in other comprehensive income changes in the fair value of an equity instrument that is not held for trading. The classification is determined on an instrument-by-instrument basis.

When the equity instrument is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is not subsequently reclassified to profit or loss, but is transferred to retained earnings. Equity instruments designated at FVOCI are not subject to impairment assessment. These financial assets are classified as noncurrent assets.

As at December 31, 2023 and 2022, the Company's equity instruments at FVOCI consists of investment in unquoted equity shares of a private company (see Note 6).

b. Determination of Fair Value

The Company classifies its fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value of an instrument are observable, the instrument is included in level 2. If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the reporting date, with the resulting value discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

The Company's financial assets at FVPL, which consist of unit investment trust funds and mutual funds, are measured at fair value. Fair value disclosures are presented in Note 26.

"Day 1" Difference

When the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a "Day 1" difference) in the statements of comprehensive income unless it qualifies for recognition as some other type of asset or liability. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the statements of comprehensive income when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the "Day 1" difference amount.

Financial Liabilities at Amortized Cost

Financial liabilities that are not contingent consideration of an acquirer in a business combination, held for trading, or designated as at FVPL, are measured subsequently at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortized cost of a financial liability.

Financial liabilities at amortized cost include trade and other payables (except statutory payables), dividend payable and customers' deposits (see Notes 12, 13 and 14).

Trade payables are obligations to pay for goods and services that have been acquired in the ordinary course of business from suppliers. Other payables include non-trade payable and accrued expenses.

Customers' deposits are recognized upon receipt from customers and are measured at fair value of the consideration received. This is composed of bill, pole attachment and cost of line extension (COLE) deposit that serves as guarantee of customers. The customers' deposits are measured subsequently at amortized cost after the initial recognition. The customers' deposits are derecognized upon return to customers in accordance with regulations and contracts entered by the parties. Customers' deposits are classified as current liabilities if return to customers is due within one year or less; otherwise, these are presented as noncurrent liabilities.

c. Impairment of Financial Assets

The Company recognizes allowance for estimated credit losses (ECL) for all debt instruments that are measured at amortized cost or at FVOCI and trade and other receivables. ECLs are a probability-weighted estimate of credit losses over the expected life of the financial asset.

Credit losses are the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at the original effective interest rate. The expected cash flows include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

The Company assesses at each end of the reporting period whether the credit risk on a financial asset has increased significantly since initial recognition. For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is measured at an amount equal to the lifetime ECLs. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, a loss allowance is measured at an amount equal to 12-month ECLs. Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting period.

For trade receivables, the Company applies a simplified approach in calculating ECLs. The Company recognizes a loss allowance based on lifetime ECLs at the end of each reporting period. The ECLs on these financial assets are estimated using a provision matrix based on the Company's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment, including time value of money where appropriate.

When the credit risk on financial instruments for which lifetime ECLs have been recognized subsequently improves, and the requirement for recognizing lifetime ECLs is no longer met, the loss allowance is measured at an amount equal to 12-month ECL at the current reporting period, except for assets for which simplified approach was used.

The Company recognizes impairment loss (reversals) in profit or loss for all financial assets with a corresponding adjustment to their carrying amount through a loss allowance account.

Significant Increase in Credit Risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Company compares the risk of a default occurring on the financial instrument at the end of reporting period with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Company's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organizations, as well as consideration of various external sources of actual and forecast economic information that relate to the Company's core operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g., the extent to which the fair value of a financial asset has been less than its amortized cost;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;

- significant increases in credit risk on other financial instruments of the same debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Company presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Company has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Company assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the end of reporting period. A financial instrument is determined to have low credit risk if:

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

The Company considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there is no past due amounts. The Company regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Definition of Default

The Company considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- Information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Company, in full (without taking into account any collateral held by the Company).

Irrespective of the above analysis, the Company considers that default has occurred when a financial asset is more than 90 days past due unless the Company has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired Financial Assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lenders of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower concessions that the lenders would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for that financial asset because of financial difficulties.

Write-off Policy

The Company writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g., when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over one year past due, whichever occurs sooner.

Financial assets written-off may still be subject to enforcement activities under the Company's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognized in profit or loss.

d. Derecognition

Financial Asset

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

- the right to receive cash flows from the asset has expired;
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Company has transferred its right to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its right to receive cash flows from an asset and 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 the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Financial Liability

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such as 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 recognized in profit or loss.

e. Offsetting of Financial Instruments

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

<u>Inventories</u>

Inventories, which consist of materials and supplies, are initially measured at cost and subsequently stated at the lower of cost and net realizable value (NRV). Costs incurred in bringing materials and supplies to their present location and condition are determined on the first-in first-out method. NRV is the current replacement cost of the asset.

When the inventories are sold, the carrying amount of inventories is recognized as an expense in which the related revenue is recognized.

<u>Prepayments and Other Current Assets</u>

Prepayments are expenses paid in advance and recorded as asset before they are utilized. Prepayments are apportioned over the period covered by the payment and charged to the appropriate account in profit or loss when incurred. Prepayments that are expected to be realized for not more than 12 months after the end of the reporting period are classified as current asset; otherwise, these are classified as other noncurrent asset.

Other current assets represent advanced payment for the purchase of transmission lines and rental deposits. This is recognized in the statements of financial position upon payment and is measured at cost.

Input value added tax (VAT) is stated at cost less any impairment in value. Input VAT is the indirect tax paid by the Company on the local purchase of goods or services from a VAT-registered person. Input VAT is deducted from the output VAT in arriving at the VAT due and payable. When the output tax exceeds the input tax, the difference is recognized as a current liability in the statements of financial position. When the input tax exceeds the output tax, the excess is carried over to the next reporting period and is recognized as an asset presented as Input VAT in the statements of financial position. Allowance for unrecoverable input VAT, if any, is maintained by the Company at a level considered adequate to provide for potential uncollectible portion of the claims.

Equity

(a) Capital stock

Capital stock is measured at par value for all shares issued. Incremental costs directly attributable to the issuance of new shares or options are shown in equity as deduction from the proceeds, net of tax. The excess of proceeds from the issuance of shares over the par value is credited to additional paid-in capital.

(b) Additional paid-in capital

Additional paid-in capital is the result of the Company's declaration of property dividend out of treasury shares.

(c) Retained earnings

Retained earnings represent accumulated earnings of the Company less dividends declared. Dividend is recognized as liability and deducted from retained earnings when declared and approved by BOD while stock dividend is deducted from retained earnings when approved by the BOD.

Revenue Recognition

Revenue is measured based on consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods and services. The Company assesses its revenue arrangements against specific criteria to determine if it is acting as principal or as an agent. The Company concluded that it is acting as principal in its revenue arrangements. The Company recognizes revenue from the following sources:

Revenue from sale of electricity

Revenue is recognized upon supply of power to the customers and is stated at amount invoiced to customers, inclusive of pass-through components, and net of VAT, discounts and/or rebates. In addition, the following specific recognition criteria must be met before revenue is recognized:

- Power has been distributed to customers whose consumptions are measured by Company approved metering devices.

- Revenue estimation based on the average of historical consumption on cases of failure to read measuring devices due to unforeseen events and other valid causes.
- Recognition coincides with the period of the power bill issued to customers.

The Uniform Filing Requirements (UFR) on the rate unbundling released by the ERC on October 30, 2001 specified the following bill components: generation charge, transmission charge, system loss charge, distribution charge, supply charge, metering charge and interclass and lifeline subsidies. National value added tax and local franchise taxes, universal charges and Feed-in Tariff Allowance (FIT-All) are also separately indicated in the customers' billing statements. VAT and local franchise taxes (which are billed and collected merely on behalf of the national and local government), universal charges and FIT-All [which are billed and collected merely on behalf of Power Sector Assets and Liabilities Management Corporation (PSALM) and National Transmission Corporation (TransCo), respectively] do not form part of the Company's revenues. The Company's revenues are adjusted for over/under recoveries of pass-through charges.

Pole rental income

Rental income is accounted for on a straight-line basis over the lease term.

Interest income

Interest income is recognized as the interest accrues taking into account the effective yield of the asset.

Other income

Other income is recognized when earned.

Expense Recognition

Expenses are recognized in the statements of comprehensive income on the basis of a direct association between the costs incurred and the earning of specific items of income; on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association can only be broadly or indirectly determined; or immediately when expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify or cease to qualify, for recognition in the statements of financial position as an asset.

Leases

Company as lessee

The Company entered into operating lease arrangements on its office space. The leases do not transfer to the Company substantially all the risks and benefits of ownership of the assets. Lease payments are recognized in profit or loss on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

Company as lessor

The Company leased out its poles under operating lease agreements. Under the lease agreements, the Company does not transfer substantially all the risk and benefits of ownership of the assets. Rental income from the lease is recognized in profit or loss on a straight-line basis over the lease term.

Direct cost incurred in negotiating an operating lease is added to the carrying amount of the leased asset and is recognized over the lease term on the same basis as rental income. Contingent rent is recognized as revenue in the period earned.

Foreign Currency Transactions

Transactions in foreign currencies are recorded in Philippine peso using the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated using the closing exchange rate at the reporting date. All foreign exchange gains and losses are recognized in profit or loss.

Related Party Relationships and Transactions

A related party transaction is a transfer of resources, services, or obligations between related parties, regardless of whether a price is charged.

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

In considering each possible related party relationship, attention is directed to the substance of the relationships, and not merely the legal form.

Current and Deferred Income Tax

The tax expense for the year comprises current and deferred tax. Tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax is calculated on the basis of the tax laws enacted or substantively enacted at reporting date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill; deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable income. Deferred tax is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

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

Deferred tax assets and liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

<u>Retirement Benefits</u>

Short-term employee benefits

The Company recognizes a liability net of amounts already paid and an expense for services rendered by employees during the accounting period that are expected to be settled wholly before 12 months after the end of the reporting period. Short-term benefits given by the Company to its employees include salaries and wages, fringe benefits, 13th month pay, Social Security System (SSS), Philhealth and Home Development Mutual Fund (HDMF) contribution.

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

Retirement benefits obligation

Pension benefits are provided to employees through a defined benefit plan. The retirement plan is generally funded through payments to a trustee bank determined by periodic actuarial calculations.

Typically, defined benefit plans define an amount of retirement benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan asset, if any.

The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method. The defined benefit cost comprises of the service cost, net interest on the defined benefit liability or asset and the remeasurement of net defined benefit liability or asset. Service cost which includes current service cost, past service cost and gains or losses on non-routine settlements is recognized as expense in profit or loss. Past service cost is recognized when plan amendment or curtailment occurs. Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss.

Remeasurement comprising actuarial gains and losses and return on plan asset (excluding net interest on defined benefit liability) is recognized immediately in other comprehensive income in the period in which they arise. Remeasurement is not reclassified to profit or loss in subsequent periods. Remeasurement recognized in other comprehensive income account. The difference between the interest income component of net interest and the actual return on plan asset is recognized in other comprehensive income.

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 the Company, nor can they be paid directly to the Company. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets or if no maturity, the expected period until the settlement of the related obligation. The Company's right to be reimbursed of some or all of the expenditures required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

Termination benefits

Termination benefits are payable when employment is terminated by the Company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes termination benefits when it is demonstrably committed to either: (a) terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or (b) providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the reporting date are discounted to present value.

Provisions and Contingencies

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. 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 assessments 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 the passage of time is recognized as interest expense. When the Company expects a provision or loss to be reimbursed, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain and its amount can be estimated reliably. The expense relating to any provision is presented in the statements of comprehensive income, net of any reimbursement.

Contingent liabilities are not recognized in the financial statements. These are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but disclosed when an inflow of economic benefits is probable. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the financial statements.

Earnings Per Share

Basic earnings per share is calculated by dividing the profit for the year attributable to the common shareholders of the Company by the weighted average number of common shares outstanding during the year, after considering the retroactive effect of stock dividend, if any.

Events after the Reporting Date

Post year-end events that provide additional information about the Company's position at the reporting date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the financial statements when material.

3. MATERIAL ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the financial statements in compliance with PFRS requires Management to make estimates and assumptions that affect the amounts reported in the financial statements. The estimates and assumptions used in the financial statements are based upon Management's evaluation of relevant facts and circumstances at the end of the reporting period. Actual results could differ materially from such estimates.

Estimates and judgments 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.

Material Accounting Judgments

Business Model Assessment

Classification and measurement of financial assets depend on the results of the business model and solely for payments of principal and interest test. The Company determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgment reflecting all relevant evidence including how the performance of the assets is evaluated and their performance is measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated.

The Company monitors financial assets measured at amortized cost that are derecognized prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Company's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets. No such changes are required during the years presented.

Customers' Deposits

In applying PFRS 9 on customers' deposits, the Company has made a judgment that the timing and related amounts of future cash flows relating to such deposits cannot reasonably and reliably be estimated for purposes of alternative valuation techniques in establishing their fair values.

Key Sources of Estimation Uncertainty

Assessment for ECL on trade and other receivables

The Company recognizes a loss allowance based on lifetime ECLs at the end of each reporting period. The ECLs on these financial assets are estimated using a provision matrix based on the credit risk profile of its customers and historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment, including time value of money where appropriate. All terminated accounts, net of the related customers' deposits, are provided full allowance.

Allowance for impairment losses on trade and other receivables amounted to ₱14,229,987 and ₱18,520,027 as at December 31, 2023 and 2022, respectively. The carrying amount of trade and other receivables amounted to ₱518,273,759 and ₱754,917,648 as at December 31, 2023 and 2022, respectively (see Note 8).

NRV of Inventories

Inventories consist of material and supplies used in the power distribution and service segments. The cost of inventories is written down whenever the NRV of inventories becomes lower than the cost due to damage, physical deterioration, obsolescence, and change in price levels or other causes. The lower of cost or NRV of inventories is reviewed on a periodic basis. Inventories identified to be obsolete and unusable are written off and charged as expenses in the statements of comprehensive income.

The carrying amount of inventories amounted to ₱82,676,821 and ₱96,971,421 as at December 31, 2023 and 2022, respectively (see Note 10).

Estimating useful lives of fixed assets

The useful life of each of the assets included in the Company's utility plant and equipment and other property and equipment is estimated based on the period over which the asset is expected to be available for use. Such estimation is based on a collective assessment of industry practice, internal technical evaluation and experience with similar assets. The estimated useful life of each asset is reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal and other limits on the use of the asset. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of utility plant and equipment and other property and equipment would increase recorded operating expenses and decrease the carrying value of utility plant and equipment and other property and equipment.

Utility plant and equipment, net of accumulated depreciation of ₱2,167,171,381 and ₱1,985,945,724, amounted to ₱3,846,754,440 and ₱3,813,175,882 as at December 31, 2023 and 2022, respectively (see Note 4).

Other property and equipment, net of accumulated depreciation of ₱262,454,182 and ₱242,618,106, amounted to ₱85,133,271 and ₱92,838,330 as at December 31, 2023 and 2022, respectively (see Note 5).

Determining fair value of fixed assets

The fair value of the fixed assets was determined by an independent firm of appraisers. In conducting the appraisal, the independent firm of appraiser used different methods and approaches in determining the fair value of fixed assets, which are disclosed in Note 4.

The fair value of utility plant and equipment amounted to ₱3,846,754,440 and ₱3,813,175,882 as at December 31, 2023 and 2022, respectively (see Note 4).

The fair value of other property and equipment amounted to ₱85,133,271 and ₱92,838,330 as at December 31, 2023 and 2022, respectively (see Note 5).

Impairment of non-financial assets

PFRS requires that an impairment review be performed when certain impairment indicators are present. Determining the fair value of assets requires the estimation of cash flows expected to be generated from the continued use and ultimate disposition of such assets. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

Management has determined that there are no events or circumstances that may indicate that the carrying amounts of the assets are not recoverable as at December 31, 2023 and 2022.

Determining fair value of financial assets at FVPL

The financial assets at FVPL of the Company are composed of unit investment trust funds and investment in mutual funds, which are carried at fair value. This requires judgment and estimates. The fair value of these financial assets was determined based on net asset value per share as published by various unit investment trust fund and mutual fund companies. The inputs are obtained from observable market data and are based on quotes obtained from counterparties.

The fair value of the financial assets at FVPL amounted to ₱175,202,414 and ₱270,202,414 as at December 31, 2023 and 2022, respectively (see Note 9).

Revenue recognition

The Company's revenue recognition policies require the use of estimates and assumptions that may affect the reported amounts of revenues and receivables.

The Company recognizes revenues based on actual electricity delivered to customers. Estimates are made on cases where there is failure to measure consumption due to unforeseen events. The measurement is based on the average historical load profiles of affected customers. The timing of recognition corresponds to the billing period disclosed in the power bill issued to customers. Management believes that such use of estimates will not result in material adjustments to revenue in future periods.

Revenue amounted to ₱4,044,639,397, ₱4,678,351,420 and ₱3,404,944,908 in 2023, 2022 and 2021, respectively (see Note 17).

Retirement benefits obligation

The determination of the Company's retirement benefits obligation and cost of pension and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 18 and include, among others, discount rates and salary increase rate. In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with consideration to maturities corresponding to the expected duration of the defined benefits obligation. The assumptions are sensitive to changes due to complex valuation and its long-term nature. All assumptions are reviewed at each reporting date.

Retirement benefits obligation amounted to ₱72,982,180 and ₱72,701,660 as at December 31, 2023 and 2022, respectively (see Note 18).

4. UTILITY PLANT AND EQUIPMENT

The reconciliation of this account is as follows:

December 31, 2023

	Amount in thousands					
	Distribution	**Tools and equipment**	**Land**	**Buildings and improvements**	**Construction in progress**	**Total**
Cost						
Net carrying amount, January 1, 2023	**₱1,512,917**	**₱7,361**	**₱56,203**	**₱48,307**	**₱9,666**	**₱1,634,454**
Additions	**155,456**	**2,708**	**-**	**9**	**56,630**	**214,803**
Depreciation	**(87,953)**	**(1,526)**	**-**	**(3,908)**	**-**	**(93,387)**
Reclassification	**5,236**	**-**	**-**	**11,084**	**(16,320)**	**-**
Net carrying amount, December 31, 2023	**1,585,656**	**8,543**	**56,203**	**55,492**	**49,976**	**1,755,870**
Appraisal increase (decrease in value)						
Net carrying amount, January 1, 2023	**1,754,296**	**(5,871)**	**411,893**	**18,404**	**-**	**2,178,722**
Depreciation	**(87,256)**	**-**	**-**	**(582)**	-	**(87,838)**
Net carrying amount, December 31, 2023	**1,667,040**	**(5,871)**	**411,893**	**17,822**	**-**	**2,090,884**
	₱3,252,696	**₱2,672**	**₱468,096**	**₱73,314**	**₱49,976**	**₱3,846,754**
Cost	**₱2,787,689**	**₱36,645**	**₱56,203**	**₱102,543**	**₱49,976**	**₱3,033,056**
Accumulated depreciation	**(1,202,034)**	**(28,101)**	**-**	**(47,051)**	**-**	**(1,277,186)**
Net carrying amount, December 31, 2023	**1,585,655**	**8,544**	**56,203**	**55,492**	**49,976**	**1,755,870**
Appraisal increase (decrease in value)	**2,523,246**	**(2,020)**	**411,893**	**47,749**	**-**	**2,980,868**
Accumulated depreciation	**(856,205)**	**(3,852)**	**-**	**(29,927)**	**-**	**(889,984)**
Net carrying amount, December 31, 2023	**1,667,041**	**(5,872)**	**411,893**	**17,822**	**-**	**2,090,884**
	₱3,252,696	**₱2,672**	**₱468,096**	**₱73,314**	**₱49,976**	**₱3,846,754**

December 31, 2022

	Amount in thousands					
	Distribution	Tools and equipment	Land	Buildings and improvements	Construction in progress	Total
Cost						
Net carrying amount, January 1, 2022	₱1,465,539	₱7,873	₱56,203	₱51,932	₱4,964	₱1,586,511
Additions	119,060	969	-	-	4,702	124,731
Depreciation	(71,682)	(1,481)	-	(3,625)	-	(76,788)
Net carrying amount, December 31, 2022	1,512,917	7,361	56,203	48,307	9,666	1,634,454
Appraisal increase (decrease in value)						
Net carrying amount, January 1, 2022	1,842,327	(5,871)	411,893	18,986	-	2,267,335
Depreciation	(88,031)	-	-	(582)	-	(88,613)
Net carrying amount, December 31, 2022	1,754,296	(5,871)	411,893	18,404	-	2,178,722
	₱3,267,213	₱1,490	₱468,096	₱66,711	₱9,666	₱3,813,176
Cost	₱2,626,997	₱33,937	₱56,203	₱91,450	₱9,666	₱2,818,253
Accumulated depreciation	(1,114,081)	(26,575)	-	(43,143)	-	(1,183,799)
Net carrying amount, December 31, 2022	1,512,916	7,362	56,203	48,307	9,666	1,634,454
Appraisal increase (decrease in value)	2,523,246	(2,020)	411,893	47,749	-	2,980,868
Accumulated depreciation	(768,949)	(3,852)	-	(29,345)	-	(802,146)
Net carrying amount, December 31, 2022	1,754,297	(5,872)	411,893	18,404	-	2,178,722
	₱3,267,213	₱1,490	₱468,096	₱66,711	₱9,666	₱3,813,176

The carrying amount that would have been recognized had the fixed assets been carried under cost model is as follows:

	Amount in thousands					
	Distribution	Tools and equipment	Land	Buildings and improvements	Construction in progress	Total
December 31, 2023	**₱1,585,656**	**₱8,543**	**₱56,203**	**₱55,492**	**₱49,976**	**₱1,755,870**
December 31, 2022	₱1,512,918	₱7,361	₱56,203	₱48,307	₱9,666	₱1,634,454

Depreciation on utility, plant and equipment charged to operating expenses amounted to ₱181,225,656 in 2023, ₱165,400,841 in 2022 and ₱80,393,637 in 2021 (including depreciation on appraisal increase of ₱87,838,259 in 2023, ₱88,612,920 in 2022 and ₱9,622,607 in 2021).

The Company estimates the useful life of its substation equipment based on the period of which the asset is expected to be available for use as determined by the Company's internal technical evaluation based on their experience with similar assets.

Re-appraisal of utility plant and equipment and other property and equipment

On December 31, 2021, the Company had its utility plant and equipment and other property and equipment re-appraised by an independent firm of appraiser accredited by the SEC. The valuation was performed in accordance with the International Valuation Standards (2022 Edition) and Philippine Valuation Standards (2nd Edition, 2018).

The result of the revaluation of assets was adjusted to accumulated depreciation of appraisal increase except for land in which the resulting increase in value was adjusted to appraisal increase. The net carrying amount of utility plant and equipment and other property and equipment was revalued at ₱3,946,345,600 as of December 31, 2021.

The fair value of the utility plant and equipment and other property and equipment is categorized at Level 2 for which the fair value measurement is observable. The following are methods and approaches used by independent appraisers in measuring the utility plant and equipment and other property and equipment:

a. The value of the land was arrived at using the Market Approach. This is a comparative approach to value that considers the sales of similar or substitute properties and related market data and establishes a value estimate by processes involving comparison.

b. The values of the buildings and other land improvements (which includes distribution, tools and equipment, buildings and improvements, transportation equipment and office furniture and equipment) located in the Company's main office in Barangay Oeste, Dagupan City, Pangasinan were arrived at using Cost Approach. This is a comparative approach to the value of property or another asset that considers as a substitute for the purchase of a given property, the possibility of constructing another property that is a replica of, or equivalent to, the original or one that could furnish equal utility with no undue cost resulting from delay. It is based on the reproduction or replacement cost of the subject property or asset, less total (accrued) depreciation, plus the value of the land to which an estimate of entrepreneurial incentive or developer's profit/loss is commonly added.

c. The values of the buildings and other land improvements (which includes distribution, tools and equipment, buildings and improvements, transportation equipment and office furniture and equipment) located in the Calasiao Substation, San Jacinto Substation, Sta. Barbara Pole Yard were arrived at using Depreciated Replacement Cost. This is an application of the cost approach used in assessing the value of specialized assets for financial reporting purposes, which direct market evidence is limited or unavailable. It is used when there is insufficient market data to arrive at market value by means of market-based evidence. It is based on the principle of substitution. The method is based on the same theoretical transaction between traditional informed parties as the market value concept.

There are no utility plant and equipment held as collateral for liabilities as at December 31, 2023 and 2022. These assets are free from any liens and encumbrances.

5. OTHER PROPERTY AND EQUIPMENT

The reconciliation of this account is as follows:

December 31, 2023

	Transportation equipment	Office furniture and equipment	Total
Cost			
Net carrying amount, January 1, 2023	**₱62,810,360**	**₱19,099,518**	**₱81,909,878**
Additions	**7,141,075**	**4,989,942**	**12,131,017**
Depreciation	**(10,522,572)**	**(5,004,208)**	**(15,526,780)**
Net carrying amount, December 31, 2023	**59,428,863**	**19,085,252**	**78,514,115**
Appraisal Increase (decrease in value)			
Net carrying amount, January 1, 2023	**15,945,792**	**(5,017,340)**	**10,928,452**
Depreciation	**(4,309,296)**	**-**	**(4,309,296)**
Net carrying amount, December 31, 2023	**11,636,496**	**(5,017,340)**	**6,619,156**
	₱71,065,359	**₱14,067,912**	**₱85,133,271**
Cost	**₱213,818,540**	**₱90,480,209**	**₱304,298,749**
Accumulated depreciation	**(154,389,677)**	**(71,394,957)**	**(225,784,634)**
Net carrying amount, December 31, 2023	**59,428,863**	**19,085,252**	**78,514,115**
Appraisal increase	**37,799,778**	**5,488,926**	**43,288,704**
Accumulated depreciation	**(26,163,282)**	**(10,506,266)**	**(36,669,548)**
Net carrying amount, December 31, 2023	**11,636,496**	**(5,017,340)**	**6,619,156**
	₱71,065,359	**₱14,067,912**	**₱85,133,271**

December 31, 2022

	Transportation equipment	Office furniture and equipment	Total
Cost			
Net carrying amount, January 1, 2022	₱65,296,915	₱16,929,137	₱82,226,052
Additions	6,965,575	6,934,575	13,900,150
Depreciation	(9,452,130)	(4,764,194)	(14,216,324)
Net carrying amount, December 31, 2022	62,810,360	19,099,518	81,909,878
Appraisal Increase (decrease in value)			
Net carrying amount, January 1, 2022	20,255,088	(5,017,340)	15,237,748
Depreciation	(4,309,296)	-	(4,309,296)
Net carrying amount, December 31, 2022	15,945,792	(5,017,340)	10,928,452
	₱78,756,152	₱14,082,178	₱92,838,330
Cost	₱206,677,465	₱85,490,267	₱292,167,732
Accumulated depreciation	(143,867,105)	(66,390,749)	(210,257,854)
Net carrying amount, December 31, 2022	62,810,360	19,099,518	81,909,878
Appraisal increase	37,799,778	5,488,926	43,288,704
Accumulated depreciation	(21,853,986)	(10,506,266)	(32,360,252)
Net carrying amount, December 31, 2022	15,945,792	(5,017,340)	10,928,452
	₱78,756,152	₱14,082,178	₱92,838,330

The carrying amount that would have been recognized had the fixed assets been carried under cost model is as follows:

	Transportation equipment	Office furniture and equipment	Total
December 31, 2023	**₱59,428,863**	**₱19,085,252**	**₱78,514,115**
December 31, 2022	₱62,810,360	₱19,099,518	₱81,909,878

Depreciation on other property and equipment charged to operating expenses amounted to ₱19,836,076 in 2023, ₱18,525,620 in 2022 and ₱15,004,456 in 2021.

There are no other property and equipment held as collateral for liabilities as at December 31, 2023 and 2022. These assets are free from any liens and encumbrances.

6. FINANCIAL ASSET AT FVOCI

This account consists of an investment in Tarlac Electric Inc., which registered its common shares with the Securities and Exchange Commission in compliance with the EPIRA and whose shares are not traded in any Exchange.

This investment was classified under FVOCI as the Management considers this investment to be strategic in nature and intends to hold this investment for the foreseeable future.

As of December 31, 2023, the Company had no intention to dispose of the financial asset at FVOCI. The Company’s investment is measured at a fair value equal to its carrying amount, which is based on the observable data that the investee is generating continuous income and has a stable financial position.

7. CASH AND CASH EQUIVALENTS

This account consists of:

	2023	2022
Cash on hand	**₱842,000**	₱1,042,000
Cash in banks	**886,047,217**	392,882,595
Short-term deposits	**-**	1,428,042,877
	₱886,889,217	₱1,821,967,472

Cash in banks earn interest at prevailing bank deposit rates. Short-term deposits are made for a period of one to three months and earn income ranging from 0.75% to 1.50% per annum in 2023, 2022 and 2021, depending on the prevailing condition in the local market.

Interest income earned on cash and cash equivalents amounted to ₱39,968,988 in 2023, ₱33,902,159 in 2022 and ₱13,334,734 in 2021 and is included in “Interest income” presented under “Other income (charges)” account in the statements of comprehensive income (see Note 20).

There are no restrictions in the use of cash and cash equivalents and these are available for general use.

8. TRADE AND OTHER RECEIVABLES (NET)

This account consists of:

	2023	2022
Trade receivables	**₱472,277,350**	₱717,745,491
Other receivables	**60,226,396**	55,692,184
	532,503,746	773,437,675
Allowance for ECLs on trade receivables	**(14,229,987)**	(18,520,027)
	₱518,273,759	₱754,917,648

Trade receivables

Trade receivables are due ten days after presentation of the bill. The Company's trade receivables are non-interest bearing and are secured by bill deposits amounting to ₱487,823,320 and ₱447,244,587 as at December 31, 2023 and 2022, respectively (see Notes 12 and 13).

Trade receivables from sale of electricity consist of:

	2023	2022
Residential retail	**₱299,238,230**	₱398,269,942
General retail	**48,924,837**	95,361,512
Bulk power	**33,759,977**	54,033,595
Universal charges	**19,698,570**	14,578,816
General power	**14,749,861**	53,655,567
Street lights	**4,213,974**	9,036,438
FIT-All	**919,212**	1,677,781
Others	**50,772,689**	91,131,840
	₱472,277,350	₱717,745,491

Residential

This is applicable to captive customer retail service for residential purposes of a permanent nature to individual private dwellings and to individually metered apartments.

General retail

General retail consists of customers with contracted capacity of equal to or less than 40kW, served typically at secondary lines (1-phase or 3-phase). This type of service is for non-residential purpose and is mostly composed of small-medium businesses.

General power

This is applicable to captive customer retail service for non-residential purposes used for general power, heating, and lighting in industrial, manufacturing, processing, machining, cold storage, water supply, and supermalls; at secondary voltage with contracted capacity greater than 40kW.

Bulk power

Bulk power refers to a customer connected and drawing power from the primary lines at 13.8 kV. These customers install, operate and maintain their own distribution transformers. This type of service is used for general power, heating, space cooling and lighting in industrial, manufacturing, processing, machining, cold storage, water and supply and super malls, with demands equal to greater than 250 kW.

Street lights

Street lights consist of roadway lighting service where existing facilities have adequate capacity and suitable voltage.

Universal charges

Universal charges are non-bypassable charge mandated under section 34 of R.A. No. 9136 otherwise known as the Electric Power Industry Reform Act of 2001 (EPIRA) imposed on electricity customers for the following purposes: a) missionary electrification; b) environmental charge for watershed rehabilitation and management; and c) payment for stranded debts and stranded contract costs. Once collected, these charges are remitted to PSALM, which administers the fund from universal charges in accordance with the intended purposes (see Note 12).

FIT-All

Pursuant to the energy development policy mandated by the Renewable Energy Act of 2008, R.A. No. 9513 and outlined in more detail in the FIT Rules, ERC Resolution No. 16, Series of 2010 (As Amended), a qualified renewable energy developer who elects to participate in the FIT System shall be eligible to a FIT, which is a guaranteed payment on a fixed rate per kilowatt-hour for electricity generated from emerging renewable energy technologies such as wind, solar, biomass and run-of-river hydropower actually delivered to the transmission and/or distribution network.

Should the payment of FIT to eligible renewable energy plants require a differential above the prevailing cost recovery rate, a uniform charge called FIT-All will be determined by the TransCo. The FIT-All shall be billed and collected by the transmission and/or distribution utility from the consumers connected to their respective systems. Collections shall be remitted monthly to TransCo, being the fund administrator, governed by ERC Resolution No. 24, Series of 2013, Guidelines on the Collection of FIT-All and the Disbursement of the FIT-All Fund (see Note 12).

Others

Others include charges for VAT on generation, transmission, system loss and distribution and other pass-through charges.

The details and movement in the allowance for ECLs on trade and other receivables follow:

	2023	2022
Balance at beginning of year	**₱18,520,027**	₱16,553,797
Provision for ECLs – note 19	**-**	13,584,985
Write-off	**(4,290,040)**	(11,618,755)
Balance at end of year	**₱14,229,987**	₱18,520,027

The Company applies the simplified approach in measuring ECLs which uses a lifetime expected loss allowance for all trade and other receivables. The Company has written-off all trade and other receivables of more than one year past due since historical experience has indicated that these receivables are generally not recoverable.

Provision for ECLs amounted to nil in 2023 and ₱13,584,985 in 2022 and is presented under "Operations and maintenance" account in the statements of comprehensive income (see Note 19).

ERC Order on Luzon Wholesale Electricity Spot Market (WESM) prices for November and December 2013 Supply Months

The ERC, in its Order dated March 3, 2014 in ERC Case No. 2014-021MC, voided the WESM prices during the period of October 26, 2013 to December 25, 2013 and ordered the imposition of regulated prices. The market participants (collectively called Movants) filed a Motion for Reconsideration (MR), which was denied by ERC on October 15, 2014. In the said Order, Philippine Electricity Market Corporation (PEMC) was directed to calculate and revise WESM bills for distribution utilities in Luzon for November and December 2013 supply months. Accordingly, the Company received from PEMC billing adjustments for refund to its customers amounting to ₱167,408,890, of which ₱5,810,294 is still outstanding as of December 31, 2023 and 2022.

The amount still for refund to customers was ₱8,994,895 and ₱9,009,264 as of December 31, 2023 and 2022, respectively.

Other receivables

Other receivables include generation charge refund, accrued interest, accrued rent income from electric property, and receivables from employees.

Receivables are not held as collateral and are free from any liens and encumbrances.

9. FINANCIAL ASSETS AT FVPL

This account consists of unit investment trust funds and mutual funds.

The movements in financial assets at FVPL for the periods ended are as follow:

	2023	2022
Cost		
Balance at beginning of year	**₱276,638,774**	₱276,638,774
Disposal	**(95,000,000)**	-
Balance at end of period	**181,638,774**	276,638,774
Cumulative net unrealized loss in fair value:		
Balance at beginning of period	**(6,436,360)**	(3,950,346)
Fair value adjustment	**-**	(2,486,014)
Balance at end of period	**(6,436,360)**	(6,436,360)
	₱175,202,414	₱270,202,414

The inputs on fair value are obtained from observable market data and are based on quotes obtained from counterparties. The fair value was based on net asset value per share as published by various unit investment trust fund and mutual fund companies.

Fair value loss amounted to nil, ₱2,486,014 and ₱352,019 in 2023, 2022 and 2021, respectively, and is presented under "Other income (charges)" account in the statements of comprehensive income (see Note 20).

The unit investment trust funds and mutual funds are invested in fixed income, bond and balanced funds as at December 31, 2023 and 2022.

10. INVENTORIES

This account consists of materials and supplies for power distribution and service segments. As at December 31, 2023 and 2022, there are no inventories pledged or held as collateral.

11. PREPAYMENTS AND OTHER CURRENT ASSETS

This account consists of:

	2023	2022
Prepayments:		
VAT	**₱55,649,790**	₱47,428,217
Real property tax	**12,623,402**	1,137,356
Insurance	**1,980,031**	2,558,036
Advances to TransCo	**5,858,942**	5,858,942
Advances to suppliers	**-**	57,894
Others	**628,943**	586,313
	₱76,741,108	₱57,626,758

Prepaid taxes pertain to creditable input VAT, VAT withheld and real property tax. Prepaid insurance consists of vehicle insurance, annual health premium and fire/lighting and earthquake insurance.

Others pertain to rental deposits.

Sale of sub-transmission lines/assets of TransCo

On February 10, 2012, the Company and TransCo filed a joint application docketed as ERC Case No. 2012-021 RC for the approval of the sale of various sub-transmission lines/assets of TransCo to the Company. On August 11, 2014, the ERC approved the application with modification, limiting the sale only to those assets located within the franchise area of the Company. On November 6, 2014, the Company paid for the assets amounting to ₱5,858,942 in compliance with the Decision. However, on November 21, 2014, National Grid Corporation of the Philippines (NGCP) filed a MR, holding the transfer of assets until ERC resolve the matter. As such, the payment to TransCo has been treated as advance settlement, and is included under "Prepayment and other current assets" account in the statements of financial position. The application is still pending with the ERC as at December 31, 2023.

12. TRADE AND OTHER PAYABLES

This account consists of:

	2023	2022
Trade payables	**₱243,545,883**	₱367,466,812
Customers' deposits (current portion) – note 13	**218,879,163**	176,110,531
Accrued expenses and other current liabilities	**71,715,397**	66,449,880
Output VAT	**67,355,685**	30,685,351
Universal charges payable	**19,958,991**	14,818,023
WESM regulated prices payable	**8,994,895**	9,009,264
Accrued taxes	**1,051,778**	25,891,133
FIT-All payable	**146,534**	3,280,043
Others	**4,621,755**	7,154,154
	₱636,270,081	₱700,865,191

Trade payables and output VAT

Trade payable represents the Company's liabilities to GNPower Mariveles Energy Center Ltd. Co., (GMEC), One Manaoagsolar Corporation (OMSC), Energy Development Corporation (EDC), and various power producers that participate in the Wholesale Electricity Market (WESM) operated by the Independent Electricity Market Operator (IEMOP) for purchased power, and NGCP for electric transmission services. The output VAT represents VAT to be collected on generation and transmission in accordance with ERC Resolution No. 20, Series of 2005, which prescribed the Guidelines Implementing the Recovery of VAT and Other Provisions of R.A. No. 9337 affecting the Electric Power Industry.

Customers' deposits

The customers' deposits (current portion) consist of bill deposits (see Note 13).

Universal charges payable

Universal charges payable represents passed-on charges that were collected from customers.

These are remitted to PSALM, which administers the fund from universal charges in accordance with the intended purposes (see Note 8).

Accrued expenses, other current liabilities and other payables

Accrued expenses and other current liabilities consist of payables to suppliers other than power suppliers and accrual of recurring expenses like electricity and water bill. Accrued taxes consist of energy and franchise taxes payable. The company paid ₱28,975,789 and ₱21,093,027 franchise taxes in 2023 and 2022, respectively.

Other payables of ₱4,621,757 and ₱7,154,154 as at December 31, 2023 and 2022, respectively, consist mainly of expanded withholding tax, withholding tax – compensation, National Home Mortgage Finance Corporation (NHMFC), SSS, Philhealth and Pag-ibig.

Trade and other payables except for customers' deposits are due within 30 days from the date of billing and do not bear interest.

FIT-All payable

FIT-All payable represents passed-on and billed charges to customers on a monthly basis. Once collected from customers, these charges are remitted to TransCo, which is the designated FIT administrator (see Note 8).

WESM regulated prices payable

WESM regulated prices payable represents the outstanding amount for refund to the Company's customers who were affected by the ERC's regulation of WESM prices for the November and December 2013 supply months (see Note 8).

13. CUSTOMERS' DEPOSITS

This account consists of:

	2023	2022
Bill deposits	**₱268,944,157**	₱271,134,056
COLE deposits	**56,477,458**	54,201,451
Pole attachment deposits	**9,502,914**	8,467,444
	₱334,924,529	₱333,802,951

Bill deposits secure payment of the monthly bills for electricity consumption and are equivalent to the estimated bill for one month of service, while meter deposits cover 50% of the cost of the metering equipment. COLE deposit is the cost of additional line to provide electricity in a specific location exceeding the limit of 20 meters from poles, while pole attachment deposits are deposits by third parties using the Company's poles to provide service to their customers.

On June 17, 2004 and October 27, 2004, the ERC issued the Magna Carta for Residential Electricity Consumers and the Guidelines to Implement its Articles 7, 8, 14 and 28 respectively, and on January 18, 2006 issued the Distribution Services and Open Access Rules (DSOAR). The foregoing rules include provisions on handling of customer deposits. It provides that residential and non-residential customers must pay or submit a bill deposit to guarantee payment of bills equivalent to their estimated monthly billing. The amount of deposit shall be adjusted after one year to approximate the actual average monthly bills.

A customer, who has paid his electric bills on or before its due date for three consecutive years, may now demand for the full refund of the bill deposit prior to the termination of his service; otherwise, bill deposits shall be refunded within one month from the termination of service, provided all bills have been paid. Further, these regulations exempt payment of meter deposits, but in case of loss and/or damage to the electric meter due to the fault of the customer, the latter shall bear the full replacement cost of the meter. The existing meter deposit of residential customers shall be refunded in accordance with the Guidelines to Implement Articles 7, 8, 14 and 28 of the Magna Carta. While for non-residential customers, DSOAR requires Distribution Utilities to submit a proposal to the ERC on the methodology and timeline for the refund of meter deposits within ninety (90) days following its effectivity.

Magna Carta and DSOAR also provide that distribution utilities shall pay interest on bill and meter deposits. Interest on bill deposits shall be equivalent to the interest incorporated in the calculation of their weighted average cost of capital (WACC); otherwise, it shall earn a rate equivalent to the prevailing interest for savings deposit as approved by the Bangko Sentral ng Pilipinas (BSP). Interest rate used on bill deposit was 0.10% for each year in 2021 and 2020. Interest for meter deposit shall be at 6% for contracts of service entered into prior to the effectivity of ERB Resolution No. 95-21 issued on August 3, 1995, and 10% thereafter.

On June 4, 2008, the ERC issued Resolution No. 8, Series of 2008, “A Resolution Adopting the Rules to Govern the Refund of Meter Deposits to Residential and Non-Residential Customers”. These rules provide the parameters for the refund of meter deposits and related interest thereon. Interest on meter deposit paid prior to the effectivity of ERB Resolution No. 95-21 shall earn 6% per annum. While payments made after the effectivity of ERB Resolution No. 95-21 until the day prior to the effectivity of Magna Carta or DSOAR shall earn an interest of 10% per annum.

Meter deposits paid from the effectivity of Magna Carta or DSOAR until the day prior to the start of the refund will be entitled to an interest of six per cent (6%) per annum.

Bill deposits of ₱218,879,163 and ₱176,110,531 as at December 31, 2023 and 2022, respectively, are included in the current portion of Customers’ deposits under the “Trade and other payables” account in the statements of financial position (see Note 12).

Interests on bill deposits amounted to ₱169,492, ₱166,596 and ₱484,723 for the years ended December 31, 2023, 2022 and 2021, respectively, and is presented under “Other income (charges)” account in the statements of comprehensive income (see Note 20)..

14. RETAINED EARNINGS

The BOD approved the reversal and appropriation of the following:

2023

a) Reversal of ₱400,000,000 appropriated for capital expenditures from 2022 unrestricted retained earnings.

b) Appropriation of ₱400,000,000 for the following capital expenditures: a.) Expansion of distribution lines to accommodate the continuous growth of electrical loads due to additional customers and increasing demand, b.) Rehabilitation of existing lines, which covers replacement and relocation of poles, rerouting of primary and secondary lines, and reconfiguration of pole top assemblies, c.) Improvement of the grounding/earthing and insulation coordination, d.) Construction of 20/25 MVA, 69kV sub-transmission line from Balingueo, Sta. Barbara, Pangasinan to San Miguel, Calasiao, f.) Advanced Distribution Management System Project, g.) Construction of buildings, and g.) Improvement of customer service facilities

2022

c) Appropriation of ₱400,000,000 for the following capital expenditures in 2023 and 2024: a) expansion of distribution lines to accommodate the continuous growth of electrical loads due to additional customers and increasing demand; b) rehabilitation of existing lines, which covers replacement and relocation of poles, rerouting of primary and secondary lines, and reconfiguration of pole top assemblies; c) improvement of the grounding/earthing and insulation coordination; d) construction of 20/25 MVA, 69kV/13.8kV substation in Santa Barbara, Pangasinan; e) expansion of primary lines from Sta. Barbara Substation to Minien East, Sta. Barbara; f) construction of a control tower building extension; and g) improvement of customer service facilities.

2021

d) Reversal of ₱600,000,000 appropriated for capital expenditures from 2020 unrestricted retained earnings.

Cash Dividend

On June 16, 2023, the BOD approved the declaration of cash dividend in the amount of ₱1,600,000,000 to stockholders of record as of June 15, 2023 which have been paid on various dates up to September 29, 2023.

15. CAPITAL STOCK

The details of capital stock are as follow:

	2023	2022
Authorized – ₱100 par value per share, 15,000,000 shares	**₱1,500,000,000**	₱1,500,000,000
Common shares issued, fully paid and outstanding – 12,462,000 shares	**1,246,200,000**	1,246,200,000
Outstanding	**₱1,246,200,000**	₱1,246,200,000

16. RELATED PARTY TRANSACTIONS

In the normal course of business, the Company has transactions with a related party.

Lease Agreement

The Company has a lease agreement with Veria Realty Inc., a company owned by the Company's major stockholders. The lease is for a period of one year subject to renewal. The monthly rental is ₱298,515 in 2023, ₱294,305 in 2022 and ₱280,820 in 2021 and payable at the end of each month. Total rent expense charged to operations amounted to ₱4,320,079 in 2023, ₱4,459,553 in 2022 and ₱3,644,476 in 2021 and is included as part of "Rent expense" under "Operations and maintenance" in the statements of comprehensive income (see Note 19).

Compensation of Key Management Personnel

Compensation paid to key management personnel consists of the following:

	2023	2022	2021
Salaries	**₱17,810,793**	₱16,276,548	₱16,217,254
Short-term employee benefits	**39,986**	125,459	108,338
	₱17,850,779	₱16,402,007	₱16,325,592

There are no long-term benefits paid or accrued during the year.

17. REVENUES

This account consists of:

	2023	2022	2021
Electric revenues	**₱4,018,957,505**	₱4,646,302,458	₱3,377,165,700
Other revenues	**25,681,892**	32,048,962	27,779,208
	₱4,044,639,397	₱4,678,351,420	₱3,404,944,908

In compliance with Section 36 of R.A. No. 9136, the Company is required to unbundle its billing charges to customers. For the years ended December 31, the details of electric revenues follow:

	2023	2022	2021
Generation revenue	**₱2,643,334,894**	₱3,188,064,268	₱2,110,717,707
Distribution revenue	**662,223,695**	625,767,804	609,789,444
Transmission revenue	**290,925,053**	394,312,308	315,474,131
System loss revenue	**214,368,016**	263,027,905	171,861,672
Supply revenue	**101,684,531**	97,324,681	98,239,920
Metering charge	**72,844,745**	69,456,741	69,744,468
Local franchise tax	**22,448,068**	8,602,412	-
Real property tax recovery	**10,295,547**	41,393	39,807
Lifeline charge (discount)	**913,433**	(45,168)	(32,292)
Senior citizen charge (discount)	**(6,722)**	(70,909)	(75,735)
Other discount	**(73,755)**	(178,977)	1,406,578
	₱4,018,957,505	₱4,646,302,458	₱3,377,165,700

Applications for Confirmation of Over/Under-recoveries of Pass-through Charges

On April 20, 2011, the Company filed an application docketed as ERC Case No. 2011-013 CF, "In the Matter of the Application for the Approval of the Calculations for the Automatic Cost Adjustment and True Up Mechanisms for the a) Generation Rate, b) Transmission Rate, c) System Loss Rate, d.) Lifeline Subsidy Rate; and e) Interclass Cross Subsidy Rate, Under ERC Resolution No. 16, Series of 2009, As Amended." On March 10, 2014, the ERC issued its Decision on this application, directing the Company to refund to its customers the over recoveries amounting to ₱203,934,745 and collect from its customers the Lifeline Subsidy under recovery amounting to ₱18,588,112, covering the period from April 2004 to December 2010.

On March 31, 2014, the Company filed a MR on the above Decision for the approval of the amounts originally proposed by the Company or provide computation as to how the supposed over recoveries were arrived at. The amount of over and under recoveries is not yet certain since it is dependent on the resolution of the MR. As at December 31, 2023, the Company is still awaiting the resolution of said MR.

On April 1, 2014, the Company filed an application docketed as ERC Case No. 2014-052 CF, "In the Matter of the Application for the Approval of the Calculations for the Automatic Cost Adjustment and True Up Mechanisms for the a) Generation Rate, b) Transmission Rate, c) System Loss Rate, d.) Lifeline Subsidy Rate; and e) Senior Citizen Discount, Under ERC Resolution No. 16, Series of 2009, As Amended". The Company filed an application for the confirmation of total under recovery of ₱151,783,598 covering the years 2011 to 2013. As at December 31, 2023, the Company is still awaiting the decision of the ERC.

On March 31, 2017, the Company filed an application docketed as ERC Case No. 2017-052 CF, "In the Matter of the Application for the Approval of the Calculations for the Automatic Cost Adjustment and True Up Mechanisms for the a) Generation Rate, b) Transmission Rate, c) System Loss Rate, d.) Lifeline Subsidy Rate; and e) Senior Citizen Subsidy Rate, Under ERC Resolution No. 16, Series of 2009, As Amended, for the Period 2014 to 2016". The Company filed application for the confirmation of total over recovery of ₱30,114,229 covering the years 2014 to 2016. As at December 31, 2023, the Company is still awaiting the decision of the ERC.

On August 28, 2020, the Company filed an application docketed as ERC Case No. 2020-014 CF, "In the Matter of the Application for the Approval of the Calculations for the Automatic Cost Adjustment and True Up Mechanisms for the a) Generation Rate, b) Transmission Rate, c) System Loss Rate, d.) Lifeline Subsidy Rate; and e) Senior Citizen Subsidy Rate, Under ERC Resolution No. 16, Series of 2009, As Amended, for the Period 2017 to 2019". The Company filed application for the confirmation of total under recovery of ₱48,360,882. As at December 31, 2023, the Company is still awaiting the decision of the ERC.

On May 17, 2023, the Company filed an application docketed as ERC Case No. 2023-029 CF, "In the Matter of the Application for the Approval of the Calculations for the Automatic Cost Adjustment and True-Up Mechanisms for the a) Generation Rate, b) Transmission Rate, c) System Loss Rate, d) Lifeline Subsidy Rate, and e) Senior Citizen Subsidy Rate, Under ERC Resolution No. 16, Series of 2009, As Amended, and g) Local Franchise Tax, Under ERC Resolution No. 2, Series of 2021 for the Period 2020 to 2022." The Company filed the application for the confirmation of an over-all total under recovery of ₱73,564,161.

Performance-Based Rate Making (PBR)

The Company entered the PBR regime in 2007. The PBR is an internationally accepted rate setting methodology adopted by the ERC to replace the Return on Rate Base (RORB) for both transmission and distribution businesses as mandated by the EPIRA. It provides electric utilities with adequate and efficient capital and operating expenditures to meet growing electricity demand through timely rate adjustments.

Maximum Average Price (MAP)

On March 31, 2014, the Company filed an application docketed as ERC Case No. 2014-027 RC for approval of the Translation into Distribution Rates of Different Customer Classes for the Fourth Regulatory Year of the ERC-Approved Annual Revenue Requirement for DECORP (the Company) Under the PBR for the Regulatory Period 2011-2015. On February 9, 2015, the ERC issued its Decision on this case, giving the Company the option to implement a MAP of ₱2.4472/kWh or its proposal of ₱1.7918/kWh for the Regulatory year 2015. The Company implemented the latter rate.

Given the need by the Company to undertake capital projects in order to address the load growth, network non-growth, network control/ safety metering as well as renewal, replacement and refurbishment of existing distribution assets, the Company filed an application on November 20, 2018 docketed as ERC Case No. 2018-110 RC for approval of its capital projects for the regulatory years 2016 to 2019.

Projects	2016	2017	2018	2019
Network	₱44,356,785	₱51,065,110	₱32,497,857	₱31,175,406
Other network	59,217,708	66,189,452	83,182,536	82,930,907
Non-network	10,274,675	40,018,541	57,819,750	32,361,518
	₱113,849,168	₱157,273,103	₱173,500,143	₱146,467,831

The proposed capital expenditures will not have a direct impact on the current rates of the Company until approved by the ERC.

On March 28, 2022, the Company filed an application docketed as ERC Case No. 2022-020 RC, "In the Matter of the Application for Approval of the Annual Revenue Requirement and Performance Incentive Scheme in Accordance with the Provisions of the Rules for Setting Distribution Wheeling Rates (RDWR)" covering the Fifth Regulatory Period from July 1, 2022 to June 30, 2026.

On August 25, 2022, the Company filed an application docketed as ERC Case No. 2022-057 RC, "In the Matter of the Application for: A) Confirmation of True-Up Calculations of the Actual Weighted Average Tariff vis-à-vis ERC-Approved Maximum Average Rate for the Lapsed Regulatory Years; and B) Approval of the Final Refund/Collect Scheme to Account for the Lapsed Regulatory Years". The Company filed the application for the confirmation of an over-all under recovery of ₱22,557,035 for the period July 1, 2015 to June 30, 2022.

Other revenues

Other revenues include rent income from electric property and sale of electric materials and accessories (see Note 22).

18. EMPLOYEE BENEFITS

The Company maintains a funded, non-contributory defined benefit retirement plan covering all its regular and full-time employees. The fund is administered by a trustee bank authorized to invest the fund as it deems proper. Under the plan, the employees are entitled to retirement benefits ranging from one hundred percent (100%) to one hundred fifty percent (150%) of the Plan Salary for every year of Credited Service on attainment of a retirement age of 60 or 35 years of service, whichever is earlier.

The retirement benefits obligation recognized in the statements of financial position is as follows:

	2023	2022
Present value of obligation	**₱113,921,099**	₱127,876,727
Fair value of plan assets	**(40,938,919)**	(55,175,067)
	₱72,982,180	₱72,701,660

The retirement benefits expense recognized in the statements of comprehensive income included under “Operations and maintenance” (see Note 19) is as follows:

	2023	2022	2021
Current service cost	**₱8,433,576**	₱8,126,095	₱7,370,608
Net interest cost			
Interest cost	**6,790,463**	6,149,124	5,800,640
Interest income	**(2,837,780)**	(86,237)	(3,920,439)
	3,952,683	6,062,887	1,880,201
	₱12,386,259	₱14,188,982	₱9,250,809

As at December 31, 2023 and 2022, the cumulative remeasurement gain (loss) on retirement benefits presented in the statements of financial position amounted to ₱2,962,764 and (₱5,870,347), respectively.

The movements in the retirement benefits obligation recognized in the statements of financial position are as follow:

	2023	2022
Balance at beginning of year	**₱72,701,660**	₱58,512,678
Retirement benefits expense	**12,386,259**	14,188,982
Contributions paid	**(328,258)**	-
Remeasurement gain	**(11,777,481)**	-
Balance at end of year	**₱72,982,180**	₱72,701,660

The movements in the present value of the retirement benefits obligation are as follow:

	2023	2022
Present value of obligation, January 1	**₱127,876,727**	₱120,571,064
Current service cost	**8,433,576**	8,126,095
Interest cost	**6,790,463**	6,149,124
Benefits paid	**(19,294,505)**	(6,969,556)
Actuarial gain	**(9,885,162)**	-
Present value of obligation, December 31	**₱113,921,099**	₱127,876,727

The movement in the fair value of plan assets is presented below:

	2023	2022
Fair value of plan assets, January 1	**₱55,175,067**	₱62,058,386
Interest income included in net interest cost	**2,837,780**	86,237
Benefits paid	**(19,294,505)**	(6,969,556)
Contributions	**328,258**	-
Actuarial gain	**1,892,319**	-
Fair value of plan assets, December 31	**₱40,938,919**	₱55,175,067

The following actuarial assumptions were used to determine retirement benefits obligation:

	2023	2022
Discount rate	**6.20%**	5.10%
Expected salary increases	**5.00%**	5.00%

The fair value and carrying amount of plan assets is as follows:

	2023	2022
Investment in government securities	**₱36,616,461**	₱44,692,494
Corporate stocks	**3,174,813**	5,598,421
Deposit in banks	**1,154,257**	5,327,655
Other securities and debt instruments	**9,647**	29,665
Trust fee and other payables	**(16,259)**	(473,168)
	₱40,938,919	₱55,175,067

The fair value of plan assets consists of:

- Investment in government securities which consists of fixed rate treasury notes and retail treasury bonds;
- Corporate stocks which consist primarily of stocks listed in Philippine Stock Exchange (PSE);
- Deposit in banks which consists of savings deposit and certificate of time deposits; and
- Other securities and debt instruments which consist primarily of investment in corporate bonds.

The Company’s plan assets are administered by a trustee bank, which is responsible for the general administration of retirement plan including the management of the fund. The trustee bank does not currently employ any asset-liability matching.

Risk Arising from the Retirement Plan

The defined benefit plan is underfunded by ₱72,982,180 and ₱72,701,660 as at December 31, 2023 and 2022, respectively. While there is no minimum required funding, the amount without fund may expose the Company to cash flow risk for ten years when a significant number of employees are expected to retire.

Credit Risk

The plan assets exposure to credit risk arises from its investments in financial assets which comprise of investment in government securities, corporate stocks, deposit in banks and other securities and debt instruments. The maximum credit risk exposure is equivalent to the carrying amount of financial instruments. The credit risk arises from possible default of the issuer of the financial assets.

The credit risk is minimized by ensuring that the exposure to the various financial assets as recommended by the trustee bank.

Share Price Risk

The plan assets exposure to share price risk arises from corporate stocks which are traded at PSE. The share price risk results from the volatility of the share prices in the PSE.

The share price risk is minimized by ensuring that investments in shares of stock are limited only to blue chip companies or companies with good fair values. The trustee bank ensures that the equity investments are invested in mix of various equity to reduce exposure to industry or sector-related risk.

Maturity Profile of Undiscounted Benefit Payments

The maturity analysis on the Company's undiscounted benefit payments are as follow:

December 31, 2023	**1 to 5 Years**	**6 to 10 Years**	**11 to 15 Years**	**16 to 20 Years**	**21 to 40 Years**
Normal Retirement	**₱25,593,937**	**₱93,904,229**	**₱95,248,808**	**₱94,111,734**	**₱337,541,950**

December 31, 2022	1 to 4 Years	5 to 8 Years	9 to 12 Years	13 to 16 Years	17 to 20 Years
Normal Retirement	₱28,318,033	₱30,936,310	₱233,349,511	₱209,892,250	₱116,542,596

Discount Rate Sensitivity

The following illustrates the sensitivity to a reasonably possible change in each key assumption, with all other variable held constant, of the Company's retirement benefits obligation. A +/-1% increase or decrease is used when reporting this risk internally to key management personnel and represents management's assessment of the reasonably possible change in discount rate and salary increase.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

The weighted average duration of the defined benefit obligation is 15.7 years in 2023 and 2022.

The impact on the Company's retirement benefits obligation as at December 31, 2023 and 2022 which affects the Company's cash flow is as follows:

December 31, 2023

	Increase (decrease)	Present value of obligation	Increase (decrease) in retirement benefits obligation
Discount rate	**+1%**	**₱102,481,939**	**(₱11,439,159)**
	-1%	**127,265,878**	**13,344,780**
Salary increase	**+1%**	**127,293,103**	**13,372,005**
	-1%	**102,258,020**	**(11,663,078)**

December 31, 2022

	Increase (decrease)	Present value of obligation	Increase (decrease) in retirement benefits obligation
Discount rate	+1%	₱126,671,016	(₱1,205,711)
	-1%	129,082,438	1,205,711
Salary increase	+1%	127,954,118	77,391
	-1%	127,799,336	(77,391)

The Company is not required to pre-fund the future defined benefits payable under the retirement plan before they become due. Hence, the amount and timing of contributions to the retirement fund are at the Company's discretion. However, in the event a benefit claim arises and the retirement fund is insufficient to pay the claim, the shortfall will then be due and payable from the Company to the retirement fund.

19. OPERATIONS AND MAINTENANCE

This account consists of:

	2023	2022	2021
Salaries and wages	**₱145,169,837**	₱138,891,362	₱133,675,736
Outside services	**35,234,915**	35,933,396	23,239,612
Professional fees	**20,369,203**	4,788,323	3,011,131
Repairs and maintenance	**17,861,102**	16,807,588	21,039,060
Retirement benefits expense – note 18	**12,386,259**	14,188,982	9,250,809
Telephone and water	**8,074,840**	9,617,284	7,665,982
Transportation	**7,049,142**	8,331,565	5,109,168
Office supplies	**5,553,907**	5,164,069	5,620,479
Rent – notes 16 and 22	**4,320,079**	4,459,553	3,644,476
Representation expense	**3,697,490**	2,327,017	553,087
Insurance	**3,216,894**	1,473,060	2,133,926
Electric materials	**2,153,574**	3,442,550	2,457,965
Training and seminars	**1,090,877**	864,563	92,487
Donations	**442,814**	365,412	209,664
Association and membership fees	**250,399**	234,064	220,542
Advertising and promotion	**240,897**	826,127	51,600
Provision for ECLs – note 8	**-**	13,584,985	1,350,709
Meter reading expenses	**-**	-	2,816,218
Others	**3,120,224**	2,244,570	1,321,094
	₱270,232,453	₱263,544,470	₱223,463,745

Others pertain mainly to expenses related to uniform, subscriptions, injuries and damages.

20. OTHER INCOME (CHARGES)

This account consists of:

	2023	2022	2021
Interest income – note 7	**₱39,968,988**	₱33,902,159	₱13,334,734
Fair value loss on financial assets at FVPL – note 9	**-**	(2,486,014)	(353,019)
Interest expense – note 13	**(169,492)**	(166,596)	(484,723)
Others:			
Bank charges	**(419,852)**	(583,275)	(50,583)
Gain on foreign exchange	**291,126**	-	-
Gain on sale of equipment – note 5	**-**	56,384	-
Miscellaneous income	**2,158,458**	3,082,022	4,740,378
	₱41,829,228	₱33,804,680	₱17,186,787

Miscellaneous income consists of deductions on other payables upon settlement, equipment rental and other fees.

21. INCOME TAXES

Provision for income tax consists of:

	2023	2022	2021
Current	**₱145,360,747**	₱107,263,579	₱81,007,038
Deferred	**(2,809,481)**	(3,751,720)	2,680,930
	₱142,551,266	₱103,511,859	₱83,687,968

The components of the Company's deferred tax assets and liability are as follow:

	2023	2022
Deferred tax assets		
Retirement benefits obligation	**₱19,973,304**	₱16,876,739
Allowance for ECLs on receivables	**4,630,006**	4,630,006
Unamortized past service cost	**1,371,050**	1,658,134
Remeasurement loss on retirement benefits	**-**	1,298,676
	₱25,974,360	₱24,463,555
Deferred tax liability		
Revaluation increment	**₱537,812,797**	₱560,849,685
Remeasurement gain on retirement benefits	**1,645,694**	-
	₱539,458,491	₱560,849,685

The reconciliation of provision for income tax computed at the statutory tax rates to provision for income tax as shown in the statements of comprehensive income is summarized as follows:

	2023	2022	2021
Income before income tax	**₱514,594,669**	₱344,915,790	₱366,874,720
Income tax computed at 25%	**128,648,666**	86,228,947	91,718,680
Add (deduct) tax effects of:			
Depreciation on appraisal increase	**23,036,889**	23,230,554	2,405,652
Nondeductible expenses	**815,585**	2,486,249	1,988,090
Nondeductible portion of interest expense	**42,373**	41,649	121,181
Interest income subjected to final tax	**(9,992,247)**	(8,475,540)	(3,333,684)
Effect of change in tax rate on deferred tax balances	**-**	-	3,682,348
Excess tax due in 2020 due to change in tax rate	**-**	-	(12,894,299)
	₱142,551,266	₱103,511,859	₱83,687,968

On March 26, 2021, the Republic Act (RA) 11534, known as "The Corporate Recovery or Tax incentives for Enterprises Act" (Create Act), was passed into law. The salient provisions of the Create Act applicable to the Company are as follow:

1. Effective July 1, 2020, the corporate income tax rate is reduced from 30% to 20% for domestic corporations with net taxable income not exceeding ₱5,000,000 and with total assets not exceeding ₱100,000,000, excluding land on which the particular business entity's office, plant, and equipment are situated during the taxable year for which the tax is imposed at 20%. All other domestic corporations and resident foreign corporations will be subject to 25% income tax;
2. Minimum corporate income tax (MCIT) rate reduced from 2% to 1% effective July 1, 2020, to June 30, 2023; and
3. The imposition of improperly accumulated earnings is repealed.

22. AGREEMENTS

The details of purchased power are as follow:

	2023	2022	2021
Generation cost			
GMCP	**₱1,321,828,366**	₱1,706,863,047	₱924,699,781
WESM	**652,048,665**	1,242,287,792	915,837,053
EDC	**617,127,520**	-	-
OMSC	**172,453,389**	31,746,395	-
SNAP	**-**	397,302,756	455,625,631
PSALM	**-**	80,626,666	80,626,666
Transmission cost:			
NGCP	**313,173,527**	407,067,798	330,721,857
	₱3,076,631,467	₱3,865,894,454	₱2,707,510,988

<u>Electricity Supply Agreement between the Company and Sun Asia Energy, Inc. (SEI), with the latter assigning their rights to the ESA to Onemanaoag Solar Corporation (OMS)</u>

On January 14, 2016, the Company entered into a contract with SEI, wherein the Company committed to purchase clean power generated by SEI's solar power plant project that would be embedded into Company's franchise area.

On July 14, 2016, the Company and SEI filed a Joint Application to the ERC for the approval of their Electricity Supply Agreement (ESA). The application was docketed as ERC Case No. 2016-154 RC and was approved with modification by the Commission in its Decision dated December 19, 2017.

Through an Assignment Agreement dated July 13, 2018, SEI assigned all of its rights, titles, and interest in and to the ESA, among others, in favor of Onemanaoagsolar Corporation. A manifestation was filed by the SEI informing ERC of the said assignment.

On November 29, 2022 and March 10, 2023, ERC granted OMS Provisional Authority to Operate (PAO) for Phases 1 and 2 of their embedded solar power plant projects, respectively. Thereafter, the supply commencement date became effective in accordance with the ESA.

Power Supply Agreement with Energy Development Corporation (EDC)

On February 21, 2022, the Company entered into a 10-year contract with EDC, wherein the Company agreed to purchase 20 MW (10 MW base load and 10 MW load following) of its power requirement from EDC.

On November 7, 2022, the Company and EDC filed a Joint Application to the ERC for the approval of their Power Supply Agreement. The application was docketed as ERC Case No. 2022-082 RC and was provisionally approved by the ERC through the issuance of a Resolution dated December 20, 2022. EDC commenced the supply of electricity to the Company on December 26, 2022.

Renewable Power Supply Agreement with SNAP

On December 20, 2011, the Company entered into a contract with SNAP wherein the Company agreed to purchase electric power from the latter, which became effective from October 26, 2012 until October 25, 2022.

Recovery of the 2012 Generation Rate Adjustment Mechanism (GRAM) and Incremental Currency Exchange Rate Adjustment (ICERA) Deferred Accounting Adjustment (DAA)

On October 19, 2017, ERC ordered the implementation of the 10th to 17th GRAM and 15th to 16th ICERA wherein PSALM and NPC are mandated by the Commission to collect from its consumers the unbilled adjustment for the period of 60 months starting August 2017. This unbilled adjustment is net of bills issued by NPC/PSALM for July 2012 which have remained outstanding and unpaid to date as a result of the deferment order dated August 10, 2012.

On December 18, 2017, ERC again ordered deferment of the implementation of the 10th to 17th GRAM and 15th to 16th ICERA to January 2018. Total billings paid by the Company for each year in 2023 and 2022 amounted to nil and ₱80,626,666, respectively, and included as part of the purchased power.

Purchased Power Supply Agreement (PPSA) for Distribution Utility Buyers (the "Original PPSA")

The Company and GNPower Ltd. Co. (GNPC) entered into:

(a) the "Original PPSA" in July 2006 wherein GNPC agreed to build, own and operate an electric power generation facility for the purpose of supplying its customers with environmentally clean electric power which commenced in 2010. Further, GNPC agreed to supply and sell, while the Company agreed to receive and purchase the product;

(b) a Memorandum of Agreement (the "MOA") in July 2006, setting out the conditions for the effectiveness of the PPSA; and

(c) a Commercial Protocol Agreement No. 1 (the "Commercial Protocol Agreement") in 2007 (the Original PPSA, as amended, modified and supplemented by the MOA and Commercial Protocol Agreement, the "PPSA") for the purchase and sale of the product that commenced in 2010/2011.

Amendment to Original PPSA

Pursuant to Project Assignment Agreement dated June 11, 2008, GNPC transferred the rights, obligations, benefits, assets, liabilities and interest in the Original PPSA to GMCP.

On February 9, 2009, the Company and GMCP amended the Original PPSA termination date to be 180 months, unless extended pursuant to Section 2.4 or 2.5, from the date specified in the Commencement Date Notice as set forth in Schedule 1 or December 31, 2012, if the GMCP had not provided the Company with the Commencement Date Notice by December 31, 2012, or such later date as the parties agreed in writing.

WESM Direct Membership

The Company became a direct member of the WESM effective November 26, 2009 upon completion of the requirements of PEMC, the autonomous group market operator of WESM. This membership gives the Company the privilege to purchase directly from the market.

Transmission Service Agreement with NGCP

The Company entered the Contract with NGCP wherein the latter would provide the necessary transmission services to the Company, provided that the Company shall pay the applicable charges for such services and remain liable for any unpaid amounts despite the termination of the agreement.

Service Agreement with TransCo

The Company entered into service agreement with the TransCo. Under the agreement, TransCo shall provide transmission services to the Company effective June 26, 2006, and shall continue to be in full force and effect until terminated in accordance with the Provision of Open Access Transmission Service which governs the TransCo's provision of transmission services to qualified grid users.

On December 1, 2008, the franchise to operate and maintain the physical assets of TransCo for 50 years was granted to NGCP by virtue of R.A. No. 9511, An Act Granting NGCP a Franchise to Engage in the Business of Conveying or Transmitting Electricity through High Voltage Back-bone System of Interconnected Transmission Lines, Substations and Related Facilities and for other purposes. With the affectivity of R.A. No. 9511, transmission services to the Company have been are provided by NGCP since December 2008.

Lease Agreements

Company as lessee

The Company entered into various lease agreements for the lease of its administrative office in Quezon City and field offices in various towns of Pangasinan. The lease agreements are for a period of one year subject to renewal, and the monthly total rental is ₱324,822 for 2023, ₱371,629 for 2022 and ₱303,706 for 2021.

Total rent expense amounted to ₱4,320,079 for 2023, ₱4,459,553 for 2022 and ₱3,644,476 for 2021 (see Note 19).

Company as lessor

The Company entered into various lease agreements to lease out its electric poles in various towns of Pangasinan. The lease agreements are for a period of one year subject to renewal and rental rate of ₱270 to ₱340 per pole.

Total rental income amounted to ₱23,528,318 in 2023, ₱28,616,552 in 2022 and ₱25,309,143 in 2021, respectively, and is included in the “Other revenues” account under the “Revenues” section in the statements of comprehensive income (see note 17).

23. EARNINGS PER SHARE

Earnings per share are computed as follows:

	2023	2022	2021
Net income	**₱372,043,403**	₱241,403,931	₱283,186,752
Divided by: Shares outstanding	**12,462,000**	12,462,000	12,462,000
	₱29.85	₱19.37	₱22.72

24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company’s financial instruments include cash and cash equivalents, trade and other receivables, rental deposit, trade and other payables, customers’ deposits and dividend payable which are used for working capital management purposes and operations. The Company does not actively engage in the trading of financial assets for speculative purposes nor does it write options.

The Company is exposed to a variety of financial risk which results from both its operating and investing activities. The Company’s risk management is in close cooperation with the BOD, and focuses on actively securing the Company’s short-to medium-term cash flows by minimizing the exposure to financial markets.

Interest rate risk

Investment in financial instruments renders the Company subject to interest rate risks. These include the risks arising from changes in interest rates. The primary source of the Company’s interest rate risk relates to cash and other assets which are invested at various banks earning an average interest rate of 5.00% and 3.50% per annum in 2023 and 2022, respectively.

If the interest rate had been 0.5% higher/lower, the net income after tax would increase/decrease by ₱3,322,677 in 2023, ₱7,854,960 in 2022 and ₱7,154,323 in 2021.

Credit risk

Credit risk is the risk that the Company will incur a loss from customers or counterparties that fail to discharge their contractual obligations. The Company manages credit risk by setting limits on the amount of risk the Company is willing to accept from counterparties and by monitoring exposures in relation to such limits.

Credit risk exposure

The table below shows the maximum exposure to credit risk of the Company as at:

		December 31, 2023			
		Basis of recognizing ECL	**Gross carrying amount**	**Loss allowance**	**Net carrying amount**
Cash in banks and cash equivalents	(a)		**₱886,047,217**	**₱-**	**₱886,047,217**
Trade receivables	(b)	Lifetime ECL	**472,277,350**	**14,229,987**	**458,047,363**
Other receivables	(b)		**60,226,396**	**-**	**60,226,396**
Rental deposits	(c)		**628,943**	**-**	**628,943**
			₱1,419,179,906	**₱14,229,987**	**₱1,404,949,919**

		December 31, 2022			
		Basis of recognizing ECL	Gross carrying amount	Loss allowance	Net carrying amount
Cash in banks and cash equivalents	(a)		₱1,820,925,472	₱-	₱1,820,925,472
Trade receivables	(b)	Lifetime ECL	717,745,491	18,520,027	699,225,464
Other receivables	(b)		55,692,184	-	55,692,184
Rental deposits	(c)		586,313	-	586,313
			₱2,594,949,460	₱18,520,027	₱2,576,429,433

(a) Cash in banks and cash equivalents are assessed to have low credit risk at each reporting period. Cash in banks and cash equivalents are held by reputable banking institutions.

(b) For trade and other receivables, the Company has applied the simplified approach to measure the loss allowance at lifetime ECLs. The Company determines the expected credit losses on these items by using a provision matrix, estimated based on historical credit loss experience based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions.

(c) Rental deposits are assessed to have low credit risk at each reporting period since these are held by related parties.

The Company does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

Trade and other receivables

The Company applies the simplified approach to measuring ECL which uses a lifetime ECLs for all trade receivables. The loss allowance for trade receivables as at December 31 is determined as follows:

December 31, 2023

		Number of days past due			
	Current	**0 to 30 days**	**31-60 days**	**> 90 days**	**Total**
ECL rate	**4%**	**5%**	**10%**	**12%**	
Gross carrying amount:					
Trade receivables	**₱275,888,696**	**₱128,949,146**	**₱25,283,938**	**₱42,155,570**	**₱472,277,350**
Other receivables	**35,182,254**	**16,444,029**	**3,224,293**	**5,375,820**	**60,226,396**
	311,070,950	**145,393,175**	**28,508,231**	**47,531,390**	**532,503,746**
Lifetime ECL	**₱8,312,684**	**₱3,885,312**	**₱761,820**	**₱1,270,171**	**₱14,229,987**

December 31, 2022

		Number of days past due			
	Current	0 to 30 days	31-60 days	> 90 days	Total
ECL rate	2%	4%	14%	7%	
Gross carrying amount:					
Trade receivables	₱410,736,636	₱198,283,808	₱40,122,947	₱68,602,100	₱717,745,491
Other receivables	35,292,803	3,220,512	1,670,765	15,508,104	55,692,184
	446,029,439	201,504,320	41,793,712	84,110,204	773,437,675
Lifetime ECL	₱5,726,878	₱5,529,321	₱3,916,024	₱3,347,804	₱18,520,027

The following table sets out the credit quality of financial assets by category (gross of allowance) of the Company:

December 31, 2023

	Neither Past Due Nor Impaired					
	High Grade	Medium Grade	Low Grade	Past due but not impaired	Past due and individually impaired	Total
Cash in banks and cash equivalents	**₱886,047,217**	**₱-**	**₱-**	**₱-**	**₱-**	**₱886,047,217**
Trade receivables	**458,047,363**	**-**	**-**	**-**	**14,229,987**	**472,277,350**
Other receivables	**60,226,396**	**-**	**-**	**-**	**-**	**60,226,396**
Rental deposits	**628,943**	**-**	**-**	**-**	**-**	**628,943**
	₱1,404,949,919	**₱-**	**₱-**	**₱-**	**₱14,229,987**	**₱1,419,179,906**

December 31, 2022

	Neither Past Due Nor Impaired					
	High Grade	Medium Grade	Low Grade	Past due but not impaired	Past due and individually impaired	Total
Cash in banks and cash equivalents	₱1,820,925,472	₱-	₱-	₱-	₱-	₱1,820,925,472
Trade receivables	699,225,464	-	-	-	18,520,027	717,745,491
Other receivables	55,692,184	-	-	-	-	55,692,184
Rental deposits	586,313	-	-	-	-	586,313
	₱2,576,429,433	₱-	₱-	₱-	₱18,520,027	₱2,594,949,460

The credit ratings of the financial assets of the Company are determined as follows:

<u>High grade</u>

High grade financial assets consist of cash and cash equivalents which are deposited in large universal and commercial banks. Trade receivables consist of current month's billing expected to be collected within ten (10) days from billing. Other receivables include receivables from PEMC for Luzon WESM Prices for November and December 2013 ordered to be refunded by ERC.

<u>Medium grade</u>

Medium grade financial assets include trade receivables that are expected to be collected within 30 days after billing.

<u>Low grade</u>

Low grade financial assets include trade receivables that are expected to be collected within 60 days after billing.

The Company's customers consist mainly of third parties with good credit rating. None of the financial assets that are fully performing has been renegotiated in 2023 and 2022.

Liquidity risk

The Company monitors and maintains a level of funds deemed adequate by management to finance the Company's operations and mitigate the effects of cash flows. Any excess funds are placed with reputable banks to generate interest income. As at December 31, 2023 and 2022, the financial liabilities have contractual maturities as follow:

	December 31, 2023		December 31, 2022	
	Due within one year	**Due beyond one year**	Due within one year	Due beyond one year
Trade payables	**₱243,545,883**	**₱-**	₱367,466,812	₱-
Other payables*	**100,969,171**	**-**	93,704,038	-
Dividend payable	**-**	**-**	-	-
Customers' deposits	**218,879,163**	**334,924,529**	176,110,531	333,802,951
E	**₱565,764,562**	**₱334,924,529**	₱637,281,381	₱333,802,951

E
Excluding statutory payables and other liabilities to government agencies amounting to ₱72,875,864 in 2023 and ₱63,583,810 in 2022.

Share price risk

Share price risk is the risk that fair value of financial assets at FVPL decreases as the result of change in fair value of investments.

The Company's exposure to share price risk relates primarily to the Company's financial assets at FVPL. The Company intends to hold these investments indefinitely in response to liquidity requirements or change in market conditions.

The following table demonstrates the sensitivity to a reasonable change in share price, with all other variables held constant, of the Company's income before income tax. The Company determines +/-10% as reasonably possible change in share price. The detail follows:

	2023	2022
Change in share price:		
+10%	**₱17,520,241**	₱27,020,241
–10%	**(17,520,241)**	(27,020,241)

25. CAPITAL RISK OBJECTIVE AND MANAGEMENT

The Company's objectives when managing capital are:

- To safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns to shareholders and benefits for other shareholders; and
- To provide an adequate return to stockholders by pricing products and services commensurately with the level of risk.

Consistent with others in the industry, the Company monitors its capital on the basis of gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including customer's deposits, and trade and other payables as shown in the statements of financial position) less cash and cash equivalents. Total capital is calculated as Equity as shown in the statements of financial position plus net debt.

As at December 31, the Company's ratios are as follow:

	2023	2022
Trade and other payables and customers' deposits	**₱971,194,610**	₱1,034,668,142
Less: cash and cash equivalents	**886,889,217**	1,821,967,472
Net (cash) debt (a)	**84,305,393**	(787,299,330)
Total equity	**4,219,857,393**	5,415,943,993
Total capital (b)	**₱4,304,162,786**	₱4,628,644,663
Gearing ratio (a/b)	**2%**	(17%)

26. FAIR VALUE INFORMATION

Assets measured at fair value

The following is the information on the Company's assets measured at fair value at the end of each reporting period:

	2023	2022	Fair value hierarchy	Valuation techniques
Financial assets at FVPL	**₱175,202,412**	₱270,202,414	Level 1	Net asset value per share as published by various unit investment trust fund and mutual fund companies
Utility, plant and equipment	**3,846,754,440**	3,813,175,882	Level 2	Depreciated replacement cost, cost approach and sales comparison approach
Other property and equipment	**85,133,271**	92,838,330	Level 2	Depreciated replacement cost and cost approach
	₱4,107,090,123	₱4,176,216,626		

Financial assets and liabilities measured at amortized cost for which fair value is disclosed

The Company's financial assets and liabilities which are not measured at fair value but for which fair value is disclosed include cash and cash equivalents, trade and other receivables, rental deposits, trade and other payables and dividend payable. Management considers that the carrying amounts of these financial assets and liabilities approximate their fair value due to their short-term duration.

The carrying amounts of bill deposits approximate their fair values as bill deposits are interest-bearing.

27. OTHER MATTERS

EPIRA of 2001

R.A. No. 9136, otherwise known as the EPIRA Act (Act) of 2001 was signed into law on June 8, 2001. The covering Implementing Rules and Regulations (IRR) have already been deliberated upon and approved by the Joint Congressional Power Commission. The Act provides for, among others, the significant changes in the power sector, such as the (a) unbundling of the generation, transmission and distribution sectors; (b) privatization of National Power Corporation (NPC)'s generation, transmission, and other disposable assets, including independent power producers or IPP contracts, (c) creation of ERC to regulate the electric power industry; (d) creation of a wholesale electricity spot market within one year; (e) open and nondiscriminatory access to transmission and distribution systems; and, (f) mandated rate reduction and lifeline rate for marginalized end-users. The price will have regulated elements for transmission and distribution, and competitive components for the electrical energy itself and for ancillary or support services.

The law requires public listing of not less than 15% of common shares of generation and distribution companies within five (5) years from the effectivity of the Act. It provides cross ownership restrictions between transmission and generation companies and between transmission and distribution companies, and a cap that no distribution utility is allowed to source bilateral power supply contracts more than fifty percent of its total demand from an associated firm engaged in generation except for contracts entered into prior to the effectivity of the Act. Specifically relating to distribution utilities, the Act provides for the unbundling of electricity tariff rates and the determination of stranded costs and its recovery through universal charge.

On June 27, 2017, the ERC issued Resolution No. 10, Series of 2017, "A Resolution Extending the Compliance Period Under Resolution No. 9, Series of 2011, for Generation Companies and DU, which are not Publicly Listed to Offer and Sell to the Public a Portion of Not Less Than Fifteen Percent (15%) of their Common Shares of Stocks, Pursuant to Section 43(t) of R.A. No. 9136 and Rule 3, Section 4(m) of its IRR". In this resolution, ERC allowed an extension of one (1) year or until the resolution of the petition, whichever is earlier, for generation companies and distribution utilities to offer and sell to the public a portion of not less than fifteen percent (15%) of their common shares of stocks.

On December 7, 2018, the ERC per ERC Case No. 2015-006 RM had set the continuation of the public consultation on the "Petition to Amend ERC Resolution No.9, Series of 2011, Allowing Registration of Shares at the SEC as a Mode of Public Offering". The ERC invited the SEC to discuss securities rules and regulations on public offering and public listings of generation companies and distribution utilities.

On June 4, 2019, the ERC issued Resolution No. 4, Series of 2019, "A Resolution Amending Resolution No. 9, Series of 2011 Requiring Generation Companies and Distribution Utilities Which are not Publicly Listed to Offer and Sell to the Public a Portion of Not Less than Fifteen Percent (15%) of Their Common Shares of Stock Pursuant to Section 43 (t) of R.A. No. 9136 and Rule 3, Section 4 (m) of its IRR." The resolution amended Section 2.3 of Article II to include offering of common shares of stocks for sale to the public in accordance with the 2016 IRR of Securities Regulation Code as a mode of public offering: (i) publication in any newspaper, magazine or printed reading material which is distribute within the Philippines; (ii) presentation in any public or commercial place; (iii) advertisement or announcement on radio, television, telephone, electric communications, information communication technology or any other forms of communications; or (iv) distribution and/or making available flyers, brochures or any offering material in a public or commercial place or to prospective purchasers through the portal system, information communication technology and other means of information distribution.

In compliance with the above resolution, the Company applied for registration of its public offering of 15% or 2,200,000 of its common shares with the SEC. The registration of the Company's shares was rendered effective by the SEC on December 27, 2023 under SEC MSRD Order No. 72, Series of 2023, in which the public offering was scheduled from January 8, 2024 to January 12, 2024.

28. SUPPLEMENTARY INFORMATION REQUIRED UNDER REVENUE REGULATION (RR) NO. 15-2010

Presented below are the detailed information on taxes, duties and license fees paid or accrued by the Company during the taxable year December 31, 2023.

On December 28, 2010, the BIR issued RR No.15-2010, which amended certain provisions of RR No. 21-2002 prescribing the manner of compliance with any documentary and/or procedural requirements in connection with the preparation and submission of financial statements and income tax returns. Section 2 of RR No. 21-2002 was further amended to include in the Notes to Financial Statements information on taxes, duties and license fees paid or accrued during the year in addition to what is mandated by PFRSs.

a. Details of output VAT during the year are as follow:

Particulars	Vatable
Output tax declared during the year	**₱107,715,803**
Output VAT tax base	**897,801,154**

b. Details of input VAT during the year are as follow:

Beginning of year	**₱39,294,552**
Add: Domestic purchase of:	
Capital goods subject to amortization	
Goods other than for resale or manufacture	**26,569,265**
Service lodge under other accounts	**9,355,595**
Less: Claims for tax credit or refund and other adjustments	**31,938,317**
Balance at end of year	**₱43,281,095**

c. The schedule of taxes and licenses follows:

Local taxes	
Franchise tax	**₱4,026,762**
Business permit	**336,204**
Real property taxes	**11,092**
Business taxes	**-**
Residence tax - basic and additional	**-**
Internal Revenue taxes	
Deficiency taxes and interest	**3,262,341**
Documentary stamp tax	**7,318**
Annual registration fee	**3,500**
Others	
Motor vehicle registration fees	**228,502**
Registration fees with:	
ERC	**14,647,693**
SEC	**1,179,142**
National Telecommunication Commission	**80,888**
Miscellaneous	**164,862**
	₱23,948,305

d. There Company has paid documentary stamp tax in 2023 amounting to ₱7,318.

e. The amount of withholding taxes follows:

Tax on compensation and benefits	**₱9,839,611**
Expanded withholding taxes	**53,615,615**
	₱63,455,226

f. The Company has paid deficiency taxes, penalty and interest in 2023 amounting to ₱3,262,341.

* * *

Statement Required by Rule 68, Part I, Section 5,
Securities Regulation Code (SRC).
As Revised on August 19, 2019

The Board of Directors and Stockholders
DAGUPAN ELECTRIC CORPORATION
AB Fernandez St., Dagupan City
Province of Pangasinan

We have audited the accompanying financial statements of **Dagupan Electric Corporation** (the Company) as at and for the year ended December 31, 2023, on which we have rendered the attached report dated April 30, 2024. The supplementary information shown in the Schedule of Financial Soundness Indicators and Schedules, as additional component required by Rule 68, Part I, Section 5 of the Securities Regulation Code, is presented for purposes of filing with the Securities and Exchange Commission and is not a required part of the basic financial statements. Such information is the responsibility of management and has been subjected to auditing procedures applied in the audit of basic financial statements. In our opinion, the information has been prepared in accordance with Rule 68 of the Securities Regulation Code.

Diaz Murillo Dalupan and Company
Tax Identification No. 003-294-822
BOA/PRC No. 0234, effective until June 23, 2026
BIR Accreditation No. 08-001911-000-2022, effective until March 25, 2025

Alexes B. Abella
Partner
CPA Certificate No. 96749
Tax Identification No. 201-766-994
PTR No. 10081051, January 6, 2024, Makati City
BIR Accreditation No. 08-001911-010-2022, effective until March 15, 2025

April 30, 2024

Dagupan Electric Corporation
Revised SRC Rule 68
Annex 68-J
Schedule A – Financial Assets
December 31, 2023

	No of Shares of Principal Amount of Bonds and Notes	**Amount Shown in the Statements of Financial Position**	**Value Based on Market Quotation at Statement of Condition Date**	**Income Received and Accrued**
Financial assets at fair value through other comprehensive income (FVOCI)				
Equity Securities				
Tarlac Electric Inc.	400,000	152,000,000	152,000,000	5,632,000
Total -FVOCI		**152,000,000**	**152,000,000**	**5,632,000**
Financial assets at fair value through profit or loss (FVPL)				
Debt Securities				
Petron Corporation	100,970,000	100,970,000	100,970,000	5,154,801
Aboitiz Equity Ventures	17,830,000	17,830,000	17,830,000	1,408,477
BPI -PHILAM	16,169,629	22,280,054	22,280,054	-
Equity Securities				
BPI -PHILAM	4,055,446	6,878,730	6,878,730	-
Other equity and debt securities				
Sun Life Asset Management Co., Inc.	5,148,800	17,146,019	17,146,019	-
Landbank of the Philippines	1,867,228	4,581,464	4,581,464	-
BPI -PHILAM	4,549,002	5,516,146	5,516,146	-
Total -FVPL		**175,202,413**	**175,202,413**	**6,563,278**
Cash and Cash Equivalents		**886,889,217**	**886,889,217**	**961,850**
Trade and Other Receivables		**518,273,759**	**518,273,759**	

Dagupan Electric Corporation
Revised SRC Rule 68
Annex 68-J
Schedule B – Amounts Receivables from Directors, Officers, Employees, Related Parties, and Principal Stockholders (Other than Related Parties)
December 31, 2023

<table>
<tr><th rowspan="2">Name and Designation of Debtor</th><th rowspan="2">Balance at Beginning of Year</th><th rowspan="2">Additions</th><th colspan="2">Deductions</th><th colspan="2">Ending Balance</th><th rowspan="2">Balance at the End of the Year</th></tr>
<tr><th>Amounts Collected</th><th>Amounts Written-off</th><th>Current</th><th>Non-Current</th></tr>
</table>

Receivables from directors, officers, employees, related parties, and principal stockholders are within the ordinary course of the company

Dagupan Electric Corporation
Revised SRC Rule 68
Annex 68-J
Schedule C – Amounts Receivables from Related Parties which are Eliminated during the Consolidation of Financial Statements
December 31, 2023

Name and Designation of Debtor	Balance at Beginning of Year	Additions	Deductions		Ending Balance		Balance at the End of the Year
			Amounts Collected/Paid	Amounts Written-off	Current	Non-Current	

Not Applicable

Dagupan Electric Corporation
Revised SRC Rule 68
Annex 68-J
Schedule D – Long Term Debt
December 31, 2023

Type of Obligation	Amount Shown Under Caption "Current Portion of Long Long-term Debt" in Related Statement of Financial Position	Amount Shown Under Caption "Long-term Debt" in related Statement of Financial Condition

The Company has no long-term loans

Dagupan Electric Corporation
Revised SRC Rule 68
Annex 68-J
Schedule G – Capital Stock
December 31, 2023

Title of Issue	Number of Shares Authorized	Outstanding as Shown Under the Related Statement of Condition Caption	Number of Shares Reserved for Options, Warrants, Conversion and Other Rights	Number of Shares Held by		
				Related Parties	Directors, Officers, and Employees	Others
Common Stock	15,000,000	12,462,000			12,462,000	

Dagupan Electric Corporation
AB Fernandez St., Dagupan City, Province of Pangasinan
Schedule H - Reconciliation of Retained Earnings available for Dividend Declaration
As of December 31, 2023

Items	Amount
Unappropriated Retained Earnings, as adjusted to available for dividend distribution, beginning of the year	₱1,942,662,999
Add: Net income during the year closed to retained earnings	372,043,403
Less: Non-actual/unrealized income net of tax	
Remeasurement gain on retirement benefits	8,833,111
Add: Non-actual losses	
Depreciation on revaluation increment (after tax)	69,110,666
Net Income actually earned during the year	432,320,957
Less:	
Effect of prior period adjustments	-
Cash dividend declaration during the year	1,600,000,000
Stock dividend declaration during the year	-
Appropriation of retained earnings during the year	400,000,000
Reversal of appropriations	(400,000,000)
	(1,167,679,043)
Total Retained Earnings, End, Available for Dividend Declaration	**₱774,983,956**

SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS

Dagupan Electric Corporation
As of December 31, 2023

Ratio	Formula	Current Year	Prior Year
Current Ratio	Current Assets / Current Liabilities	2.55	4.42
Acid Test Ratio	Securities + Accounts Receivable) / Current Liabilities	2.32	4.17
Solvency Ratio	(Net Profit After Tax + Non-Cash Expenses) / Liabilities	0.35	0.35
Debt-to-Equity Ratio	Total Liabilities / Total Equity	0.39	0.29
Asset-to-Equity Ratio	Total Assets / Total Equity	1.39	1.29
Interest Rate Coverage Ratio*	Earnings Before Interests and Taxes / Interest Expense	N/A	N/A
Return on Equity	(Net Income / Average Shareholders' Equity) x 100	8%	8%
Return on Assets	(Net Income / Average Total Assets) x 100	6%	6%
Net Profit Margin	(Net Income / Revenues) x 100	9%	8%
Net Sales Growth	[(Net sales of Current Period - Net Sales of Previous Period) / Net Sales of Previous Period] x 100	-14%	20%
Net income percentage	[(Net income of current period - Net income of previous period) / Net income of previous period] x 100	54%	-22%
Increase in shareholders' equity	[(Shareholders' equity of current period - Shareholders' equity of previous period) / Shareholders' equity of previous period] x 100	-22%	8%

** The Company does not have any loan*

Supplemental Written Statement to
Accompany Independent Auditors' Report

The Board of Directors and Stockholders
DAGUPAN ELECTRIC CORPORATION
AB Fernandez St., Dagupan City
Province of Pangasinan

We have audited the financial statements of **Dagupan Electric Corporation** as at and for the year ended December 31, 2023, on which we have rendered the attached report dated April 30, 2024.

In compliance with SRC Rule 68, we are stating that the Company has seven (7) stockholders owning one hundred (100) shares or more each.

Diaz Murillo Dalupan and Company
Tax Identification No. 003-294-822
BOA/PRC No. 0234, effective until June 23, 2026
BIR Accreditation No. 08-001911-000-2022, effective until March 25, 2025

Alexes B. Abella
Partner
CPA Certificate No. 96749
Tax Identification No. 201-766-994
PTR No. 10081051, January 6, 2024, Makati City
BIR Accreditation No. 08-001911-010-2022, effective until March 15, 2025

April 30, 2024

Annex A.2

Dagupan Electric Corporation

Lilian Saralde <lds@decorp.com.ph>

MSRD_Dagupan Electric Corporation_SEC Form 17_Q_22 May 2024

MSRD Submission <msrdsubmission@sec.gov.ph> Fri, May 24, 2024 at 3:12 PM
To: Lilian Saralde <lds@decorp.com.ph>
Cc: "Allen Jade L. Golosino" <ajlgolosino@sec.gov.ph>

Gentlemen:

Acknowledging receipt of your email below with its attachments.

Thank you.

P.S. For future emails, kindly send it at **msrdsubmission@sec.gov.ph**

Regards,

MARKETS AND SECURITIES REGULATION DEPARTMENT
PHILIPPINE SECURITIES AND EXCHANGE COMMISSION
The SEC Headquarters, 7907 Makati Avenue, **Salcedo Village,**
Barangay Bel-Air, Makati City 1209
Telephone: +63 2 8818 5703 |+63 2 8818 6080 |+63 2 8818 7103 |+63 2 8818 7164

Securities and Exchange Commission
Your gateway to doing business in the Philippines

Securities and Exchange Commission PHILIPPINES | BAGONG PILIPINAS | INVESTORS IN PEOPLE We invest in people

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[Quoted text hidden]

COVER SHEET

for

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

SEC Registration Number

1 8 8 9 0

COMPANY NAME

D A G U P A N E L E C T R I C C O R P O R A T I O N

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

A B F E R N A N D E Z S T D A G U P A N C I T Y

Form Type	Department requiring the report	Secondary License Type, If Applicable
17-Q	SEC	

COMPANY INFORMATION

Company's email Address	Company's Telephone Number	Mobile Number
decorp@decorp.com.ph	(632) 8374 3040	9285066639

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
55	Every 3rd Tuesday of April	31-Dec

CONTACT PERSON INFORMATION

The designated contact person ***MUST*** be an Officer of the Corporation

Name of Contact Person	Email Address	Telephone Numbers/s	Mobile Number
Lilian D. Saralde	lds@decorp.com.ph	(632) 8374 3040	9285066639

CONTACT PERSON's ADDRESS

VERIA I Bldg., 62 West Avenue, Quezon City

Note 1 *: In case of death, resgination or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated*

2 *: All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation frrom liability for its deficiencies.*

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended **31 March 2024**

2. Commission identification number **18890** 3. BIR Tax Identification No. **000-202-524**

DAGUPAN ELECTRIC CORPORATION
4. Exact name of issuer as specified in its charter

DAGUPAN CITY, PANGASINAN, PHILIPPINES
5. Province, country or other jurisdiction of incorporation or organization

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

AB FERNANDEZ ST., DAGUPAN CITY **2400**
7. Address of issuer's principal office Postal Code

(632) 8374 3039
8. Issuer's telephone number, including area code

NOT APPLICABLE
9. Former name, former address and former fiscal year, if changed since last report

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

Title of each Class	Number of shares of common stock outstanding and amount of debt outstanding
COMMON SHARES	**14,662,000**

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

Yes [ ] No [✓]

If yes, state the name of such Stock Exchange and the class/es of securities listed therein:

NOT APPLICABLE

12. Indicate by check mark whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports)

Yes [✓✓] No [ ]

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

Yes [✓] No [ ]

PART I--FINANCIAL INFORMATION

Item 1. Financial Statements.

The Unaudited Interim Financial Statements of Dagupan Electric Corporation ("DECORP" or the "Company") as of and for the period ended March 31, 2024 (with comparative figures as of December 31, 2023 and for the period ended March 31, 2023) and Unaudited Notes to the Interim Condensed Financial Statements are attached as Annex A.

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

The information required by Part III, Paragraph (A)(2)(b) of "Annex C", is attached as Annex B.

PART II--OTHER INFORMATION

The following other information are attached as Annex C

a) Schedules required under Annex 68-J of the Revised Securities Regulation Code Rule 68
b) SEC Form 17-L for SEC Form 17-Q as of and for the quarter ended 31 March 2024

SIGNATURES

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

Issuer

DAGUPAN ELECTRIC CORPORATION
Issuer

By:

Rene Llames

Rene Bernard L. Llames
President and CEO

Lilian D. Saralde
Finance Manager and Compliance Officer

DAGUPAN ELECTRIC CORPORATION
INTERIM CONDENSED STATEMENTS OF FINANCIAL POSITION
As of March 31, 2024 and December 31, 2023
(UNAUDITED)

	2024	2023
ASSETS		
Noncurrent Assets		
Utility plant and equipment -note 4	**₱3,835,396,605**	₱3,846,754,440
Other property and equipment -note 5	**79,487,262**	85,133,271
FVOCI -note 6	**152,000,000**	152,000,000
Deferred tax assets -note 21	**25,974,360**	25,974,360
	4,092,858,227	4,109,862,071
Current Assets		
Cash and cash equivalents -note 7	**2,139,222,508**	886,889,217
Trade and other receivables -note 8	**510,766,864**	518,273,759
Financial assets at FVPL -note 9	**175,202,413**	175,202,413
Inventories -note 10	**77,458,948**	82,676,821
Prepayments and other current assets -note 11	**95,250,924**	76,741,105
	2,997,901,657	1,739,783,315
TOTAL ASSETS	**₱7,090,759,883**	₱5,849,645,385
EQUITY AND LIABILITIES		
Equity		
Capital stock -note 15	**₱1,466,200,000**	₱1,246,200,000
Additional paid-in capital	**1,141,724,320**	189,124,320
Revaluation reserve -note 4 and 5	**1,531,539,034**	1,549,621,290
Remeasurement gain (loss) on retirement benefits -note 18	**2,962,763**	2,962,763
Retained earnings -note 14		
Appropriated	**400,000,000**	400,000,000
Unappropriated	**884,134,562**	831,949,017
	5,426,560,680	4,219,857,390
Current Liabilities		
Trade and other payables -note 12	**659,870,385**	636,270,081
Income tax payable	**63,193,295**	46,152,714
	723,063,681	682,422,796
Noncurrent Liabilities		
Customers' deposit -note 13	**334,722,270**	334,924,529
Deferred tax liabilities -note 21	**533,431,072**	539,458,491
Retirement benefits obligation -note 18	**72,982,180**	72,982,180
	941,135,522	947,365,199
TOTAL EQUITY AND LIABILITIES	**₱7,090,759,883**	₱5,849,645,385

DAGUPAN ELECTRIC CORPORATION
INTERIM CONDENSED STATEMENTS OF COMPREHENSIVE INCOME
For the Period Ended March 31, 2024 and 2023
(UNAUDITED)

	2024	2023
REVENUES -note 17	**₱887,764,976**	₱1,033,994,043
OPERATING EXPENSES		
Purchases power -note 21	**684,536,796**	779,035,473
Operating and maintenance -note 19	**95,084,427**	58,680,098
Depreciation -notes 4 and 5	**52,563,614**	49,654,749
Taxes other than income tax	**12,082,930**	4,481,816
	844,267,767	891,852,136
INCOME FROM OPERATIONS	**43,497,209**	142,141,906
OTHER INCOME (CHARGES) -note 20	**1,619,243**	3,827,876
INCOME BEFORE INCOME TAX	**45,116,452**	145,969,783
PROVISION FOR INCOME TAX -note 21	**17,040,581**	41,481,776
NET INCOME	**28,075,871**	104,488,006
OTHER COMPREHENSIVE INCOME		
Not to be reclassified to profit or loss in the subsequent periods		
Remeasurement gain (loss) on retirement benefits, net of tax	-	-
TOTAL COMPREHENSIVE INCOME	**₱28,075,871**	₱104,488,006

DAGUPAN ELECTRIC CORPORATION
INTERIM CONDENSED STATEMENTS OF CASH FLOWS
For the Period Ended March 31, 2024 and 2023
(UNAUDITED)

	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱45,116,452**	₱145,969,783
Adjustment for:		
Depreciation -notes 4 and 5	**52,563,614**	49,654,749
Retirement benefit expense -note 18	-	-
Provision for ECL -note 8		
Franchise tax	**6,226,994**	4,026,762
Real property tax	**3,167,526**	11,092
Interest expense -note 13	-	28,260
Fair value loss on financial assets at FVPL -note 9		
Interest income -note 7	**(1,063,803)**	(3,079,566)
Gain on sale of transportation equipment -note 5		
Operating income before working capital changes	**106,010,783**	196,611,080
Decrease (increase) in:		
Trade and other receivables	**7,506,895**	248,011,966
Short-term investments		
Inventories	**5,217,873**	24,918,693
Prepayments and other current assets	**(18,509,819)**	(15,675,318)
Increase (decrease) in:		
Trade and other payables	**23,600,304**	(98,837,219)
Customers' deposits	**(202,259)**	1,933,256
Cash generated from operations	**123,623,777**	356,962,458
Interest received -note 7	**1,063,803**	3,079,566
Franchise tax paid	**(6,226,994)**	(4,026,762)
Real property tax	**(3,167,526)**	(11,092)
Income tax paid		
Interest paid	-	(28,260)
Net cash provided by operating activities	**115,293,060**	355,975,910
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment -notes 4 and 5	**(35,559,770)**	(28,223,722)
Proceeds from financial assets at FVPL -note 9		
Acquisition of financial assets at FVOCI		
Proceeds from sale of transportation equipment -note 5		
Net cash used in investing activities	**(35,559,770)**	(28,223,722)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of cash dividends		
Proceeds from public offering	**1,172,600,000**	-
Net cash used in financing activities	**1,172,600,000**	-
NET INCREASE IN CASH AND CASH EQUIVALENTS	**1,252,333,291**	327,752,188
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**886,889,217**	1,821,967,472
CASH AND CASH EQUIVALENTS AT END OF YEAR -note 7	**₱2,139,222,507**	₱2,149,719,660

DAGUPAN ELECTRIC CORPORATION
INTERIM CONDENSED STATEMENTS OF CHANGES IN EQUITY
For the Period Ended March 31, 2024 and 2023
(UNAUDITED)

	Capital Stock -note 15	Additional Paid-in Capital	Revaluation Reserve	Remeasurement Gain (Loss) on Retirement Benefits	Appropriated Retained Earnings	Unappropriated Retained Earnings	Total Equity
Balance at January 1, 2024	₱1,246,200,000	₱189,124,320	₱1,549,621,291	₱2,962,764	₱400,000,000	₱831,949,016	₱4,219,857,391
Net income						28,075,871	28,075,871
Depreciation on appraisal increase transferred to unappropriated retained earnings			(24,109,675)			24,109,675	-
Income tax effect on the revaluation increment charged to operations through additional depreciation charges			6,027,419				6,027,419
Remeasurement gain on retirement benefits, net of tax							-
Transaction with owners							-
Cash dividends							-
Additional capital through public offering	220,000,000	952,600,000					1,172,600,000
Transfer to unappropriated earnings							-
	220,000,000	952,600,000	(18,082,256)	-	-	52,185,546	1,206,703,290
Balance at March 31, 2024	₱1,466,200,000	₱1,141,724,320	₱1,531,539,035	₱2,962,764	₱400,000,000	₱884,134,562	₱5,426,560,681
Balance at January 1, 2023	₱1,246,200,000	₱189,124,320	₱1,618,731,957	-₱5,870,347	₱400,000,000	₱1,967,758,063	₱5,415,943,993
Net Income						104,488,006	104,488,006
Depreciation on appraisal increase transferred to unappropriated retained earnings			(23,036,889)			23,036,889	-
Income tax effect on the revaluation increment charged to operations through additional depreciation charges			5,759,222				5,759,222
Appropriation of retained earnings							-
	-	-	(17,277,666)	-	-	127,524,895	110,247,228
Balance at March 31, 2023	₱1,246,200,000	₱189,124,320	₱1,601,454,291	-₱5,870,347	₱400,000,000	₱2,095,282,958	₱5,526,191,221

DAGUPAN ELECTRIC CORPORATION
Notes to Interim Condensed Financial Statements
For the Period March 31, 2024 and 2023, and December 31, 2023

1. CORPORATE INFORMATION

Dagupan Electric Corporation (the Company) was incorporated in the Philippines on May 30, 1961. On May 20, 2008, the Securities and Exchange Commission (SEC) approved the amendment of the Articles of Incorporation of the Company extending its corporate life for another 50 years from May 20, 2011. The Company is majority owned by a group of Filipino individuals.

The Company is engaged in the distribution of electricity and is granted with a legislative franchise to operate and service certain areas in the province of Pangasinan by virtue of Republic Act (R.A.) No. 9969, enacted by the Congress of the Philippines on February 6, 2010, entitled "An Act Amending R.A. No. 3221, Granting a Franchise to Dagupan Electric Corporation to Construct, Operate and Maintain a Distribution System for the Conveyance of Electric Power to the End-Users in the City of Dagupan, the Municipalities of Calasiao, Sta. Barbara, San Fabian, San Jacinto and Manaoag, and Barangays Bolingit and Cruz in the City of San Carlos, all in the Province of Pangasinan, and Renewing/ Extending the Term of the Franchise to Another Twenty-Five (25) Years from the Date of the Approval of this Act". The act became effective on February 27, 2010.

The Company is subject to the regulations and rate-making policies of the Energy Regulatory Commission (ERC).

The registered principal address of the Company is AB Fernandez St., Dagupan City, Province of Pangasinan.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of the Company's financial statements for the year ended December 31, 2023 have been adopted in the preparation of the interim condensed financial statements. The policies have been consistently applied to all the periods presented, unless otherwise stated.

Statement of Compliance

The financial statements of the Company have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). The term PFRS in general includes all applicable PFRS, Philippine Accounting Standards (PAS) and Interpretations issued by the former Standing Interpretations Committee (SIC), the Philippine Interpretations Committee (PIC) and the International Financial Reporting Interpretations Committee (IFRIC), which have been approved by the Financial Reporting Standards Council (FRSC) and adopted by SEC.

Basis of Preparation

The interim condensed financial statements have been prepared on a historical cost basis except for utility, plant and equipment and other property and equipment which are stated at revalued amount and financial assets at fair value through profit or loss (FVPL).

The financial statements are presented in Philippine peso (₱), the Company's functional currency. All amounts are rounded to the nearest peso except when otherwise indicated.

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial years except for the amended PFRS below which is mandatorily effective for annual periods beginning on or after January 1, 2023.

PAS 1 and PFRS Practice Statement 2 (Amendments) Disclosure of Accounting Policies. The narrow-scope amendments PAS 1, *Presentation of Financial Statements* require entities to disclose material accounting policy information instead of significant accounting policies. The amendments also clarify the following: (1) accounting policy information may be material because of its nature, even if the related amounts are immaterial; (2) accounting policy is material if users of an entity's financial statements would need it to understand other material information in the statements; and (3) if an entity discloses immaterial accounting policy information, such information shall not obscure material accounting policy information. Further, the amendments provide several paragraphs to explain how an entity can identify material accounting policy information and to give examples of when accounting policy information is likely to be material. In addition, PFRS Practice Statement 2 has been amended by adding guidance and examples to explain and demonstrate the application of 'four-step materiality process' to accounting policy information in order to support the amendments to PAS 1. The amendments are applied prospectively. The amendments are effective for annual periods beginning on or after January 1, 2023, with earlier application permitted. Once the entity applies the amendments to PAS 1, it is also permitted to apply the amendments to PFRS Practice Statement 2. The amendments do not have a material impact on the interim financial statements of the Company.

PAS 8 (Amendments) Definition of Accounting Estimates. The amendments to PAS 8, *Accounting Policies, Changes* focus entirely on accounting estimates and clarify the following:

- The definition of a change in accounting estimates is replaced with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty".
- Entities develop accounting estimates if accounting policies require items in financial statements to be measured in a way that involves measurement uncertainty.
- A change in accounting estimate that results from new information or new developments is not the correction of an error. In addition, the effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors.
- A change in an accounting estimate may affect only the current period's profit or loss, or the profit or loss of both the current period and future periods. The effect of the change relating to the current period is recognised as income or expense in the current period. The effect, if any, on future periods is recognised as income or expense in those future periods.

The amendments do not have a material impact on the interim financial statements of the Company.

New accounting standards and amendments to existing standards effective subsequent to January 1, 2023

Standards issued but not yet effective up to the date of the Company's financial statements are listed below. These amendments to standards issued are those that the Company reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Company intends to adopt these standards when they become effective.

PAS 1 (Amendments) Classification of Liabilities as Current or Noncurrent. The narrow-scope amendments to PAS 1, *Presentation of Financial Statements* clarify that liabilities are classified as either current or noncurrent, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (e.g. the receipt of a waver or a breach of covenant). The amendments also clarify what PAS 1 means when it refers to the 'settlement' of a liability. The amendments could affect the classification of liabilities, particularly for entities that previously considered management's intentions to determine classification and for some liabilities that can be converted into equity. The amendments are effective for annual periods beginning on or after January 1, 2024, with earlier application permitted. The amendments do not have a material impact on the interim financial statements of the Company.

Utility Plant and Equipment and Other Property and Equipment

The Company's utility plant and equipment and other property and equipment (fixed assets) are initially measured at cost. The initial cost comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to profit or loss in the period when the costs are incurred. Land is stated at cost less any impairment in value.

Subsequently, fixed assets are carried at revalued amounts which are the fair values at the date of revaluation, as determined by independent appraisers, less subsequent accumulated depreciation and any accumulated impairment losses. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The appraisal was performed by an independent firm of appraisers and the significant assumptions used by the appraiser are disclosed in Notes 4 and 5.

If the assets' carrying amount is increased as a result of a revaluation, the increase is recognized in other comprehensive income and accumulated in equity under the heading "Revaluation reserve". However, the increase shall be recognized in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognized in profit or loss.

If the assets' carrying amount is decreased as a result of a revaluation, the decrease shall be recognized in profit or loss. However, the decrease shall be recognized in other comprehensive income to the extent of any credit balance existing in the revaluation reserve in respect of that asset. The decrease recognized in other comprehensive income reduces the amount accumulated in equity under the heading "Revaluation reserve". Annually, an amount from the revaluation reserve is transferred to retained earnings for the depreciation relating to the revaluation. Revaluations are performed to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date.

Depreciation is computed on a straight-line method over the following estimated useful lives:

Number of Years

Utility plant and equipment:	
Buildings and improvements	30
Distribution	25-45
Tools and equipment	10
Other property and equipment:	
Office furniture and equipment	5-10
Transportation equipment	5-10

Construction in progress represents properties under construction and is stated at cost. This includes the cost of construction, applicable borrowing cost and other direct costs. The account is not depreciated until such time that the assets are completed and available for use. A fixed asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

The depreciation method, residual values and estimated useful lives of utility plant and equipment and other property and equipment are reviewed and adjusted, if appropriate, at each reporting date.

An item of utility plant and equipment and other property and equipment is derecognized when either it has been disposed of or when it is permanently withdrawn from use and no future economic benefits are expected from its use or disposal. Any gain or loss arising on the retirement and disposal of an item of utility plant and equipment and other property and equipment (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period of retirement or disposal. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Impairment of Non-financial Assets

The Company assesses the utility plant and equipment and other property and equipment at each reporting date whether there is an indication that the asset may be impaired. All individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

An impairment loss is recognized for the amount by which the asset or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less cost to sell, and value in use, based on an internal evaluation of discounted cash flow. Impairment loss is charged to the assets in the cash-generating unit.

All fixed assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist and the carrying amount of the asset is adjusted to the recoverable amount resulting in the reversal of the impairment loss.

Financial Instruments

a. Initial recognition, measurement and classification of financial instruments

The Company recognizes financial assets and financial liabilities in the statements of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place are recognized on the settlement date.

With the exception of trade receivables that do not contain a significant financing component, financial assets and financial liabilities are recognized initially at fair value including transaction costs, except for those financial assets and liabilities at FVPL where the transaction costs are charged to expense in the period incurred. Trade receivables that do not contain a significant financing component are recognized initially at their transaction price. The Company classifies its financial assets as subsequently measured at amortized cost, fair value through other comprehensive income (FVOCI) and FVPL.

The classification of debt instruments at amortized cost or at FVOCI depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing the financial assets. The Company's business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Company's business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both.

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 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, debt instruments may be designated at FVPL on initial recognition if doing so eliminates or significantly reduces the measurement or recognition inconsistency and produce more relevant information.

Upon initial recognition, the Company may make an irrevocable election to present in other comprehensive income changes in the fair value of an equity investment that is not held for trading. The classification is determined on an instrument-by-instrument basis.

The Company classifies its financial liabilities as subsequently measured at amortized cost using the effective interest method or at FVPL.

Financial Assets at Amortized Cost

Financial assets are measured at amortized when both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial measurement, financial assets at amortized cost are subsequently measured using the effective interest method less allowance for impairment. Gains and losses are recognized in the statements of comprehensive income when the financial assets at amortized cost are derecognized, modified or impaired. These financial assets are included in current assets if maturity is within 12 months from the end of reporting period. Otherwise, these are classified as noncurrent assets.

The Company's financial assets at amortized cost comprise cash and cash equivalents, and trade and other receivables (see Notes 7 and 8). Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash depending on the immediate cash requirements of the Company and are subject to an insignificant risk of change in value.

Trade receivables are amounts due from the Company's customers for the power supplied to the customers and other related services performed in the ordinary course of business.

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.

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, debt instruments may be designated at FVPL on initial recognition if doing so eliminates or significantly reduces the measurement or recognition inconsistency and produce more relevant information. Financial assets at FVPL are carried in the statements of financial position at fair value with net changes in fair value recognized in the profit or loss.

As at March 31, 2024 and December 31, 2023, the financial assets at FVPL include unit investment trust funds and mutual funds that are not considered equity instruments designated at FVOCI and do not meet the amortized cost criteria (see Note 9).

Equity Instruments Designated at FVOCI

Upon initial recognition, the Company may make an irrevocable election to present in other comprehensive income changes in the fair value of an equity instrument that is not held for trading. The classification is determined on an instrument-by-instrument basis.

When the equity instrument is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is not subsequently reclassified to profit or loss, but is transferred to retained earnings. Equity instruments designated at FVOCI are not subject to impairment assessment. These financial assets are classified as noncurrent assets.

As at March 31, 2024 and December 31, 2023, the Company's equity instruments at FVOCI consists of investment in unquoted equity shares of a private company (see Note 6).

b. Determination of Fair Value

The Company classifies its fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);

- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value of an instrument are observable, the instrument is included in level 2. If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the reporting date, with the resulting value discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

The Company's financial assets at FVPL, which consist of unit investment trust funds and mutual funds, are measured at fair value. Fair value disclosures are presented in Note 26.

"Day 1" Difference

When the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a "Day 1" difference) in the statements of comprehensive income unless it qualifies for recognition as some other type of asset or liability. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the statements of comprehensive income when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the "Day 1" difference amount.

Financial Liabilities at Amortized Cost

Financial liabilities that are not contingent consideration of an acquirer in a business combination, held for trading, or designated as at FVPL, are measured subsequently at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortized cost of a financial liability.

Financial liabilities at amortized cost include trade and other payables (except statutory payables), dividend payable and customers' deposits (see Notes 12, 13 and 14).

Trade payables are obligations to pay for goods and services that have been acquired in the ordinary course of business from suppliers. Other payables include non-trade payable and accrued expenses.

Customers' deposits are recognized upon receipt from customers and are measured at fair value of the consideration received. This is composed of bill, pole attachment and cost of line extension (COLE) deposit that serves as guarantee of customers. The customers' deposits are measured subsequently at amortized cost after the initial recognition. The customers' deposits are derecognized upon return to customers in accordance with regulations and contracts entered by the parties. Customers' deposits are classified as current liabilities if return to customers is due within one year or less; otherwise, these are presented as noncurrent liabilities.

c. *Impairment of Financial Assets*

The Company recognizes allowance for estimated credit losses (ECL) for all debt instruments that are measured at amortized cost or at FVOCI and trade and other receivables. ECLs are a probability-weighted estimate of credit losses over the expected life of the financial asset.

Credit losses are the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at the original effective interest rate. The expected cash flows include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

The Company assesses at each end of the reporting period whether the credit risk on a financial asset has increased significantly since initial recognition. For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is measured at an amount equal to the lifetime ECLs. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, a loss allowance is measured at an amount equal to 12-month ECLs. Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting period.

For trade receivables, the Company applies a simplified approach in calculating ECLs. The Company recognizes a loss allowance based on lifetime ECLs at the end of each reporting period. The ECLs on these financial assets are estimated using a provision matrix based on the Company's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment, including time value of money where appropriate.

When the credit risk on financial instruments for which lifetime ECLs have been recognized subsequently improves, and the requirement for recognizing lifetime ECLs is no longer met, the loss allowance is measured at an amount equal to 12-month ECL at the current reporting period, except for assets for which simplified approach was used.

The Company recognizes impairment loss (reversals) in profit or loss for all financial assets with a corresponding adjustment to their carrying amount through a loss allowance account.

Significant Increase in Credit Risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Company compares the risk of a default occurring on the financial instrument at the end of reporting period with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Company's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organizations, as well as consideration of various external sources of actual and forecast economic information that relate to the Company's core operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g., the extent to which the fair value of a financial asset has been less than its amortized cost;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Company presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Company has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Company assumes that the credit risk on a financial instrument has not increased significantly since initial recognition of the financial instrument is determined to have low credit risk at the end of reporting period. A financial instrument is determined to have low credit risk if:

- the financial instrument has a low risk of default;
- the debtor has a strong capacity to meet its contractual cash flow obligations in the near term; and

- adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfill its contractual cash flow obligations.

The Company considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there is no past due amounts. The Company regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Definition of Default

The Company considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- Information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Company, in full (without taking into account any collateral held by the Company).

Irrespective of the above analysis, the Company considers that default has occurred when a financial asset is more than 90 days past due unless the Company has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired Financial Assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lenders of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower concessions that the lenders would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for that financial asset because of financial difficulties.

Write-off Policy

The Company writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g., when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over one year past due, whichever occurs sooner.

Financial assets written-off may still be subject to enforcement activities under the Company's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognized in profit or loss.

d. Derecognition

Financial Asset

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

- the right to receive cash flows from the asset has expired;
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Company has transferred its right to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its right to receive cash flows from an asset and 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 the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Financial Liability

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such as 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 recognized in profit or loss.

e. Offsetting of Financial Instruments

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

<u>Inventories</u>

Inventories, which consist of materials and supplies, are initially measured at cost and subsequently stated at the lower of cost and net realizable value (NRV). Costs incurred in bringing materials and supplies to their present location and condition are determined on the first-in first-out method. NRV is the current replacement cost of the asset.

When the inventories are sold, the carrying amount of inventories is recognized as an expense in which the related revenue is recognized.

Prepayments and Other Current Assets

Prepayments are expenses paid in advance and recorded as asset before they are utilized. Prepayments are apportioned over the period covered by the payment and charged to the appropriate account in profit or loss when incurred. Prepayments that are expected to be realized for not more than 12 months after the end of the reporting period are classified as current asset; otherwise, these are classified as other noncurrent asset.

Other current assets represent advanced payment for the purchase of transmission lines and rental deposits. This is recognized in the statements of financial position upon payment and is measured at cost.

Creditable withholding taxes are stated at cost less any impairment in value. Creditable withholding tax is deducted from income tax payable on the same year the revenue is recognized.

Input value added tax (VAT) is stated at cost less any impairment in value. Input VAT is the indirect tax paid by the Company on the local purchase of goods or services from a VAT-registered person. Input VAT is deducted from the output VAT in arriving at the VAT due and payable. When the output tax exceeds the input tax, the difference is recognized as a current liability in the statements of financial position. When the input tax exceeds the output tax, the excess is carried over to the next reporting period and is recognized as an asset presented as Input VAT in the statements of financial position. Allowance for unrecoverable input VAT, if any, is maintained by the Company at a level considered adequate to provide for potential uncollectible portion of the claims.

Equity

(a) Capital stock

Capital stock is measured at par value for all shares issued. Incremental costs directly attributable to the issuance of new shares or options are shown in equity as deduction from the proceeds, net of tax. The excess of proceeds from the issuance of shares over the par value is credited to additional paid-in capital.

(b) Additional paid-in capital

Additional paid-in capital is the result of the Company's declaration of property dividends out of treasury shares. It also includes shares issued and offered for sale to the public by way of an initial public offering, in which the SEC rendered the application for registration of shares effective December 27, 2023.

(c) Retained earnings

Retained earnings represent accumulated earnings of the Company less dividends declared. Dividend is recognized as liability and deducted from retained earnings when declared and approved by BOD while stock dividend is deducted from retained earnings when approved by the BOD.

Revenue Recognition

Revenue is measured based on consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods and services. The Company assesses its revenue arrangements against specific criteria to determine if it is acting as principal or as an agent. The Company concluded that it is acting as principal in its revenue arrangements. The Company recognizes revenue from the following sources:

Revenue from sale of electricity

Revenue is recognized upon supply of power to the customers and is stated at amount invoiced to customers, inclusive of pass-through components, and net of VAT, discounts and/or rebates. In addition, the following specific recognition criteria must be met before revenue is recognized:

- Power has been distributed to customers whose consumptions are measured by Company approved metering devices.
- Revenue estimation based on the average of historical consumption on cases of failure to read measuring devices due to unforeseen events and other valid causes.
- Recognition coincides with the period of the power bill issued to customers.

The Uniform Filing Requirements (UFR) on the rate unbundling released by the ERC on October 30, 2001 specified the following bill components: generation charge, transmission charge, system loss charge, distribution charge, supply charge, metering charge and interclass and lifeline subsidies. National value added tax and local franchise taxes, universal charges and Feed-in Tariff Allowance (FIT-All) are also separately indicated in the customers' billing statements. VAT and local franchise taxes (which are billed and collected merely on behalf of the national and local government), universal charges and FIT-All [which are billed and collected merely on behalf of Power Sector Assets and Liabilities Management Corporation (PSALM) and National Transmission Corporation (TransCo), respectively] do not form part of the Company's revenues. The Company's revenues are adjusted for over/under recoveries of pass-through charges.

Pole rental income

Rental income is accounted for on a straight-line basis over the lease term.

Interest income

Interest income is recognized as the interest accrues taking into account the effective yield of the asset.

Other income

Other income is recognized when earned.

Expense Recognition

Expenses are recognized in the statements of comprehensive income on the basis of a direct association between the costs incurred and the earning of specific items of income; on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association can only be broadly or indirectly determined; or immediately when expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify or cease to qualify, for recognition in the statements of financial position as an asset.

Leases

Company as lessee

The Company entered into operating lease arrangements on its office space. The leases do not transfer to the Company substantially all the risks and benefits of ownership of the assets. Lease payments are recognized in profit or loss on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

Company as lessor

The Company leased out its poles under operating lease agreements. Under the lease agreements, the Company does not transfer substantially all the risk and benefits of ownership of the assets. Rental income from the lease is recognized in profit or loss on a straight-line basis over the lease term.

Direct cost incurred in negotiating an operating lease is added to the carrying amount of the leased asset and is recognized over the lease term on the same basis as rental income. Contingent rent is recognized as revenue in the period earned.

Foreign Currency Transactions

Transactions in foreign currencies are recorded in Philippine peso using the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated using the closing exchange rate at the reporting date. All foreign exchange gains and losses are recognized in profit or loss.

Related Party Relationships and Transactions

A related party transaction is a transfer of resources, services, or obligations between related parties, regardless of whether a price is charged.

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

In considering each possible related party relationship, attention is directed to the substance of the relationships, and not merely the legal form.

Current and Deferred Income Tax

The tax expense for the year comprises current and deferred tax. Tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax is calculated on the basis of the tax laws enacted or substantively enacted at reporting date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill; deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable income. Deferred tax is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

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

Deferred tax assets and liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Retirement Benefits

Short-term employee benefits

The Company recognizes a liability net of amounts already paid and an expense for services rendered by employees during the accounting period that are expected to be settled wholly before 12 months after the end of the reporting period. Short-term benefits given by the Company to its employees include salaries and wages, fringe benefits, 13th month pay, Social Security System (SSS), Philhealth and Home Development Mutual Fund (HDMF) contribution.

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

Retirement benefits obligation

Pension benefits are provided to employees through a defined benefit plan. The retirement plan is generally funded through payments to a trustee bank determined by periodic actuarial calculations.

Typically, defined benefit plans define an amount of retirement benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan asset, if any.

The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method. The defined benefit cost comprises of the service cost, net interest on the defined benefit liability or asset and the remeasurement of net defined benefit liability or asset. Service cost which includes current service cost, past service cost and gains or losses on non-routine settlements is recognized as expense in profit or loss. Past service cost is recognized when plan amendment or curtailment occurs. Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss.

Remeasurement comprising actuarial gains and losses and return on plan asset (excluding net interest on defined benefit liability) is recognized immediately in other comprehensive income in the period in which they arise. Remeasurement is not reclassified to profit or loss in subsequent periods. Remeasurement recognized in other comprehensive income account. The difference between the interest income component of net interest and the actual return on plan asset is recognized in other comprehensive income.

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 the Company, nor can they be paid directly to the Company. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets or if no maturity, the expected period until the settlement of the related obligation. The Company's right to be reimbursed of some or all of the expenditures required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

Termination benefits

Termination benefits are payable when employment is terminated by the Company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes termination benefits when it is demonstrably committed to either: (a) terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or (b) providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the reporting date are discounted to present value.

Provisions and Contingencies

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. 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 assessments 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 the passage of time is recognized as interest expense. When the Company expects a provision or loss to be reimbursed, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain and its amount can be estimated reliably. The expense relating to any provision is presented in the statements of comprehensive income, net of any reimbursement.

Contingent liabilities are not recognized in the financial statements. These are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but disclosed when an inflow of economic benefits is probable. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the financial statements.

Earnings Per Share

Basic earnings per share is calculated by dividing the profit for the year attributable to the common shareholders of the Company by the weighted average number of common shares outstanding during the year, after considering the retroactive effect of stock dividend, if any.

Events after the Reporting Date

Post year-end events that provide additional information about the Company's position at the reporting date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the financial statements when material.

3. MATERIAL ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the financial statements in compliance with PFRS requires Management to make estimates and assumptions that affect the amounts reported in the financial statements. The estimates and assumptions used in the financial statements are based upon Management's evaluation of relevant facts and circumstances at the end of the reporting period. Actual results could differ materially from such estimates.

Estimates and judgments 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.

Material Accounting Judgments

Business Model Assessment

Classification and measurement of financial assets depend on the results of the business model and solely for payments of principal and interest test. The Company determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgment reflecting all relevant evidence including how the performance of the assets is evaluated and their performance is measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated.

The Company monitors financial assets measured at amortized cost that are derecognized prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Company's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets. No such changes are required during the years presented.

Customers' Deposits

In applying PFRS 9 on customers' deposits, the Company has made a judgment that the timing and related amounts of future cash flows relating to such deposits cannot reasonably and reliably be estimated for purposes of alternative valuation techniques in establishing their fair values.

Key Sources of Estimation Uncertainty

Assessment for ECL on trade and other receivables

The Company recognizes a loss allowance based on lifetime ECLs at the end of each reporting period. The ECLs on these financial assets are estimated using a provision matrix based on the credit risk profile of its customers and historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment, including time value of money where appropriate. All terminated accounts, net of the related customers' deposits, are provided full allowance.

Allowance for impairment losses on trade and other receivables amounted to ₱14,229,987 at as March 31, 2024 and December 31, 2023. The carrying amount of trade and other receivables amounted to ₱510,766,864 and ₱518,273,759 as at March 31, 2024 and December 31, 2023, respectively (see Note 8).

NRV of Inventories

Inventories consist of material and supplies used in the power distribution and service segments. The cost of inventories is written down whenever the NRV of inventories becomes lower than the cost due to damage, physical deterioration, obsolescence, and change in price levels or other causes. The lower of cost or NRV of inventories is reviewed on a periodic basis. Inventories identified to be obsolete and unusable are written off and charged as expenses in the statements of comprehensive income.

The carrying amount of inventories amounted to ₱77,458,948 and ₱82,676,821 as at March 31, 2024 and December 31, 2023, respectively (see Note 10).

Estimating useful lives of fixed assets

The useful life of each of the assets included in the Company's utility plant and equipment and other property and equipment is estimated based on the period over which the asset is expected to be available for use. Such estimation is based on a collective assessment of industry practice, internal technical evaluation and experience with similar assets. The estimated useful life of each asset is reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal and other limits on the use of the asset. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of utility plant and equipment and other property and equipment would increase recorded operating expenses and decrease the carrying value of utility plant and equipment and other property and equipment.

Utility plant and equipment, net of accumulated depreciation of ₱ 2,219,650,192 and ₱2,173,215,470, amounted to ₱3,835,396,605 and ₱3,846,754,440 as at March 31, 2024 and December 31, 2023, respectively (see Note 4).

Other property and equipment, net of accumulated depreciation of ₱ 269,744,959 and ₱263,616,067 amounted to ₱79,487,262 and ₱85,133,271 as at March 31, 2024 and December 31, 2023, respectively (see Note 5).

Determining fair value of fixed assets

The fair value of the fixed assets was determined by an independent firm of appraisers. In conducting the appraisal, the independent firm of appraiser used different methods and approaches in determining the fair value of fixed assets, which are disclosed in Note 4.

The fair value of utility plant and equipment amounted to ₱3,835,396,605 and ₱3,846,754,440 as at March 31, 2024 and December 31, 2023, respectively (see Note 4).

The fair value of other property and equipment amounted to ₱79,487,262 and ₱85,133,271 as at March 31, 2024 and December 31, 2023, respectively (see Note 5).

Impairment of non-financial assets

PFRS requires that an impairment review be performed when certain impairment indicators are present. Determining the fair value of assets requires the estimation of cash flows expected to be generated from the continued use and ultimate disposition of such assets. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

Management has determined that there are no events or circumstances that may indicate that the carrying amounts of the assets are not recoverable as at March 31, 2024 and December 31, 2023.

Determining fair value of financial assets at FVPL

The financial assets at FVPL of the Company are composed of unit investment trust funds and investment in mutual funds, which are carried at fair value. This requires judgment and estimates. The fair value of these financial assets was determined based on net asset value per share as published by various unit investment trust fund and mutual fund companies. The inputs are obtained from observable market data and are based on quotes obtained from counterparties.

The fair value of the financial assets at FVPL amounted to ₱175,202,413 as at March 31, 2024 and December 31, 2023 (see Note 9).

Revenue recognition

The Company's revenue recognition policies require the use of estimates and assumptions that may affect the reported amounts of revenues and receivables.

The Company recognizes revenues based on actual electricity delivered to customers. Estimates are made on cases where there is failure to measure consumption due to unforeseen events. The measurement is based on the average historical load profiles of affected customers. The timing of recognition corresponds to the billing period disclosed in the power bill issued to customers. Management believes that such use of estimates will not result in material adjustments to revenue in future periods.

Revenue amounted to ₱887,764,976 and ₱1,033,994,043 for the three-month ended March 31, 2024 and 2023, respectively (see Note 17).

Retirement benefits obligation

The determination of the Company's retirement benefits obligation and cost of pension and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 18 and include, among others, discount rates and salary increase rate. In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with consideration to maturities corresponding to the expected duration of the defined benefits obligation. The assumptions are sensitive to changes due to complex valuation and its long-term nature. All assumptions are reviewed at each reporting date.

Retirement benefits obligation amounted to ₱72,982,180 as at March 31, 2024 and December 31, 2023, respectively (see Note 18).

4. UTILITY PLANT AND EQUIPMENT

The reconciliation of this account is as follows:

March 31, 2024

	Amount in thousands					
	Distribution	Tools and equipment	Land	Buildings and improvements	Construction in progress	Total
Cost						
Net carrying amount, January 1, 2024	₱1,585,656	₱8,544	₱56,203	₱55,491	₱49,976	₱1,755,870
Additions	31,209	113	-	367	3,388	35,077
Depreciation	(22,964)	(402)		(1,114)		(24,480)
Reclassification						
Net carrying amount, March 31, 2024	1,593,901	8,255	56,203	54,744	53,364	1,766,467

	Distribution	Tools and equipment	Land	Buildings and improvements	Construction in progress	Total
Appraisal increase (decrease in value)						
Net carrying amount, January 1, 2024	**1,667,041**	**(5,871)**	**411,893**	**17,822**		**2,090,885**
Depreciation	**(21,809)**			**(146)**		**(21,955)**
Net carrying amount, March 31, 2024	**1,645,232**	**(5,871)**	**411,893**	**17,676**		**2,068,930**
	₱3,239,133	**₱2,384**	**₱468,096**	**₱72,420**	**₱53,364**	**₱3,835,397**

December 31, 2023

	Amount in thousands					
	Distribution	Tools and equipment	Land	Buildings and improvements	Construction in progress	Total
Cost						
Net carrying amount, January 1, 2023	₱1,512,917	₱7,361	₱56,203	₱48,307	₱9,666	₱1,634,453
Additions	155,456	2,709	-	9	56,629	214,803
Depreciation	(87,953)	(1,526)	-	(3,908)	-	(93,387)
Reclassification	5,236	-	-	11,083	(16,319)	-
Net carrying amount, December 31, 2023	1,585,656	8,544	56,203	55,491	49,976	1,755,870
Appraisal increase (decrease in value)						
Net carrying amount, January 1, 2023	1,754,297	(5,871)	411,893	18,404	-	2,178,722
Depreciation	(87,256)	-	-	(582)	-	(87,838)
Net carrying amount, December 31, 2023	1,667,041	(5,871)	411,893	17,822	-	2,090,884
	₱3,252,697	₱2,672	₱468,096	₱73,313	₱49,976	₱3,846,754
Cost	₱2,787,690	₱36,645	₱56,203	₱102,543	₱49,976	₱3,033,056
Accumulated depreciation	(1,202,034)	(28,102)	-	(47,051)	-	(1,277,187)
Net carrying amount, December 31, 2023	1,585,656	8,544	56,203	55,491	49,976	1,755,870
Appraisal increase (decrease in value)	2,523,246	(2,020)	411,893	47,749	-	2,980,869
Accumulated depreciation	(856,205)	(3,852)	-	(29,927)	-	(889,984)
Net carrying amount, December 31, 2023	1,667,041	(5,871)	411,893	17,822	-	2,090,884
	₱3,252,697	₱2,672	₱468,096	₱73,313	₱49,976	₱3,846,754

The carrying amount that would have been recognized had the fixed assets been carried under cost model is as follows:

	Amount in thousands					
	Distribution	Tools and equipment	Land	Buildings and improvements	Construction in progress	Total
March 31, 2024	1,593,901	8,255	56,203	54,744	53,364	1,766,467
December 31, 2023	₱1,585,656	₱8,544	₱56,203	₱55,491	₱49,976	₱1,755,870

Depreciation on utility, plant and equipment for the three-month periods ended March 31, 2024 and 2023 charged to operating expenses amounted to ₱46,434,722 in 2024 and ₱44,753,807 in 2023 (including depreciation on appraisal increase of ₱21,955,027 and ₱21,959,564 for the three months periods ended March 31, 2024 and 2023, respectively).

The Company estimates the useful life of its substation equipment based on the period of which the asset is expected to be available for use as determined by the Company's internal technical evaluation based on their experience with similar assets.

Re-appraisal of utility plant and equipment and other property and equipment

On December 31, 2021, the Company had its utility plant and equipment and other property and equipment re-appraised by an independent firm of appraiser accredited by the SEC. The valuation was performed in accordance with the International Valuation Standards (2022 Edition) and Philippine Valuation Standards (2nd Edition, 2018).

The result of the revaluation of assets was adjusted to accumulated depreciation of appraisal increase except for land in which the resulting increase in value was adjusted to appraisal increase. The net carrying amount of utility plant and equipment and other property and equipment was revalued at ₱3,946,345,600 as of December 31, 2021.

The fair value of the utility plant and equipment and other property and equipment is categorized at Level 2 for which the fair value measurement is observable. The following are methods and approaches used by independent appraisers in measuring the utility plant and equipment and other property and equipment:

a. The value of the land was arrived at using the Market Approach. This is a comparative approach to value that considers the sales of similar or substitute properties and related market data and establishes a value estimate by processes involving comparison.

b. The values of the buildings and other land improvements (which includes distribution, tools and equipment, buildings and improvements, transportation equipment and office furniture and equipment) located in the Company's main office in Barangay Oeste, Dagupan City, Pangasinan were arrived at using Cost Approach. This is a comparative approach to the value of property or another asset that considers as a substitute for the purchase of a given property, the possibility of constructing another property that is a replica of, or equivalent to, the original or one that could furnish equal utility with no undue cost resulting from delay. It is based on the reproduction or replacement cost of the subject property or asset, less total (accrued) depreciation, plus the value of the land to which an estimate of entrepreneurial incentive or developer's profit/loss is commonly added.

c. The values of the buildings and other land improvements (which includes distribution, tools and equipment, buildings and improvements, transportation equipment and office furniture and equipment) located in the Calasiao Substation, San Jacinto Substation, Sta. Barbara Pole Yard were arrived at using Depreciated Replacement Cost. This is an application of the cost approach used in assessing the value of specialized assets for financial reporting purposes, which direct market evidence is limited or unavailable. It is used when there is insufficient market data to arrive at market value by means of market-based evidence. It is based on the principle of substitution. The method is based on the same theoretical transaction between traditional informed parties as the market value concept.

There are no utility plant and equipment held as collateral for liabilities as at March 31, 2024 and December 31, 2023. These assets are free from any liens and encumbrances.

5. OTHER PROPERTY AND EQUIPMENT

The reconciliation of this account is as follows:

March 31, 2024

	Transportation equipment	Office furniture and equipment	Total

Cost			
Net carrying amount, January 1, 2024	**₱59,428,863**	**₱19,085,252**	**₱78,514,114**
Additions	**348,214**	**134,669**	**482,883**
Depreciation	**(2,697,949)**	**(1,276,295)**	**(3,974,244)**
Net carrying amount, March 31, 2024	**57,079,128**	**17,943,626**	**75,022,754**
Appraisal Increase (decrease in value)			
Net carrying amount, January 1, 2024	**11,636,496**	**(5,017,340)**	**6,619,156**
Depreciation	**(2,154,648)**		**(2,154,648)**
Net carrying amount, March 31, 2024	**9.481,848**	**(5,017,340)**	**4,464,508**
	₱66,560,976	**₱12,926,286**	**₱79,487,259**
Cost	**₱214,166,753**	**₱91,891,173**	**₱306,057,926**
Accumulated depreciation	**(157,087,626)**	**(73,947,547)**	**(231,035,173)**
Net carrying amount, March 31, 2024	**57,079,127**	**17,943,626**	**75,022,753**
Appraisal increase	**37,799,778**	**5,488,926**	**43,288,704**
Accumulated depreciation	**(28,317,930)**	**(10,506,266)**	**(38,824,196)**
Net carrying amount, MARCH 31, 2024	**9,481,848**	**(5,017,340)**	**4,464,508**
	₱66,560,976	**₱12,926,286**	**₱79,487,259**

December 31, 2023

	Transportation equipment	Office furniture and equipment	Total
Cost			
Net carrying amount, January 1, 2023	₱62,810,360	₱19,099,518	₱81,909,878
Additions	7,141,074	4,989,942	12,131,016
Depreciation	(10,522,572)	(5,004,208)	(15,526,780)
Net carrying amount, December 31, 2023	59,428,862	19,085,252	78,514,114
Appraisal Increase (decrease in value)			
Net carrying amount, January 1, 2023	15,945,792	(5,017,340)	10,928,452
Depreciation	(4,309,296)	-	(4,309,296)
Net carrying amount, December 31, 2023	11,636,496	(5,017,340)	6,619,156
	₱71,065,358	₱14,067,912	₱85,133,271
Cost	₱213,818,539	₱90,480,209	₱304,298,748
Accumulated depreciation	(154,389,677)	(71,394,957)	(225,784,634)
Net carrying amount, December 31, 2023	59,428,862	19,085,252	78,514,114
Appraisal increase	37,799,778	5,488,926	43,288,704
Accumulated depreciation	(26,163,282)	(10,506,266)	(36,669,548)
Net carrying amount, December 31, 2023	11,636,496	(5,017,340)	6,619,156
	₱71,065,358	₱14,067,912	₱85,133,271

The carrying amount that would have been recognized had the fixed assets been carried under cost model is as follows:

	Transportation equipment	Office furniture and equipment	Total
March 31, 2024	**57,079,128**	**17,943,626**	**75,022,754**
December 31, 2023	₱59,428,862	₱19,085,252	₱78,514,114

Depreciation on other property and equipment for the three-month periods ended March 31, 2024 and March 31, 2023 amounted to ₱6,128,892 and 4,900,942, respectively.

There are no other property and equipment held as collateral for liabilities as at March 31, 2024 and December 31, 2023. These assets are free from any liens and encumbrances.

6. FINANCIAL ASSET AT FVOCI

This account consists of an investment in Tarlac Electric Inc., which registered its common shares with the Securities and Exchange Commission in compliance with the EPIRA and whose shares are not traded in any Exchange.

This investment was classified under FVOCI as the Management considers this investment to be strategic in nature and intends to hold this investment for the foreseeable future.

As of March 31, 2024, the Company had no intention to dispose of the financial asset at FVOCI. The Company's investment is measured at a fair value equal to its carrying amount, which is based on the observable data that the investee is generating continuous income and has a stable financial position.

7. CASH AND CASH EQUIVALENTS

This account consists of:

	March 31 2024 (Unaudited)	December 31, 2023 (Audited)
Cash on hand	**975,619**	₱842,000
Cash in banks	**966,246,889**	886,047,217
Short-term deposits	**1,172,000,000**	-
Total	**2,139,222,508**	₱886,889,217

Cash in banks earn interest at prevailing bank deposit rates. Total interest earned on cash in banks, net of final tax, amounted to ₱1,063,803 and ₱3,079,566 for the three months ended March 31, 2024 and 2023, respectively, and is included in "Interest income" presented under "Other income (charges)" account in the statements of comprehensive income (see Note 20).

Cash in banks includes a designated account where the net proceeds of the public offering are deposited. These proceeds shall be used solely in accordance with the purpose stated in the use of the proceeds of the public offering.

8. TRADE AND OTHER RECEIVABLES (NET)

This account consists of:

	March 31, 2024 (Unaudited)	December 31, 2023 (Audited)
Trade receivables	**₱467,036,131**	₱472,277,350
Other receivables	**57,960,720**	60,226,396
	524,996,851	532,503,746
Allowance for ECLs on trade receivables	**(14,229,987)**	(14,229,987)

	₱510,766,864	₱518,273,759

Trade receivables

Trade receivables are due ten days after presentation of the bill. The Company's trade receivables are non-interest bearing and are secured by bill deposits amounting to ₱ 495,698,106 and ₱489,130,585 and ₱487,823,320 as at March 31, 2024 and December 31, 2023, respectively (see Notes 12 and 13).

Trade receivables from sale of electricity consist of:

	March 31, 2024 (Unaudited)	December 31, 2023 (Audited)
Residential retail	**₱ 301,259,121**	₱ 299,238,230
General retail	**48,574,375**	48,924,837
Bulk power	**26,866,521**	33,759,977
General power	**11,700,537**	14,749,861
Universal charges	**18,491,591**	19,698,570
Street lights	**7,883,806**	4,213,974
FIT-All	**2,604,907**	919,212
Others	**49,655,273**	50,772,689
	₱467,036,131	₱ 472,277,350

Residential

This is applicable to captive customer retail service for residential purposes of a permanent nature to individual private dwellings and to individually metered apartments.

General retail

General retail consists of customers with contracted capacity of equal to or less than 40kW, served typically at secondary lines (1-phase or 3-phase). This type of service is for non-residential purpose and is mostly composed of small-medium businesses.

General power

This is applicable to captive customer retail service for non-residential purposes used for general power, heating, and lighting in industrial, manufacturing, processing, machining, cold storage, water supply, and supermalls; at secondary voltage with contracted capacity greater than 40kW.

Bulk power

Bulk power refers to a customer connected and drawing power from the primary lines at 13.8 kV. These customers install, operate and maintain their own distribution transformers. This type of service is used for general power, heating, space cooling and lighting in industrial, manufacturing, processing, machining, cold storage, water and supply and super malls, with demands equal to greater than 250 kW.

Street lights

Street lights consist of roadway lighting service where existing facilities have adequate capacity and suitable voltage.

Universal charges

Universal charges are non-bypassable charge mandated under section 34 of R.A. No. 9136 otherwise known as the Electric Power Industry Reform Act of 2001 (EPIRA) imposed on electricity customers for the following purposes: a) missionary electrification; b) environmental charge for watershed rehabilitation and management; and c) payment for stranded debts and stranded contract costs. Once collected, these charges are remitted to PSALM, which administers the fund from universal charges in accordance with the intended purposes (see Note 12).

FIT-All

Pursuant to the energy development policy mandated by the Renewable Energy Act of 2008, R.A. No. 9513 and outlined in more detail in the FIT Rules, ERC Resolution No. 16, Series of 2010 (As Amended), a qualified renewable energy developer who elects to participate in the FIT System shall be eligible to a FIT, which is a guaranteed payment on a fixed rate per kilowatt-hour for electricity generated from emerging renewable energy technologies such as wind, solar, biomass and run-of-river hydropower actually delivered to the transmission and/or distribution network.

Should the payment of FIT to eligible renewable energy plants require a differential above the prevailing cost recovery rate, a uniform charge called FIT-All will be determined by the TransCo. The FIT-All shall be billed and collected by the transmission and/or distribution utility from the consumers connected to their respective systems. Collections shall be remitted monthly to TransCo, being the fund administrator, governed by ERC Resolution No. 24, Series of 2013, Guidelines on the Collection of FIT-All and the Disbursement of the FIT-All Fund (see Note 12).

Others

Others include charges for VAT on generation, transmission, system loss and distribution and other pass-through charges.

The details and movement in the allowance for ECLs on trade and other receivables follow:

	March 31, 2024 (Unaudited)	**December 31, 2023 (Audited)**
Balance at beginning of year	₱14,229,987	₱18,520,027
Provision for ECLs – note 19		-
Write-off		(4,290,040)
Balance at end of year	₱ 14,229,987	₱ 14,229,987

The Company applies the simplified approach in measuring ECLs which uses a lifetime expected loss allowance for all trade and other receivables. The Company has written-off all trade and other receivables of more than one year past due since historical experience has indicated that these receivables are generally not recoverable.

ERC Order on Luzon Wholesale Electricity Spot Market (WESM) prices for November and December 2013 Supply Months

The ERC, in its Order dated March 3, 2014 in ERC Case No. 2014-021MC, voided the WESM prices during the period of October 26, 2013 to December 25, 2013 and ordered the imposition of regulated prices. The market participants (collectively called Movants) filed a Motion for Reconsideration (MR), which was denied by ERC on October 15, 2014. In the said Order, Philippine Electricity Market Corporation (PEMC) was directed to calculate and revise WESM bills for distribution utilities in Luzon for November and December 2013 supply months. Accordingly, the Company received from PEMC billing adjustments for refund to its customers amounting to ₱167,408,890, of which ₱5,810,294 is still outstanding as of March 31, 2024 and December 31, 2023.

The amount still for refund to customers was ₱8,993,620 and ₱8,994,895 as of March 31, 2024 December 31, 2023, respectively.

Other receivables

Other receivables include generation charge refund, accrued interest, accrued rent income from electric property, and receivables from employees.

Receivables are not held as collateral and are free from any liens and encumbrances.

9. FINANCIAL ASSETS AT FVPL

This account consists of unit investment trust funds and mutual funds.

The movements in financial assets at FVPL for the periods ended are as follow:

	March 31, 2024 (Unaudited)	December 31, 2023 (Audited)
Cost		
Balance at beginning of year	₱175,202,414	₱276,638,774
Disposal		(95,000,000)
Balance at end of period	175,202,414	181,638,774
Cumulative net unrealized loss in fair value:		
Balance at beginning of period		(6,436,360)
Fair value adjustment		
Balance at end of period		
	₱175,202,414	₱175,202,414

The inputs on fair value are obtained from observable market data and are based on quotes obtained from counterparties. The fair value was based on net asset value per share as published by various unit investment trust fund and mutual fund companies.

The unit investment trust funds and mutual funds are invested in fixed income, bond and balanced funds as at March 31, 2024 and December 31, 2023.

10. INVENTORIES

This account consists of materials and supplies for power distribution and service segments. As at March 31, 2024 and December 31, 2023, there are no inventories pledged or held as collateral.

11. PREPAYMENTS AND OTHER CURRENT ASSETS

This account consists of:

	March 31, 2024 (Unaudited)	December 31, 2023 (Audited)
Prepaid tax		
VAT	**53,283,652.28**	₱55,649,790
Creditable withholding tax	**5,571,073**	
Local Franchise Tax	**18,680,982**	
Real Property Tax	**9,462,773**	12,623,402
Insurance	**1,719,784**	1,980,031
Advances to TransCo	**5,858,942**	5,858,942
Advances to suppliers		-
Others	**673,718**	628,943
	₱95,250,924	₱76,741,108

Prepaid insurance consists of vehicle insurance, annual health premium and fire/lighting and earthquake insurance.

Others pertain to rental deposits.

<u>Sale of sub-transmission lines/assets of TransCo</u>

On February 10, 2012, the Company and TransCo filed a joint application docketed as ERC Case No. 2012-021 RC for the approval of the sale of various sub-transmission lines/assets of TransCo to the Company. On August 11, 2014, the ERC approved the application with modification, limiting the sale only to those assets located within the franchise area of the Company. On November 6, 2014, the Company paid for the assets amounting to ₱5,858,942 in compliance with the Decision. However, on November 21, 2014, National Grid Corporation of the Philippines (NGCP) filed a MR, holding the transfer of assets until ERC resolve the matter. As such, the payment to TransCo has been treated as advance settlement, and is included under "Prepayment and other current assets" account in the statements of financial position. The application is still pending with the ERC as at March 31, 2024.

12. TRADE AND OTHER PAYABLES

This account consists of:

	March 31, 2024 (Unaudited)	December 31, 2023 (Audited)
Trade payables	**₱253,622,885**	₱243,545,883
Customers' deposits (current portion) – note 13	**227,259,747**	218,879,163
Output VAT	**62,657,044**	67,355,685
Accrued expenses and other current liabilities	**67,966,418**	71,715,397
Universal charges payable	**28,617,444**	19,958,991
Accrued taxes	**928,933**	1,051,778
WESM regulated prices payable	**8,883,620**	8,994,895
FIT-All payable	**2,533,869**	146,534
Others	**7,400,425**	4,621,757
	₱659,870,385	₱636,270,081

Trade payables and output VAT

Trade payable represents the Company's liabilities to GNPower Mariveles Energy Center Ltd. Co., (GMEC), One Manaoagsolar Corporation (OMSC), Energy Development Corporation (EDC), and various power producers that participate in the Wholesale Electricity Market (WESM) operated by the Independent Electricity Market Operator (IEMOP) for purchased power, and NGCP for electric transmission services. The output VAT represents VAT to be collected on generation and transmission in accordance with ERC Resolution No. 20, Series of 2005, which prescribed the Guidelines Implementing the Recovery of VAT and Other Provisions of R.A. No. 9337 affecting the Electric Power Industry.

Customers' deposits

The customers' deposits (current portion) consist of bill deposits amounting to ₱191,665,390 and ₱176,110,531 as at March 31, 2024 and December 31, 2023, respectively (see Note 13).

Universal charges payable

Universal charges payable represents passed-on charges that were collected from customers. These are remitted to PSALM, which administers the fund from universal charges in accordance with the intended purposes (see Note 8).

Accrued expenses, other current liabilities and other payables

Accrued expenses and other current liabilities consist of payables to suppliers other than power suppliers and accrual of recurring expenses like electricity and water bill. Accrued taxes consist of energy and franchise taxes payable. The company paid ₱24,907,976 and ₱28,975,789 franchise taxes in 2024 and 2023, respectively.

Other payables of ₱ 7,400,425 and ₱4,621.757 as at March 31, 2024 and December 31, 2023, respectively, consist mainly of expanded withholding tax, withholding tax – compensation, National Home Mortgage Finance Corporation (NHMFC), SSS, Philhealth and Pag-ibig.

Trade and other payables except for customers' deposits are due within 30 days from the date of billing and do not bear interest.

FIT-All payable

FIT-All payable represents passed-on and billed charges to customers on a monthly basis. Once collected from customers, these charges are remitted to TransCo, which is the designated FIT administrator (see Note 8).

WESM regulated prices payable

WESM regulated prices payable represents the outstanding amount for refund to the Company's customers who were affected by the ERC's regulation of WESM prices for the November and December 2013 supply months (see Note 8).

13. CUSTOMERS' DEPOSITS

This account consists of:

	March 31, 2024 (Unaudited)	December 31, 2023 (Audited)
Bill deposits	**₱268,438,359**	₱268,944,157
COLE deposits	**56,513,757**	56,477,458
Pole attachment deposits	**9.770,154**	9,502,914
	₱334,722,270	₱334,924,529

Bill deposits secure payment of the monthly bills for electricity consumption and are equivalent to the estimated bill for one month of service, while meter deposits cover 50% of the cost of the metering equipment. COLE deposit is the cost of additional line to provide electricity in a specific location exceeding the limit of 20 meters from poles, while pole attachment deposits are deposits by third parties using the Company's poles to provide service to their customers.

On June 17, 2004 and October 27, 2004, the ERC issued the Magna Carta for Residential Electricity Consumers and the Guidelines to Implement its Articles 7, 8, 14 and 28 respectively, and on January 18, 2006 issued the Distribution Services and Open Access Rules (DSOAR). The foregoing rules include provisions on handling of customer deposits. It provides that residential and non-residential customers must pay or submit a bill deposit to guarantee payment of bills equivalent to their estimated monthly billing. The amount of deposit shall be adjusted after one year to approximate the actual average monthly bills.

A customer, who has paid his electric bills on or before its due date for three consecutive years, may now demand for the full refund of the bill deposit prior to the termination of his service; otherwise, bill deposits shall be refunded within one month from the termination of service, provided all bills have been paid. Further, these regulations exempt payment of meter deposits, but in case of loss and/or damage to the electric meter due to the fault of the customer, the latter shall bear the full replacement cost of the meter. The existing meter deposit of residential customers shall be refunded in accordance with the Guidelines to Implement Articles 7, 8, 14 and 28 of the Magna Carta. While for non-residential customers, DSOAR requires Distribution Utilities to submit a proposal to the ERC on the methodology and timeline for the refund of meter deposits within ninety (90) days following its effectivity.

Magna Carta and DSOAR also provide that distribution utilities shall pay interest on bill and meter deposits. Interest on bill deposits shall be equivalent to the interest incorporated in the calculation of their weighted average cost of capital (WACC); otherwise, it shall earn a rate equivalent to the prevailing interest for savings deposit as approved by the Bangko Sentral ng Pilipinas (BSP). Interest rate used on bill deposit was 0.10% for each year in 2021 and 2020. Interest for meter deposit shall be at 6% for contracts of service entered into prior to the effectivity of ERB Resolution No. 95-21 issued on August 3, 1995, and 10% thereafter.

On June 4, 2008, the ERC issued Resolution No. 8, Series of 2008, "A Resolution Adopting the Rules to Govern the Refund of Meter Deposits to Residential and Non-Residential Customers". These rules provide the parameters for the refund of meter deposits and related interest thereon. Interest on meter deposit paid prior to the effectivity of ERB Resolution No. 95-21 shall earn 6% per annum. While payments made after the effectivity of ERB Resolution No. 95-21 until the day prior to the effectivity of Magna Carta or DSOAR shall earn an interest of 10% per annum.

Meter deposits paid from the effectivity of Magna Carta or DSOAR until the day prior to the start of the refund will be entitled to an interest of six per cent (6%) per annum.

Bill deposits of ₱ 227,259,747 and ₱218,879,163 as at March 31, 2024 and December 31, 2023, respectively, are included in the current portion of Customers' deposits under the "Trade and other payables" account in the statements of financial position (see Note 12).

Interests on bill deposits amounted to nil and ₱ 28,260 for the three months ended March 31, 2024 and 2023, respectively.

14. RETAINED EARNINGS

The BOD approved the reversal and appropriation of the following:

<u>2023</u>

a.) Reversal of ₱400,000,000 appropriated for capital expenditures from 2022 unrestricted retained earnings.

b.) Appropriation of ₱400,000,000 for the following capital expenditures: a.) Expansion of distribution lines to accommodate the continuous growth of electrical loads due to additional customers and increasing demand, b.) Rehabilitation of existing lines, which covers replacement and relocation of poles, rerouting of primary and secondary lines, and reconfiguration of pole top assemblies, c.) Improvement of the grounding/earthing and insulation coordination, d.) Construction of 20/25 MVA, 69kV sub-transmission line from Balingueo, Sta. Barbara, Pangasinan to San Miguel, Calasiao, f.) Advanced Distribution Management System Project, g.) Construction of buildings, and g.) Improvement of customer service facilities.

<u>2022</u>

c.) Appropriation of ₱400,000,000 for the following capital expenditures: a) expansion of distribution lines to accommodate the continuous growth of electrical loads due to additional customers and increasing demand; b) rehabilitation of existing lines, which covers replacement and relocation of poles, rerouting of primary and secondary lines, and reconfiguration of pole top assemblies; c) improvement of the grounding/earthing and insulation coordination; d) construction of 20/25 MVA, 69kV/13.8kV substation in Santa Barbara, Pangasinan; e) expansion of primary lines from Sta. Barbara Substation to Minien East, Sta. Barbara; f) construction of a control tower building extension; and g) improvement of customer service facilities.

2021

d.) Reversal of ₱600,000,000 appropriated for capital expenditures from 2020 unrestricted retained earnings.

Cash Dividend

On June 16, 2023, the BOD approved the declaration of cash dividend in the amount of ₱1,600,000,000 to stockholders of record as of June 15, 2023 which are payable on various dates up to September 29, 2023.

15. CAPITAL STOCK

The details of capital stock are as follow:

	March 31, 2024 (Unaudited)	December 31, 2023 (Audited)
Authorized – ₱100 par value per share, 15,000,000 shares	**₱1,500,000,000**	**₱1,500,000,000**
Common shares issued, fully paid and outstanding – 14,662,000 shares and 12,462,000 shares on 31 March 2024 and 31 December 2023, respectively	**1,466,200,000**	**1,246,200,000**
Outstanding	**₱1,466,200,000**	**₱1,246,200,000**

On December 27, 2023, the SEC rendered effective DECORP's application for the registration of Fourteen Million Six Hundred Sixty-Two Thousand (14,662,000) common shares, of which Two Million Two Hundred Thousand (2,200,000) shares were issued and offered for sale to the public by way of an initial public offering at an offer price of Five Hundred Thirty-Three Pesos (₱ 533.00) per share. As of February 2, 2024, the Two Million Two Hundred Thousand (2,200,000) common shares offered to the public were fully subscribed and paid.

16. RELATED PARTY TRANSACTIONS

In the normal course of business, the Company has transactions with a related party.

Lease Agreement

The Company has a lease agreement with Veria Realty Inc., a company owned by the Company's major stockholders. The lease is for a period of one year subject to renewal. The monthly rental is ₱ 313,440 in 2024 and ₱298,515 in 2023, and payable at the end of each month. Total rent expense charged to operations amounted to ₱1,061,700 and ₱1,294,220 for the three-month ended 31 March 2024 and 2023, respectively, and is included as part of "Rent expense" under "Operations and maintenance" in the statements of comprehensive income (see

Note 19).

Compensation of Key Management Personnel

Compensation paid to key management personnel consists of the following:

	March 31, 2024 (Unaudited)	March 31, 2023 (Unaudited)
Salaries	**₱3,871,500**	₱3,731,400
Short-term employee benefits	**47,785**	44,460
	₱3,919,285	₱3,775,860

There are no long-term benefits paid or accrued during the year.

17. REVENUES

This account consists of:

	March 31, 2024 (Unaudited)	March 31, 2023 (Unaudited)
Electric revenues	**₱885,655,702**	₱1,031,549,986
Other revenues	**2,109,274**	2,444,057
	₱887,764,976	₱1,033,994,043

In compliance with Section 36 of R.A. No. 9136, the Company is required to unbundle its billing charges to customers. For the three months ended March 31, 2024 and 2023, the details of electric revenues are as follows:

	March 31, 2024 (Unaudited)	March 31, 2023 (Unaudited)
Generation revenue	**₱535,966,111**	₱704,363,947
Distribution revenue	**161,851,946**	140,296,326
Transmission revenue	**89,748,398**	88,075,083
System loss revenue	**47,197,145**	56,269,326
Supply revenue	**24,723,049**	20,992,369
Metering charge	**17,921,245**	15,710,283
Local franchise tax	**3,595,960**	4,093,922
Real property tax recovery	**2,345,106**	2,173,156
Lifeline charge (discount)	**2,313,578**	(424,789)
Senior citizen charge (discount)	**(6,843)**	353
Other discount	**(17,075)**	(16,168)
	₱885,638,620	₱1,031,533,808

Applications for Confirmation of Over/Under-recoveries of Pass-through Charges

On April 20, 2011, the Company filed an application docketed as ERC Case No. 2011-013 CF, "In the Matter of the Application for the Approval of the Calculations for the Automatic Cost Adjustment and True Up Mechanisms for the a) Generation Rate, b) Transmission Rate, c)

System Loss Rate, d.) Lifeline Subsidy Rate; and e) Interclass Cross Subsidy Rate, Under ERC Resolution No. 16, Series of 2009, As Amended." On March 10, 2014, the ERC issued its Decision on this application, directing the Company to refund to its customers the over recoveries amounting to ₱203,934,745 and collect from its customers the Lifeline Subsidy under recovery amounting to ₱18,588,112, covering the period from April 2004 to December 2010.

On March 31, 2014, the Company filed a MR on the above Decision for the approval of the amounts originally proposed by the Company or provide computation as to how the supposed over recoveries were arrived at. The amount of over and under recoveries is not yet certain since it is dependent on the resolution of the MR. As at 31 March 2024, the Company is still awaiting the resolution of said MR.

On April 1, 2014, the Company filed an application docketed as ERC Case No. 2014-052 CF, "In the Matter of the Application for the Approval of the Calculations for the Automatic Cost Adjustment and True Up Mechanisms for the a) Generation Rate, b) Transmission Rate, c) System Loss Rate, d.) Lifeline Subsidy Rate; and e) Senior Citizen Discount, Under ERC Resolution No. 16, Series of 2009, As Amended". The Company filed an application for the confirmation of total under recovery of ₱151,783,598 covering the years 2011 to 2013. As at 31 March 2024, the Company is still awaiting the decision of the ERC.

On March 31, 2017, the Company filed an application docketed as ERC Case No. 2017-052 CF, "In the Matter of the Application for the Approval of the Calculations for the Automatic Cost Adjustment and True Up Mechanisms for the a) Generation Rate, b) Transmission Rate, c) System Loss Rate, d.) Lifeline Subsidy Rate; and e) Senior Citizen Subsidy Rate, Under ERC Resolution No. 16, Series of 2009, As Amended, for the Period 2014 to 2016". The Company filed application for the confirmation of total over recovery of ₱30,114,229 covering the years 2014 to 2016. As at 31 March 2024, the Company is still awaiting the decision of the ERC.

On August 28, 2020, the Company filed an application docketed as ERC Case No. 2020-014 CF, "In the Matter of the Application for the Approval of the Calculations for the Automatic Cost Adjustment and True Up Mechanisms for the a) Generation Rate, b) Transmission Rate, c) System Loss Rate, d.) Lifeline Subsidy Rate; and e) Senior Citizen Subsidy Rate, Under ERC Resolution No. 16, Series of 2009, As Amended, for the Period 2017 to 2019". The Company filed application for the confirmation of total under recovery of ₱48,360,882. As at 31 March 2024, the Company is still awaiting the decision of the ERC.

On May 17, 2023, the Company filed an application docketed as ERC Case No. 2023-029 CF, "In the Matter of the Application for the Approval of the Calculations for the Automatic Cost Adjustment and True-Up Mechanisms for the a) Generation Rate, b) Transmission Rate, c) System Loss Rate, d) Lifeline Subsidy Rate, and e) Senior Citizen Subsidy Rate, Under ERC Resolution No. 16, Series of 2009, As Amended, and g) Local Franchise Tax, Under ERC Resolution No. 2, Series of 2021 for the Period 2020 to 2022." The Company filed the application for the confirmation of an over-all total under recovery of ₱73,564,161.

Performance-Based Rate Making (PBR)

The Company entered the PBR regime in 2007. The PBR is an internationally accepted rate setting methodology adopted by the ERC to replace the Return on Rate Base (RORB) for both transmission and distribution businesses as mandated by the EPIRA. It provides electric utilities with adequate and efficient capital and operating expenditures to meet growing electricity demand through timely rate adjustments.

Maximum Average Price (MAP)

On March 31, 2014, the Company filed an application docketed as ERC Case No. 2014-027 RC for approval of the Translation into Distribution Rates of Different Customer Classes for the Fourth Regulatory Year of the ERC-Approved Annual Revenue Requirement for DECORP (the Company) Under the PBR for the Regulatory Period 2011-2015. On February 9, 2015, the ERC issued its Decision on this case, giving the Company the option to implement a MAP of ₱2.4472/kWh or its proposal of ₱1.7918/kWh for the Regulatory year 2015. The Company implemented the latter rate.

Given the need by the Company to undertake capital projects in order to address the load growth, network non-growth, network control/ safety metering as well as renewal, replacement and refurbishment of existing distribution assets, the Company filed an application on November 20, 2018 docketed as ERC Case No. 2018-110 RC for approval of its capital projects for the regulatory years 2016 to 2019.

Projects	2016	2017	2018	2019
Network	₱44,356,785	₱51,065,110	₱32,497,857	₱31,175,406
Other network	59,217,708	66,189,452	83,182,536	82,930,907
Non-network	10,274,675	40,018,541	57,819,750	32,361,518
	₱113,849,168	₱157,273,103	₱173,500,143	₱146,467,831

The proposed capital expenditures will not have a direct impact on the current rates of the Company until approved by the ERC.

On March 28, 2022, the Company filed an application docketed as ERC Case No. 2022-020 RC, "In the Matter of the Application for Approval of the Annual Revenue Requirement and Performance Incentive Scheme in Accordance with the Provisions of the Rules for Setting Distribution Wheeling Rates (RDWR)" covering the Fifth Regulatory Period from July 1, 2022 to June 30, 2026.

On August 25, 2022, the Company filed an application docketed as ERC Case No. 2022-057 RC, "In the Matter of the Application for: A) Confirmation of True-Up Calculations of the Actual Weighted Average Tariff vis-à-vis ERC-Approved Maximum Average Rate for the Lapsed Regulatory Years; and B) Approval of the Final Refund/Collect Scheme to Account for the Lapsed Regulatory Years". The Company filed the application for the confirmation of an over-all under recovery of ₱22,557,035 for the period July 1, 2015 to June 30, 2022.

Other revenues

Other revenues include rent income from electric property and sale of electric materials and accessories (see Note 22).

18. EMPLOYEE BENEFITS

The Company maintains a funded, non-contributory defined benefit retirement plan covering all its regular and full-time employees. The fund is administered by a trustee bank authorized to invest the fund as it deems proper. Under the plan, the employees are entitled to retirement benefits ranging from one hundred percent (100%) to one hundred fifty percent (150%) of the

Plan Salary for every year of Credited Service on attainment of a retirement age of 60 or 35 years of service, whichever is earlier.

The retirement benefits obligation recognized in the interim condensed statements of financial position is as follows:

	March 31, 2024 (Unaudited)	December 31, 2023 (Audited)
Present value of obligation	**₱113,921,099**	₱113,921,099
Fair value of plan assets	**(40,938,919)**	(40,938,919)
	₱72,982,180	₱72,982,180

The retirement benefits expense recognized in the statements of comprehensive income included under "Operations and maintenance" (see Note 19) is as follows:

As at 31 March 2024 and December 31, 2023, the cumulative remeasurement loss on retirement benefits presented in the statements of financial position amounted to ₱2,962,764.

The movements in the retirement benefits obligation recognized in the statements of financial position are as follow:

	March 31, 2024 (Unaudited	December 31, 2023 (Audited)
Balance at beginning of period	**₱72,982,180**	₱72,701,660
Retirement benefits expense	-	12,386,259
Contributions paid	-	(328,258)
Remeasurement gain	-	(11,777,481)
Balance at end of period	**₱72,982,180**	₱72,982,180

The movements in the present value of the retirement benefits obligation are as follow:

	March 31, 2024 (Unaudited)	December 31, 2023 (Audited)
Present value of obligation, January 1	**₱113,921,099**	₱127,876,727
Current service cost	-	8,433,576
Interest cost	-	6,790,463
Benefits paid	-	(19,294,505)
Actuarial gain	-	(9,885,162)
Present value of obligation, December 31	**₱113,921,099**	₱113,921,099

The movement in the fair value of plan assets is presented below:

	March 31, 2024 (Unaudited)	December 31, 2024 (Audited)
Fair value of plan assets, January 1	**₱40,938,919**	₱55,175,067
Interest income included in net interest cost	-	2,837,780

Benefits paid	-	(19,294,505)
Contributions	-	328,258
Actuarial gain	-	1,892,319
Fair value of plan assets, December 31	**₱40,938,919**	₱40,938,919

The fair value of plan assets consists of:

- Investment in government securities which consists of fixed rate treasury notes and retail treasury bonds;
- Corporate stocks which consist primarily of stocks listed in Philippine Stock Exchange (PSE);
- Deposit in banks which consists of savings deposit and certificate of time deposits; and
- Other securities and debt instruments which consist primarily of investment in corporate bonds.

The Company's plan assets are administered by a trustee bank, which is responsible for the general administration of retirement plan including the management of the fund. The trustee bank does not currently employ any asset-liability matching.

Risk Arising from the Retirement Plan

The defined benefit plan is underfunded by ₱72,982,180 as at March 31, 2024 and December 31, 2023, respectively. While there is no minimum required funding, the amount without fund may expose the Company to cash flow risk for ten years when a significant number of employees are expected to retire.

Credit Risk

The plan assets exposure to credit risk arises from its investments in financial assets which comprise of investment in government securities, corporate stocks, deposit in banks and other securities and debt instruments. The maximum credit risk exposure is equivalent to the carrying amount of financial instruments. The credit risk arises from possible default of the issuer of the financial assets.

The credit risk is minimized by ensuring that the exposure to the various financial assets as recommended by the trustee bank.

Share Price Risk

The plan assets exposure to share price risk arises from corporate stocks which are traded at PSE. The share price risk results from the volatility of the share prices in the PSE.

The share price risk is minimized by ensuring that investments in shares of stock are limited only to blue chip companies or companies with good fair values. The trustee bank ensures that the equity investments are invested in mix of various equity to reduce exposure to industry or sector-related risk.

19. OPERATIONS AND MAINTENANCE

This account consists of:

	March 31, 2024 (Unaudited)	March 31, 2023 (Unaudited)
Salaries and wages	₱39,211,733	₱38,768,284
Outside services	7,630,490	6,109,760
Professional fees	34,358,258	888,222
Repairs and maintenance	4,243,696	2,941,948
Retirement benefits expense – note 18	-	-
Telephone and water	1,243,386	1,470,590
Transportation	1,284,497	1,315,020
Office supplies	868,799	1,653,682
Rent – notes 16 and 22	1,061,700	1,294,220
Representation expense		
Insurance	575,276	1,130,963
Electric materials	669,706	684,574
Training and seminars	125,488	250,691
Donations	65,000	37,000
Association and membership fees	69,630	68,041
Advertising and promotion	0	15,000
Provision for ECLs – note 8		
Others	3,676,768	2,052,104
	₱95,084,427	₱58,680,098

Others pertain mainly to expenses related to uniform, subscriptions, injuries and damages.

20. OTHER INCOME (CHARGES)

This account consists of:

	March 31, 2024 (Unaudited)	March 31, 2023 (Unaudited)
Interest income – note 7	₱1,063,802	₱3,079,566
Fair value loss on financial assets at FVPL – note 9	-	-
Interest expense – note 13-	-	28,260
Others:		
Bank charges	975	89,306
Gain on sale of equipment – note 5		
Gain on foreign exchange	2,000	188,465
Miscellaneous income	552,463	442,279
	₱1,619,240	₱3,827,876

Miscellaneous income consists of deductions on other payables upon settlement, equipment rental and other fees.

21. AGREEMENTS

The details of purchased power are as follow:

	March 31, 2024	March 31, 2023 Unaudited

	(Unaudited)	
Generation cost		
GMCP	**₱260,349,213**	394,058,237
WESM	**146,154,984**	139,996,302
EDC	**136,415,018**	111,473,858
OMSC	**48,354,208.63**	42,014,606
Transmission cost:		
NGCP	**93,263,372**	91,492.469
	₱684,536,796	₱779,035,473

Electricity Supply Agreement between the Company and Sun Asia Energy, Inc. (SEI), with the latter assigning their rights to the ESA to Onemanaoag Solar Corporation (OMS)

On January 14, 2016, the Company entered into a contract with SEI, wherein the Company committed to purchase clean power generated by SEI's solar power plant project that would be embedded into Company's franchise area.

On July 14, 2016, the Company and SEI filed a Joint Application to the ERC for the approval of their Electricity Supply Agreement (ESA). The application was docketed as ERC Case No. 2016-154 RC and was approved with modification by the Commission in its Decision dated December 19, 2017.

Through an Assignment Agreement dated July 13, 2018, SEI assigned all of its rights, titles, and interest in and to the ESA, among others, in favor of Onemanaoagsolar Corporation. A manifestation was filed by the SEI informing ERC of the said assignment.

On November 29, 2022 and March 10, 2023, ERC granted OMS Provisional Authority to Operate (PAO) for Phases 1 and 2 of their embedded solar power plant projects, respectively. Thereafter, the supply commencement date became effective in accordance with the ESA.

Power Supply Agreement with Energy Development Corporation (EDC)

On February 21, 2022, the Company entered into a 10-year contract with EDC, wherein the Company agreed to purchase 20 MW (10 MW base load and 10 MW load following) of its power requirement from EDC.

On November 7, 2022, the Company and EDC filed a Joint Application to the ERC for the approval of their Power Supply Agreement. The application was docketed as ERC Case No. 2022-082 RC and was provisionally approved by the ERC through the issuance of a Resolution dated December 20, 2022. EDC commenced the supply of electricity to the Company on December 26, 2022.

Renewable Power Supply Agreement with SNAP

On December 20, 2011, the Company entered into a contract with SNAP wherein the Company agreed to purchase electric power from the latter, which became effective from October 26, 2012 until October 25, 2022.

Purchased Power Supply Agreement (PPSA) for Distribution Utility Buyers (the "Original PPSA")

The Company and GNPower Ltd. Co. (GNPC) entered into:

(a) the "Original PPSA" in July 2006 wherein GNPC agreed to build, own and operate an electric power generation facility for the purpose of supplying its customers with environmentally clean electric power which commenced in 2010. Further, GNPC agreed to supply and sell, while the Company agreed to receive and purchase the product;

(b) a Memorandum of Agreement (the "MOA") in July 2006, setting out the conditions for the effectiveness of the PPSA; and

(c) a Commercial Protocol Agreement No. 1 (the "Commercial Protocol Agreement") in 2007 (the Original PPSA, as amended, modified and supplemented by the MOA and Commercial Protocol Agreement, the "PPSA") for the purchase and sale of the product that commenced in 2010/2011.

Amendment to Original PPSA

Pursuant to Project Assignment Agreement dated June 11, 2008, GNPC transferred the rights, obligations, benefits, assets, liabilities and interest in the Original PPSA to GMCP.

On February 9, 2009, the Company and GMCP amended the Original PPSA termination date to be 180 months, unless extended pursuant to Section 2.4 or 2.5, from the date specified in the Commencement Date Notice as set forth in Schedule 1 or December 31, 2012, if the GMCP had not provided the Company with the Commencement Date Notice by December 31, 2012, or such later date as the parties agreed in writing.

WESM Direct Membership

The Company became a direct member of the WESM effective November 26, 2009 upon completion of the requirements of PEMC, the autonomous group market operator of WESM. This membership gives the Company the privilege to purchase directly from the market.

Transmission Service Agreement with NGCP

The Company entered the Contract with NGCP wherein the latter would provide the necessary transmission services to the Company, provided that the Company shall pay the applicable charges for such services and remain liable for any unpaid amounts despite the termination of the agreement.

Service Agreement with TransCo

The Company entered into service agreement with the TransCo. Under the agreement, TransCo shall provide transmission services to the Company effective June 26, 2006, and shall continue to be in full force and effect until terminated in accordance with the Provision of Open Access Transmission Service which governs the TransCo's provision of transmission services to qualified grid users.

On December 1, 2008, the franchise to operate and maintain the physical assets of TransCo for 50 years was granted to NGCP by virtue of R.A. No. 9511, An Act Granting NGCP a Franchise to Engage in the Business of Conveying or Transmitting Electricity through High Voltage Back-bone System of Interconnected Transmission Lines, Substations and Related Facilities and for other purposes. With the affectivity of R.A. No. 9511, transmission services to the Company have been are provided by NGCP since December 2008.

Company as lessor

The Company entered into various lease agreements to lease out its electric poles in various towns of Pangasinan. The lease agreements are for a period of one year subject to renewal and rental rate of ₱270 to ₱340 per pole.

Total rental income for the three-month ended March 31, 2024 and 2023 amounted to ₱1,456,643 and 1,775,650, respectively, and is included in the "Other revenues" account under the "Revenues" section in the statements of comprehensive income (see note 17).

22: FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's financial instruments include cash and cash equivalents, trade and other receivables, rental deposit, trade and other payables, customers' deposits and dividend payable which are used for working capital management purposes and operations. The Company does not actively engage in the trading of financial assets for speculative purposes nor does it write options.

The Company is exposed to a variety of financial risk which results from both its operating and investing activities. The Company's risk management is in close cooperation with the BOD, and focuses on actively securing the Company's short-to medium-term cash flows by minimizing the exposure to financial markets.

Credit risk

Credit risk is the risk that the Company will incur a loss from customers or counterparties that fail to discharge their contractual obligations. The Company manages credit risk by setting limits on the amount of risk the Company is willing to accept from counterparties and by monitoring exposures in relation to such limits.

Credit risk exposure

The table below shows the maximum exposure to credit risk of the Company as at:

		March 31, 2024			
		Basis of recognizing ECL	**Gross carrying amount**	**Loss allowance**	**Net carrying amount**
Cash in banks and cash equivalents	(a)		**₱2,139,222,508**	**₱-**	**₱2,139,222,508**
Trade receivables	(b)	Lifetime ECL	**467,036,131**	**14,229,987**	**452,806,144**
Other receivables	(b)		**57,960,720**	-	**57,960,720**
Rental deposits	(c)		**673,718**	-	**673,718**
			₱2,664,893,077	**₱14,229,987**	**₱2,650,663,090**

		December 31, 2023			
		Basis of	Gross carrying	Loss	Net carrying

		recognizing ECL	amount	allowance	amount
Cash in banks and cash equivalents	(a)		₱886,047,217	₱-	₱886,047,217
Trade receivables	(b)	Lifetime ECL	479,268,200	21,220,837	458,047,363
Other receivables	(b)		60,226,396	-	60,226,396
Rental deposits	(c)		628,943	-	628,943
			₱1,426,170,756	₱21,220,837	₱1,404,949,919

(a) Cash in banks and cash equivalents are assessed to have low credit risk at each reporting period. Cash in banks and cash equivalents are held by reputable banking institutions.

(b) For trade and other receivables, the Company has applied the simplified approach to measure the loss allowance at lifetime ECLs. The Company determines the expected credit losses on these items by using a provision matrix, estimated based on historical credit loss experience based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions.

(c) Rental deposits are assessed to have low credit risk at each reporting period since these are held by related parties.

The Company does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

Trade and other receivables

The Company applies the simplified approach to measuring ECL which uses a lifetime ECLs for all trade receivables. The loss allowance for trade receivables as at December 31 is determined as follows:

Liquidity risk

The Company monitors and maintains a level of funds deemed adequate by management to finance the Company's operations and mitigate the effects of cash flows. Any excess funds are placed with reputable banks to generate interest income. As at December 31, 2023 and 2022, the financial liabilities have contractual maturities as follow:

	March 31, 2024		December 31, 2023	
	Due within one year	**Due beyond one year**	Due within one year	Due beyond one year
Trade payables	**₱253,622,885**	**₱-**	₱243,545,883	₱-
Other payables*	**109,881,045**	**-**	100,969,171	-
Dividend payable	**-**	**-**	-	-
Customers' deposits	**227,259,747**	**334,722,270**	218,879,163	334,924,529
E	**₱590,763,677**	**₱334,722,270**	₱565,764,562	₱334,924,529

x

Excluding statutory payables and other liabilities to government agencies amounting to P69,106,708 and P72,875,864 in 2024 and P63,583,810 in 2023.

23. OTHER MATTERS

EPIRA of 2001

R.A. No. 9136, otherwise known as the EPIRA Act (Act) of 2001 was signed into law on June 8, 2001. The covering Implementing Rules and Regulations (IRR) have already been deliberated upon and approved by the Joint Congressional Power Commission. The Act provides for, among others, the significant changes in the power sector, such as the (a) unbundling of the generation, transmission and distribution sectors; (b) privatization of National Power Corporation (NPC)'s generation, transmission, and other disposable assets, including independent power producers or IPP contracts, (c) creation of ERC to regulate the electric power industry; (d) creation of a wholesale electricity spot market within one year; (e) open and nondiscriminatory access to transmission and distribution systems; and, (f) mandated rate reduction and lifeline rate for marginalized end-users. The price will have regulated elements for transmission and distribution, and competitive components for the electrical energy itself and for ancillary or support services.

The law requires public listing of not less than 15% of common shares of generation and distribution companies within five (5) years from the effectivity of the Act. It provides cross ownership restrictions between transmission and generation companies and between transmission and distribution companies, and a cap that no distribution utility is allowed to source bilateral power supply contracts more than fifty percent of its total demand from an associated firm engaged in generation except for contracts entered into prior to the effectivity of the Act. Specifically relating to distribution utilities, the Act provides for the unbundling of electricity tariff rates and the determination of stranded costs and its recovery through universal charge.

On June 27, 2017, the ERC issued Resolution No. 10, Series of 2017, "A Resolution Extending the Compliance Period Under Resolution No. 9, Series of 2011, for Generation Companies and DU, which are not Publicly Listed to Offer and Sell to the Public a Portion of Not Less Than Fifteen Percent (15%) of their Common Shares of Stocks, Pursuant to Section 43(t) of R.A. No. 9136 and Rule 3, Section 4(m) of its IRR". In this resolution, ERC allowed an extension of one (1) year or until the resolution of the petition, whichever is earlier, for generation companies and distribution utilities to offer and sell to the public a portion of not less than fifteen percent (15%) of their common shares of stocks.

On December 7, 2018, the ERC per ERC Case No. 2015-006 RM had set the continuation of the public consultation on the "Petition to Amend ERC Resolution No.9, Series of 2011, Allowing Registration of Shares at the SEC as a Mode of Public Offering". The ERC invited the SEC to discuss securities rules and regulations on public offering and public listings of generation companies and distribution utilities.

On June 4, 2019, the ERC issued Resolution No. 4, Series of 2019, "A Resolution Amending Resolution No. 9, Series of 2011 Requiring Generation Companies and Distribution Utilities Which are not Publicly Listed to Offer and Sell to the Public a Portion of Not Less than Fifteen Percent (15%) of Their Common Shares of Stock Pursuant to Section 43 (t) of R.A. No. 9136 and Rule 3, Section 4 (m) of its IRR." The resolution amended Section 2.3 of Article II to include offering of common shares of stocks for sale to the public in accordance with the 2016 IRR of Securities Regulation Code as a mode of public offering: (i) publication in any newspaper, magazine or printed reading material which is distribute within the Philippines; (ii) presentation in any public or commercial place; (iii) advertisement or announcement on radio, television, telephone, electric communications, information communication technology or any other forms of communications; or (iv) distribution and/or making available flyers, brochures or any offering material in a public or commercial place or to prospective purchasers through the portal system, information communication technology and other means of information distribution.

In compliance with the above resolution, the Company applied for registration of its public offering of 15% or 2,200,000 of its common shares with the Securities and Exchange Commission (SEC). The registration of DECORP's shares was rendered effective by the SEC on December 27, 2023 under SEC MSRD Order No. 72, Series of 2023, in which the public offering was scheduled from January 8, 2024 to January 12, 2024.

* * *

PART II: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

The following discussions should be read in conjunction with the Unaudited Condensed Interim Financial Statements of Dagupan Electric Corporation ("DECORP" or the "Company") as of and for the period ended 31 March 2024 with comparative figures as of December 31, 2023 and for the period ended 31 March 2023.

Discussion on Changes in Financial Position

For the Three-Month Period Ended 31 March 2024 and Period Ended 31 December 2023

Utility Plant and Equipment

The Company invested ₱35 million on capital expenditures for the three-month period ending 31 March 2024 for the continuous extension of distribution assets to accommodate the growth of customers and their electricity consumption. The total Utility Plant and Equipment, despite the investment, decreased by ₱ 11 million or 30%, due to the higher cost of depreciation than capital expenditures.

Other Property and Equipment

This Other Property and Equipment as of March 31, 2024, likewise decreased by ₱5.6 million or 7% due to depreciation.

Cash and Cash Equivalents

The Company's Cash and Cash Equivalent account increased by ₱1.3 billion or 141%. The increase was primarily due to the receipt of the proceeds from the initial public offering of the Company that was held from January 8 to 12, 2024 following the SEC's approval of the Company's registration of its shares on December 27, 2023. The proceeds shall be used solely in accordance with the purpose stated in the use of the proceeds of the public offering.

Prepayments and Other Current Assets

The Prepayments and Other Current Assets increased by ₱18 million or 24% due to the annual payments of property insurance, real property tax, and local franchise tax for the year 2024. This account is amortized monthly to recognize the expense portion in its applicable period.

Trade and Other Payables

The Trade and Other Payables increased by 4% from ₱636 million as of 31 December 2023 to ₱660 million as of 31 March 2024. This account includes the cost of power that the Company purchased from its generators under a bilateral agreement, the costs of energy drawn from the

Wholesale Electricity Market (WESM), and payments for transmission services provided by theNational Grid Corporation of the Philippines (NGCP). The increase in this account was due to the higher cost of accrual of expenses from these generators and transmission service providers.

Capital Stock and Additional Paid-In Capital

The capital stock is measured at par value for all shares issued. The excess of proceeds from the issuance of shares over the par value is credited to additional paid-in capital.

On December 27, 2023, the SEC rendered effective DECORP's application for the registration of Fourteen Million Six Hundred Sixty-Two Thousand (14,662,000) common shares, of which Two Million Two Hundred Thousand (2,200,000) shares were issued and offered for sale to the public by way of an initial public offering at an offer price of Five Hundred Thirty Three (₱533.00) per share. In 2024, the 2,200,000 common shares offered to the public were fully subscribed and paid.

The Capital Stock increased by ₱220 million, which is the par value of the 2,200,000 common shares subscribed and paid through the public offering discussed above. The excess of the offer price over the par value, or ₱952.6 million, was recorded as additional paid-in capital.

Discussion on Results of Operations

For the Three-Month Period Ended 31 March 2024 and 2023

The Company generates its revenues from: (1) pass-through charges, which are Generation, Transmission, System Loss, and other related revenues; (2) Distribution Wheeling Charges consisting of Distribution, Supply, and Metering charges; and (3) other charges related to service reconnection and pole attachment rental.

The Company along with other electric distribution utilities were directed by the ERC to collect pass-through charges from electricity consumers. These pass-through charges are revenue-neutral to the Company. The ERC has set a limit which, when exceeded, prompts an adjustment to correct over or under recovery of these charges. In addition, the ERC evaluates these charges every three (3) years for any over- or under- recoveries. Upon ERC approval, DECORP refunds to or collects from its customers the over- or under- recoveries.

The distribution charges of the Company were based on the latest approved rates of the ERC, determined using the Performance-Based Regulation ("PBR") rate setting methodology. In 2022, the Company filed its application for the approval of its Annual Revenue Requirements ("ARR") under PBR, which will be the basis of the distribution rates for the regulatory years 2023 to 2026. The Company uses the distribution rates authorized by the ERC for the last regulatory year of the third regulatory period under PBR while it waits for the ERC to make a decision regarding its ARR application.

The Company distributes electricity to five (5) customer classes, namely: residential, small commercial, large commercial, bulk power, and streetlights.

The sale of electricity and other revenues amounted to ₱887.76 million for the three-month period ended 31 March 2024, which is ₱146 million or 14% lower than the ₱1,033.99 million sales for the three-month period ended 31 March 2023. The details of the revenues are as follows:

In Millions

	Unaudited March 31,	
	2024	**2023**
Generation	535.97	704.36
Transmission	89.75	88.08
System loss	47.20	56.27
Distribution	204.49	176.99
Other pass-through charges	8.23	5.83
Total electric revenues	**885.64**	**1,031.53**
Other revenues	2.12	2.46
Total revenues	**887.76**	**1,033.99**

The decrease in revenues can be attributed to the significant reduction in the costs of electricity purchased by the Company from its suppliers, specifically GNPower Mariveles Energy Center Ltd. Co. (GMEC), a coal-fired power plant. The decline in fuel costs materially reduced the power cost of GMEC by 34%, resulting in a reduction of generation costs passed on to end users.

	Energy Sales in MWH		**No. of Customers**	
	March 31, 2024	**March 31, 2023**	**March 31, 2024**	**March 31, 2023**
Residential	55,605	46,575	126,818	123,942
Small Commercial	21,631	18,855	12,924	12,519
Large Commercial	12,670	11,470	258	249
Bulk Power	18,070	15,671	34	30

Streetlights	1,100	1,100	54	57
Total	**109,076**	**93,671**	**140,088**	**136,797**

Operating Expenses

The total operating costs of the Company is lower by ₱48 million, or 5%, for the three-month period ending 31 March 2024 compared with the same period in 2023. The details of operating expenses are as follows:

	March 31, 2024 (Unaudited)	March 31, 2023 (Unaudited)
Purchased power	**₱684,536,796**	779,035,473
Depreciation	**52,563,614**	49,654,749
Salaries and wages	**39,211,733**	₱38,768,284
Outside services	**7,630,490**	6,109,760
Professional fees	**34,358,258**	888,222
Repairs and maintenance	**4,243,696**	2,941,948
Telephone and water	**1,243,386**	1,470,590
Transportation	**1,284,497**	1,315,020
Office supplies	**868,799**	1,653,682
Rent	**1,061,700**	1,294,220
Insurance	**575,276**	1,130,963
Eléctric materials	**669,706**	684,574
Training and seminars	**125,488**	250,691
Donations	**65,000**	37,000
Association and membership fees	**69,630**	68,041
Advertising and promotion	-	15,000
Taxes other than income tax	**12,082,930**	4,481,816
Others	**3,676,768**	2,052,104
Total	**₱844,267,767**	₱891,852,136

Purchased power

The Company has three (3) bilateral contracts with the following generators to supply its electricity requirements: 1.) GNPower Mariveles Energy Center, Ltd. Co. (GMEC), a coal-fired power plant; 2) One Manaoag Solar Corporation (OMSC), a solar power plant; and 3.) Energy Development Corporation (EDC), a geothermal power plant. The Company also purchased electricity from the Wholesale Electricity Spot Market (WESM) for its requirements that could not be supplied by their generators. Payments made to the National Grid Corporation of the Philippines (NGCP) for transmission services are also included in this account.

The significant reduction in the costs of electricity supplied by GMCP, due to the decline in fuel costs, resulted in a 12% or ₱94 million reduction in this account.

Salaries and wages

This account consists of salaries and benefits provided to the employees of the Company. For the three-month period ended 31 March 2024 and 2023, the salaries and wages amounted to ₱39.2 million and ₱38.8 million, respectively.

Outside services
This account consists of payments to service providers for distribution of statement of accounts and disconnection notices, withdrawal of meters of delinquent customers, distribution line expansions and revamps, security services, and janitorial services. For the three-month period ended 31 March 2024 and 2023, outside service amounted to ₱7.6 million and ₱6.1 million, respectively.

Professional fees
This account consists of payments for legal services, financial advisory services, actuarial valuation of retirement fund, and audit of financial statements. The payment for legal and financial advisory services for the registration of the Company's common shares with the SEC leading to the initial public offering of its common shares significantly increased the professional fees.

Taxes other than income tax
This account consists of payments of national and local government taxes. The increase was due to the payment of documentary stamp tax for the issuance of common shares related to the shares sold by way of initial public offering. It also includes the monthly amortization of payment of local franchise and real property taxes for the year 2024.

KEY PERFORMANCE INDICATORS

The relevant key performance indicators of the Company are shown below:

	31 March 2024	**31 December 2023**
Return on Equity *Net Profit divided by Total Equity*	.07	.08
Return on Assets *Net Profit divided by Average Assets*	.06	.06
Debt to Equity Ratio *Total Liabilities divided by Total Equity*	.31	.39
Current Ratio *Total Current Assets divided by Total Current Liabilities*	4.15	2.55
Average Collection Period	52.16	57.45

Average Current Trade and Other Receivables divided by Average Sales per day (Sale of Electricity divided by no. of days		

Liquidity risk

The Company monitors and maintains a level of funds deemed adequate by management to finance the Company's operations and mitigate the effects of cash flows. Any excess funds are placed with reputable banks to generate interest income. As at 31 March 2024 and 31 December 2023, the financial liabilities have contractual maturities as follow:

	March 31, 2024		December 31, 2023	
	Due within one year	**Due beyond one year**	Due within one year	Due beyond one year
Trade payables	₱253,622,885		₱243,545,883	₱-
Other payables*	109,881,045		100,969,171	-
Dividend payable			-	-
Customers' deposits	227,259,747	334,722,270	218,879,163	334,924,529
	₱590,763,677	₱334,722,270	₱565,764,562	₱334,924,529

**Excluding statutory payables and other liabilities to government agencies amounting toP 69,106,708 and P72,875,864 in 2023.*

The Company does not foresee that it will have any cashflow or liquidity problems within the next twelve (12) months from the date of this report.

The Company is not aware of any event that will trigger or contingent financial obligations that are material to the Company, including default or acceleration of any obligations.

The Company does not have any off-balance sheet transactions, arrangements, obligations, including contingent obligations, and other relationships with unconsolidated entities or other persons created during the relevant period.

The Company is not aware of any trends, events, or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales, revenues, income from continuing operations.

The Company does not have any significant elements of income or loss that did not arise from its continuing operations.

The Company does not have any seasonal aspects that had a material effect on the financial conditions or results of operations.

ANNEX C (17Q)

DAGUPAN ELECTRIC CORPORATION
SUPPLEMENTARY INFORMATION
MARCH 31, 2024
(UNAUDITED)

* *The Company does not prepare any consolidated financial statements*
** *The Company does not have guarantees of securities of other issuers*
*** *The Company does not belong to a group of companies*

Dagupan Electric Corporation
Revised SRC Rule 68
Annex 68-J
Schedule A – Financial Assets
March 31, 2024
Unaudited

	No of Shares of Principal Amount of Bonds and Notes	Amount Shown in the Statements of Financial Position	Value Based on Market Quotation at Statement of Condition Date	Income Received and Accrued
Financial assets at fair value through other comprehensive income (FVOCI)				
Equity Securities				
Tarlac Electric Inc.	400,000	152,000,000	152,000,000	
Total -FVOCI		**152,000,000**	**152,000,000**	
Financial assets at fair value through profit or loss (FVPL)				
Debt Securities				
Petron Corporation	100,970,000	100,970,000	100,970,000	
Aboitiz Equity Ventures	17,830,000	17,830,000	17,830,000	
BPI -PHILAM	16,169,629	22,280,054	22,280,054	
Equity Securities				
BPI -PHILAM	4,055,446	6,878,730	6,878,730	-
Other equity and debt securities				
Sun Life Asset Management Co., Inc.	5,148,800	17,146,019	17,146,019	-
Landbank of the Philippines	1,867,228	4,581,464	4,581,464	-
BPI -PHILAM	4,549,002	5,516,146	5,516,146	-
Total -FVPL		**175,202,413**	**175,202,413**	
Cash and Cash Equivalents		**2,139,222,508**	**2,139,222,508**	**3,079,566**
Trade and Other Receivables		**510,766,864**	**510,766,864**	

Dagupan Electric Corporation

Revised SRC Rule 68

Annex 68-J

Schedule B – Amounts Receivables from Directors, Officers, Employees, Related Parties, and Principal Stockholders (Other than Related Parties)

March 31, 2024

(Unaudited)

Name and Designation of Debtor	Balance at Beginning of Year	Additions	Deductions		Ending Balance		Balance at the End of the Year
			Amounts Collected	Amounts Written-off	Current	Non-Current	

Receivables from directors, officers, employees, related parties, and principal stockholders are within the ordinary course of the company

Dagupan Electric Corporation
Revised SRC Rule 68
Annex 68-J
Schedule C – Amounts Receivables from Related Parties which are Eliminated during the Consolidation of Financial Statements
March 31, 2024
(Unaudited)

Name and Designation of Debtor	Balance at Beginning of Year	Additions	Deductions		Ending Balance		Balance at the End of the Year
			Amounts Collected/Paid	Amounts Written-off	Current	Non-Current	

Not Applicable

Dagupan Electric Corporation
Revised SRC Rule 68
Annex 68-J
Schedule D – Long Term Debt
December 31, 2023
(Unaudited)

Type of Obligation	Amount Shown Under Caption "Current Portion of Long Long-term Debt" in Related Statement of Financial Position	Amount Shown Under Caption "Long-term Debt" in related Statement of Financial Condition

The Company has no long-term loans

Dagupan Electric Corporation
Revised SRC Rule 68
Annex 68-J
Schedule G – Capital Stock
March 31, 2024
(Unaudited)

Title of Issue	Number of Shares Authorized	Outstanding as Shown Under the Related Statement of Condition Caption	Number of Shares Reserved for Options, Warrants, Conversion and Other Rights	Number of Shares Held by		
				Related Parties	Directors, Officers, and Employees	Others
Common Stock	15,000,000	14,662,000			12,863,000	1,799,000

Dagupan Electric Corporation
AB Fernandez St., Dagupan City, Province of Pangasinan
Schedule H - Reconciliation of Retained Earnings Available for Dividend Declaration
As of March 31, 2024
(Unaudited)

Items	Amount
Unappropriated Retained Earnings, as adjusted to available for dividend	
distribution, beginning of the period	774,983,956
Add: Net income during the period closed to retained earnings	28,075,871
Less: Non-actual/unrealized income net of tax	
Fair value gain (loss) on financial assets at FVPL	
Add: Non-actual losses	
Depreciation on revaluation increment (after tax)	18,082,256
Net income actually earned during the period	46,158,127
Less:	
Effect of prior period adjustments	
Cash dividend declaration during the period	-
Stock dividend declaration during the period	
Appropriation of retained earnings during the period	
Reversal of appropriation	
	46,158,127
Total Retained Earnings, End, Available for Dividend Declaration	**821,142,083**

SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS

Dagupan Electric Corporation
March 31, 2024 and December 31, 2023
(UNAUDITED)

Ratio	Formula	2024	2023
Current Ratio	Current Assets / Current Liabilities	4.15	2.55
Acid Test Ratio	(Cash and Cash Equivalents + Marketable Securities + Accounts Receivable) / Current Liabilities	3.91	2.32
Solvency Ratio	(Net Profit After Tax + Non-Cash Expenses) / Liabilities	0.05	0.35
Debt-to-Equity Ratio	Total Liabilities / Total Equity	0.31	0.39
Asset-to-Equity Ratio	Total Assets / Total Equity	1.31	1.39
Interest Rate Coverage Ratio*	Earnings Before Interests and Taxes / Interest Expense	N/A	N/A
Return on Equity	(Net Income / Average Shareholders' Equity) x 100	1%	8%
Return on Assets	(Net Income / Average Total Assets) x 100	0.4%	6%
Net Profit Margin	(Net Income / Revenues) x 100	3%	9%
Net Sales Growth	[(Net sales of Current Period - Net Sales of Previous Period) / Net Sales of Previous Period] x 100	-14%	-14%
Net income percentage	[(Net income of current period - Net income of previous period) / Net income of previous period] x 100	-73%	54%
Increase in shareholders' equity	[(Shareholders' equity of current period - Shareholders' equity of previous period) / Shareholders' equity of previous period] x 100	29%	-22%

* *The Company does not have any loan*

DAGUPAN ELECTRIC CORPORATION
Aging of Accounts Receivable
March 31, 2024
(Unaudited)

No. of Days Outstanding	Amount
Current	270,880,956
0-30 days	130,770,117
31-60 days	23,351,807
>90 days	42,033,252
Total	**467,036,131**

COVER SHEET

for

NOTIFICATION OF INABILITY TO FILE OR ANY PORTION OF SEC FORM 17-A OR 17-q

SEC Registration Number

1 8 8 9 0

COMPANY NAME

DAGUPAN ELECTRIC CORPORATION

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

AB FERNANDEZ ST DAGUPAN CITY

Form Type	Department requiring the report	Secondary License Type, If Applicable
17-L	SEC	

COMPANY INFORMATION

Company's email Address	Company's Telephone Number	Mobile Number
decorp@decorp.com.ph	(632) 8374 3034	9285066639

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
	Every 3rd Tuesday of April	31-Dec

CONTACT PERSON INFORMATION

The designated contact person *MUST* be an Officer of the Corporation

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Lilian D. Saralde	lds@decorp.com.ph	(632) 8374 3039	9285066639

CONTACT PERSON's ADDRESS

VERIA I Bldg., 62 West Avenue, Quezon City

Dagupan Electric Corporation

Lilian Saralde <lds@decorp.com.ph>

MSRD_Dagupan Electric Corporation_SEC Form 17_L_15 May 2024

ICTD Submission <ictdsubmission+canned.response@sec.gov.ph> Wed, May 15, 2024 at 4:51 PM
To: lds@decorp.com.ph

Thank you for reaching out to ictdsubmission@sec.gov.ph!

Your submission is subject for Verification and Review of the Quality of the Attached Document only for Secondary Reports. The Official Copy of the submitted document/report with Barcode Page (Confirmation Receipt) will be made available after 7 working days via order through the SEC Express at https://secexpress.ph/. For further clarifications, please call (02) 8737-8888.

--- NOTICE TO COMPANIES ---

Please be informed of the reports that shall be filed only through ictdsubmission@sec.gov.ph.

Pursuant to SEC MC Circular No. 3 s 2021, scanned copies of the printed reports with wet signature and proper notarization shall be filed in PORTABLE DOCUMENT FORMAT (pdf) through email at ictdsubmission@sec.gov.ph such as the following SECONDARY REPORTS:

1. 17-A 6. ICA-QR 11. IHAR 16. 39-AR 21. Monthly Reports
2. 17-C 7. 23-A 12. AMLA-CF 17. 36-AR 22. Quarterly Reports
3. 17-L 8. 23-B 13. NPM 18. PNFS 23. Letters
4. 17-Q 9. GIS-G 14. NPAM 19. MCG 24. OPC (Alternate Nominee)
5. ICASR 10. 52-AR 15.BP-FCLC 20.S10/SEC-NTCE-EXEMPT

Further, effective 01 July 2023, the following reports shall be submitted through https://efast.sec.gov.ph/user/login.

1. FORM MC 18 7. Completion Report
2. FORM 1 - MC 19 8. Certificate-SEC Form MCG- 2009
3. FORM 2- MC 19 9. Certificate-SEC Form MCG- 2002, 2020 ETC.
4. ACGR 10. Certification of Attendance in Corporate Governance
5. I-ACGR 11. Secretary's Certificate Meeting of Board Directors (Appointment)
6. MRPT

Please be informed that the submission of the abovementioned eleven (11) reports through the ictdsubmission@sec.gov.ph shall no longer be accepted. For further information, please access this link Notice for guidance on the filing of reports:

Likewise, the following reports shall be filed through the Electronic Filing and Submission Tool (eFAST) at https://efast.sec.gov.ph/user/login :

1. AFS 7. IHFS 13. SSF
2. GIS 8. LCFS 14. AFS with Affidavit of No Operation
3. BDFS 9. LCIF 15. AFS with NSPO Form 1,2, and 3
4. FCFS 10. OPC_AO 16. AFS with NSPO Form 1,2,3 and 4,5,6
5. FCIF 11. PHFS 17. FS - Parent
6. GFFS 12. SFFS 18. FS – Consolidated

For the submission and processing of compliance in the filing of

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-L

NOTIFICATION OF INABILITY TO FILE ALL OR ANY PORTION OF SEC FORM 17-A OR 17-Q

Check One:

Form 17-A [ ]   Form 17-Q [✓]

Period-Ended Date of required filing **March 31, 2024**

Date of this report **May 15, 2024**

Nothing in this Form shall be construed to imply that the Commission has verified any information contained herein.

If this notification relates to a portion or portions of the filing checked above, identify the item(s) to which the notification relates: **SEC FORM 17-Q**

1. SEC Identification Number **18890**   2. BIR Tax Identification No. **000-202-524**

3. **DAGUPAN ELECTRIC CORPORATION**
   Exact name of issuer as specified in its charter

4. **DAGUPAN CITY, PANGASINAN, PHILIPPINES**
   Province, country or other jurisdiction of incorporation

5. Industry Classification Code: [ ] (SEC Use Only)

6. **AB FERNANDEZ ST., DAGUPAN CITY**   **2400**
   Address of principal office   Postal Code

7. **(632) 83743039**
   Issuer's telephone number, including area code

8. **NOT APPLICABLE**
   Former name, former address, and former fiscal year, if changed since last report.

9. Are any of the issuer's securities listed on a Stock Exchange?

   Yes [ ]   No [✓]

   If yes, disclose the name of such Stock Exchange and the class of securities listed therein:

   ....

Part I - Representations

If the subject report could not be filed without unreasonable effort or expense and the issuer seeks relief pursuant to SRC Rule 17-1, the following should be completed. (Check box if appropriate)

(a) The reasons described in reasonable detail in Part II of this Form could not be estimated without unreasonable effort or expense. [ ]

(b) The subject annual report on SEC Form 17-A, or portion thereof, will be filed on or before the fifteenth calendar day following the prescribed due date; or the subject quarterly report on SEC Form 17-Q, or portion thereof, will be filed on or before the fifth day following the prescribed due date. [✓]

(c) The accountant's statement or other exhibit required by paragraph 3 of SRC Rule 17-1 has been attached if applicable. [ ]

Part II - Narrative

State below in reasonable detail the reasons why SEC Form 17-A or SEC Form 17-Q, or portion thereof, could not be filed within the prescribed period. (Attach additional sheets if needed

The request to file the 17-Q beyond the prescribed period is to allow us sufficient time to complete the report for the first quarter of 2024.

Part III - Other Information

(a) Name, address and telephone number, including area code, and position/title of person to contact in regard to this notification

Lilian D. Saralde
Compliance Officer
Veria I Building, 62 West Avenue, Quezon City
Tel No. (632) 8374 3039

(b) Have all other periodic reports required under Section 17 of the Code and under Sections 26 and 141 of the Corporation Code of the Philippines during the preceding 12 months, or for such shorter period that the issuer was required to file such report(s), been filed? If the answer is no, identify the report(s).

Yes [ ] No [✓] Reports: **SEC Form 17-A**

(c) Is it anticipated that any significant change in results of operations from the corresponding period for the last fiscal year will be reflected by the earnings statements to be included in the subject report or portion thereof?

Yes [ ] No [✓]
If so, attach an explanation of the anticipated change, both narratively and quantitatively, and, if appropriate, state the reasons why a reasonable estimate of the results cannot be made.

SIGNATURE

Pursuant to the requirements of the SRC Rule 17-1, the issuer has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

DAGUPAN ELECTRIC CORPORATION
Registrant's full name as contained in charter

Rene Llames

RENE L. LLAMES
President and CEO

Date: May 15, 2024

Annex A.3

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2023

The discussion and analysis of the Company's financial condition and results of operations should be read in conjunction with the Company's Audited Financial Statements for the period ended 31 December 2023, as well as the notes thereto included in this report

DISCUSSION OF CHANGES IN FINANCIAL POSITION

For the Period Ended 31 December 2023 and 31 December 2022

As of 31 December 2023 and As of 31 December 2022

Utility, Plant and Equipment amounted to ₱3,847 million as of 31 December 2023, ₱33.58 million or 0.88% higher than the ₱3,813 million as of 31 December 2022, taking into account depreciation. The capital investment as of 31 December 2023 was ₱214 million, which was used for the continuous expansion of distribution assets to accommodate the growth in customers, construction of 69 kV lines, and various land and building improvements

The Other Property and Equipment amounted to ₱85.13 million as of 31 December 2023, which is ₱7.71 million or 8% lower than the ₱92.84 million as of 31 December 2022. The reduction on the value of these assets was due to the depreciation exceeding the additional investment. The capital expenditure as of 31 December 2023 was ₱12.13 million utilized on acquisition of service trucks and other vehicles, computers, and additional office furniture and equipment.

Cash and Cash Equivalents decreased by ₱935 million or 51%, attributable to the net cash provided by the operating activities of the Company amounting to ₱797 million, reduced by its investment activities amounting to ₱132 million and payment of dividends amounting to ₱1.6 billion.

Trade and Other Receivables decreased by ₱237 million or 31% compared to the 31 December 2022 balance. The decline attributed to the significant reduction in the cost of generation charge, which accounts for 60% of the receivables billed to customers.

Prepayments and Other Current Assets increased by ₱19 million or 33% due to the payment of real property tax intended for 2024 in 2023.

On 16 June 2023, the Company approved the declaration of cash dividends amounting to ₱1,600 million to stockholders of record as of 15 June 2023, payable on various dates until 29 September 2023. As of 31 December 2023, the Company paid in full the cash dividends amounting to ₱1,600 million.

The Unappropriated Retained Earnings decreased by ₱1,136 million or 58% due to the declaration and payment of cash dividends

The total Non-Current Liabilities decreased by ₱19.9 million or 2.07%, which can be attributed to the reduction in deferred tax liabilities related to the realized revaluation of appraisal increase through depreciation.

<u>As of 31 December 2022 and As of 31 December 2021</u>

Comparing the 2022 with the 2021 restated values, the Utility, Plant and Equipment is lower by ₱41 million or 1% and Other Property and Equipment by ₱5 million or 4%. The decrease was a result of the depreciation on costs and the appraisal increase being higher than the additional capital expenditures. The capital projects as of 31 December 2022, which amounted to ₱125 million, consisted of the cost of expanding the distribution assets of the Company to meet the rise in the demand of existing customers as well as growth in the customer base.

Deferred Tax Assets increased by ₱3.75 million or 18% in 2022 mostly as a result of the timing difference in the accounting treatment of retirement benefits obligations and allowance for expected credit loss on receivables in the financial statement and tax return recognition.

Cash and Cash Equivalents increased by ₱187 million as a result of the ₱327 million in net cash generated from the Company's operating activities and the purchase of ₱140 million in properties and equipment.

Trade and Other Receivables increased by ₱219 million or 41%. The receivables of the Company mainly consist of unpaid amounts from its customers for electricity distribution services rendered. The increase in this account was due to the significant escalation in generation costs, which account for 60% of the total amount billed to customers in 2022.

Inventories increased by ₱16 million or 19% due to additional purchases of materials and supplies for network related requirements.

Prepayments and Other Current Assets decreased by ₱9.98 million or 14.76% because of decreases in prepaid taxes pertaining to application of creditable input VAT and VAT withheld.

Trade and Other Payables increased by ₱116 million or 20% which is mainly attributable to the increase in generation costs of power suppliers in 2022. These payables, except customers' deposits, are generally due within thirty (30) days from the date of billing and do not bear interest.

Unappropriated Retained Earnings decreased by ₱65 million or 3% in 2022 after the Board approved the appropriation of accumulated earnings for future capital expenditures.

As of 31 December 2021 and As of 31 December 2020

In 2023, the Company had its properties ending 31 December 2021 appraised by an independent firm of appraisers. The valuation was performed in accordance with the International Valuation Standards (2022 Edition) and the Philippine Valuation Standards (2nd Edition, 2018). This valuation resulted in the restatement of the 2021 Financial Position, in which the balances of the affected accounts were presented in the 2022 Financial Statements to properly effect the prior period adjustments. The result of the revaluation of assets was adjusted to the accumulated depreciation of appraisals except for land, for which the resulting increase in value was adjusted to appraisal increase.

Using the restated 2021 Financial Position of the Company compared with the previous year, the Utility, Plant and Equipment increased by ₱2,049 million or 114% and Other Property and Equipment increased by ₱27 million or 39%. The valuation of properties also increased the Deferred Tax Liabilities and Revaluation Reserve by ₱487 million or 506% and ₱1,469 million or 669%, respectively.

Financial Assets at Fair Value Through Other Comprehensive Income ("FVOCI") increased by ₱152 million. This account consists of investment in unquoted equity shares of a private company.

Cash and Cash Equivalents increased by ₱50 million or 3% in 2021 raised from the operating activities of the Company after considering the acquisitions made during the year for property and equipment and financial assets at Fair Value through Profit or Loss ("FVPL") and FVOCI.

The government's response to the COVID-19 crisis in 2020 led to the deferral of the collection of electricity bills from customers. The deferral arrangement ending in 2021 allowed the collection of arrears with the current bills, resulting in the reduction of Trade and Other Receivables by ₱196 million or 27%. The increase in the collection of unpaid amounts was invested in trust funds and mutual funds, increasing the FVPL by ₱213 million or 360% in 2021.

Deferred Tax Assets decreased by ₱1.4 million or 6% in 2021 due to the timing difference in the accounting treatment of retirement benefits obligation and allowance for expected credit loss on receivables in the financial statement and tax return recognition.

Inventories decreased by ₱25 million or 23% in 2021, mainly due to the continuation of network-related works that were delayed by the COVID-19 outbreak in 2020.

The easing of the restriction due to the COVID-19 pandemic increased the purchases of the Company, leading to the increase in Trade and other payables by ₱32 million or 6%

and a related increase in Prepayments and other current assets by ₱8 million or 14% mainly due to the prepaid taxes such as creditable Input VAT that remain unused in 2021.

Customers' Deposits increased by ₱5 million or 1.5%, mainly due to the increases in the amount of cost of line extension deposits and pole attachment deposits during the year.

Unappropriated Retained Earnings increased by ₱893 million or 78% in 2021 after the Board approved the reversal of the ₱600 million appropriated amount for capital expenditures to Unrestricted Retained Earnings.

DISCUSSION AND ANALYSIS OF OPERATING RESULTS

For the Period Ended 31 December 2023 and 31 December 2022

Revenues

The Company generates its revenues from: (1) pass-through charges, which are Generation, Transmission, System Loss, and other related revenues; (2) Distribution Wheeling Charges consisting of Distribution, Supply, and Metering charges; and (3) other charges related to service reconnection and pole attachment rental.

The Company along with other electric distribution utilities were directed by the ERC to collect pass-through charges from electricity consumers. These pass-through charges are revenue-neutral to the Company. The ERC has set a limit which, when exceeded, prompts an adjustment to correct over or under recovery of these charges. In addition, the ERC evaluates these charges every three (3) years for any over- or under- recoveries. Upon ERC approval, DECORP refunds to or collects from its customers the over- or under- recoveries.

The distribution charges of the Company were based on the latest approved rates of the ERC, determined using the Performance-Based Regulation ("PBR") rate setting methodology. In 2022, the Company filed its application for the approval of its Annual Revenue Requirements ("ARR") under PBR, which will be the basis of the distribution rates for the regulatory years 2023 to 2026. The Company uses the distribution rates authorized by the ERC for the last regulatory year of the third regulatory period under PBR while it waits for the ERC to make a decision regarding its ARR application.

The Company distributes electricity to five (5) customer classes, namely: residential, small commercial, large commercial, bulk power, and streetlights.

The sale of electricity and other revenues amounted to ₱4,045 million for the year ended 31 December 2023, which is ₱37 million or 1.7% higher than the ₱4,678 million sales in 2022 of the same period. The details of the revenues as of 31 December 2023 and 2022 are as follows:

	December 31, 2023	2022
Generation	2,643.33	3,188.064
Transmission	290.93	394.31
System loss	214.37	263.03
Distribution	836.68	792.37
Other pass-through charges	33.65	8.53
Total electric revenues	**4,018.96**	**4,646.30**
Other revenues	25.68	32.05
Total revenues	**4,044.64**	**4,678.35**

The increase in electric revenues can be attributed to the increase in energy sales or energy consumption by 26,857 MWH or 6.4% from the previous year, and higher customer volume by 3,592 customers or 2.7%.

	Energy Sales in MWH 2023	2022	No. of Customers 2023	2022
Residential	229,743.64	219,749.07	125,924	122,754
Small Commercial	86,039.21	78,739.06	12,770	12,357
Large Commercial	52,804.76	50,222.64	254	247
Bulk Power	70,750.26	63,754.53	34	30
Streetlights	4,449.41	4,465.20	55	57
Total	**443,787.28**	**416,930.50**	**139,037**	**135,445**

Operating Expenses

The total Operating Expenses of the Company for the year ended 31 December 2023 amounted to ₱3,571.87 million, which is lower by ₱795.37 million than the ₱4,367.24 million operating expenses in 2022. The details of these expenses are as follows:

	In Million Pesos December 31, 2023	2022
Purchased power	3,076.63	3,865.89
Depreciation	201.06	185.36
Taxes other than income tax	23.95	52.44
Salaries and wages	145.17	138.89

Outside services	35.23	35.93
Professional fees	20.37	4.79
Repairs and maintenance	17.86	16.81
Retirement benefits expense	12.39	14.19
Telephone and water	8.07	9.62
Transportation	7.05	8.33
Office supplies	5.55	5.16
Rent	4.32	4.46
Others	14.21	25.36
Total	**3,571.87**	**4,367.24**

Purchased Power consists of payments made by the Company for energy purchased from generators under power supply agreements approved by the ERC and the Wholesale Electricity Spot Market (“WESM”), and payments made to the system operator for the transmission of electricity services. Purchased Power decreased by ₱789 million or 20% for the year ended 31 December 2023 compared with that of the same period of the previous year. The decrease can be attributed to the addition of two (2) power suppliers to the Company’s generators portfolio. These power producers supply solar and geothermal energy, which has far lower costs than WESM prices and coal generators during this period because of high fuel costs.

Salaries and Wages consist of salaries and benefits paid to regular employees of the Company. For the year ended ended 30 December 2023, Salaries and Wages increased by ₱6.28 million or 5% due to the annual salary increase given to the staff.

Taxes Other Than Income Tax include payments for registration fees, regulatory supervision fees, licenses, business permits, local franchise taxes, real property taxes, and other related taxes paid to the national and local governments except income tax. This account decreased by ₱28.49 million or 54% due to the payment of real property taxes paid for poles and other related materials intended for 2024 in 2023.

Outside Services comprise payments to third-party contractors for the issuance of billing statements and notices, bill collection, meter reading, meter connection, disconnection, security services, tree trimming, and distribution line maintenance. Outside Services decreased by ₱0.70 million or 2% due to the reduction in services availed for disconnection of delinquent accounts.

Professional Fees include payments to consultants and experts hired to perform legal, financial, and other professional services for the Company. In 2023, the Company hired the services of a consultant, legal consultant, underwriters, and auditors to prepare the Company for the public offering of its shares in compliance with the EPIRA, resulting in the increase in this expense by ₱15.58 million or 325%.

Repairs and Maintenance increased by ₱ 1.05 million or 6%, which was due to the increase in the acquisition of materials and services for maintenance of computers and streetlights.

The Company applies the simplified approach in measuring Expected Credit Loss ("ECL"), which uses a lifetime expected loss allowance for all trade and other receivables. The Company has written-off all Trade and Other Receivables of more than one (1) year past due since historical experience has indicated that these receivables are generally not recoverable. In 2023, there was additional provision for ECLs.

The Company maintains a funded, non-contributory defined benefit retirement plan covering all its regular and full-time employees. The fund is administered by a trustee bank authorized to invest the fund as it deems proper. The Retirement Benefit Cost is based on RA No. 7641, and it decreased by ₱1.8 million or 13% in 2023 compared with previous year

For the Years Ended 31 December 2022 and 31 December 2021

Revenues

The Revenues in 2022 were higher by ₱1,273 million or 37% than in 2021. The increase in Electric Revenues can be attributed to the escalation in the cost of energy purchased from the power suppliers by 48%, which are pass-through charges. Below are the details:

	2022	2021
	(In Millions)	
Generation	3,188	2,111
Transmission	394	315
System loss	263	172
Distribution	793	778
Other pass-through charges	8	1
Total Electric Revenues	4,646	3,377
Other revenues	32	28
Total Revenues	**4,678**	**3,405**

In addition, the increase of 13,436 MWH or 3.35% in the total energy sold in 2022 compared with 2021 contributed to the increase in Revenues, as shown below:

Customer Class	Energy Sales in MWH		%	Number of Customers		%
	2022	2021	Change	2022	2021	Change
Residential	219,747	222,730	1.34%	122,754	119,137	3.04%
General Retail	78,746	72,932	7.97%	12,357	11,908	3.77%

General Power	47,507	44,476	6.81%	247	234	5.56%
Bulk Power	63,755	56,196	13.45%	30	27	11.11%
Streetlights	4,465	4,450	0.34%	57	59	-3.39%
TOTAL	**414,221**	**400,785**	**3.35%**	**135,445**	**131,365**	**3.11%**

As the economy recovers from the COVID-19 crisis' restrictions, the energy consumption of residential customers goes down despite the rise in the number of customers. The drop in the energy consumption of residential customers was offset by the increase in the energy consumption of non-residential customers.

Total Other Income (Charge) increased by ₱17 million during the year because of the significant increase in the interest income earned on cash and cash equivalents.

Costs and Operating Expenses

The total Operating Expenses increased by ₱1,312 million or 43% in 2022 compared with 2021 due to the following significant changes:

- Purchased Power was higher by ₱1,158 million or 43% primarily due to the increase in the cost of power sourced from a coal power producer under a bilateral contract with the Company, and energy purchased from WESM, which were affected by the high fuel costs.
- Salaries and Wages increased by ₱5.2 million or 4% due to the annual salary increase given to regular employees.
- Outside Services increased by ₱13 million or 55% due to the significant maintenance costs associated with the replacement of rotten poles project in 2022.
- Transportation and Electricity Expenses increased by ₱3 million or 63% and ₱1.95 million or 25%, respectively, due to high fuel costs in 2022.
- The temporary relocation of the office of the staff assigned in Quezon City to make room for the renovation of the existing office increased the Rent Expense by ₱815 thousand or 22%.
- Professional Fees increased by ₱1.8 million or 59% due to the hiring of an independent firm appraiser to value the properties of the Company. The resulting valuation report was utilized in the Company's rate application to the ERC for the purpose of determining its distribution wheeling charge.

<u>For the Years Ended 31 December 2021 and 31 December 2020</u>

Revenues

The Electric Revenues increased by ₱567 million or 20% in 2021 due to the increase of both energy sold and number of customers during the year as can be seen in the table below:

	Energy Sales in MWH	%	Number of Customers	%

Customer Class	2021	2020	Change	2021	2020	Change
Residential	222,730	215,042	3.58%	119,137	115,080	3.53%
General Retail	72,932	68,832	5.96%	11,908	11,360	4.82%
General Power	44,476	42,899	3.68%	234	230	1.74%
Bulk Power	56,196	49,935	12.54%	27	24	12.50%
Streetlights	4,450	4,501	-1.12%	59	62	-4.84%
TOTAL	**400,785**	**381,209**	**5.14%**	**131,365**	**126,756**	**3.64%**

The total increase in energy sold was at 19,576 MWH during the year, which was 5.14% higher than 2020 energy sales. There was also a 4,609 increase in the number of customers in 2021, which was 3.64% higher than the volume of customers in the previous year.

Costs and Operating Expenses

The total Operating Expenses increased by ₱702 million or 30%, which can be attributed to the following:

- Purchased Power increased by ₱699.89 million or 35% due to the increase in the cost of power and higher energy requirements.
- Salaries and Wages increased by ₱8.4 million or 7% due to the annual salary increase.
- Outside Services increased by ₱9 million or 67% due to additional outsourcing of meter reading and tree trimming services.
- Transportation Expense increased by ₱1.5 million or 43% because of the high fuel prices in 2021.
- Office Supplies increased by ₱2.7 million or 95% due to the significant increase in the cost of printing forms such as, statement of accounts and official receipts.

Annex A.4

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS AS OF AND FOR THE PERIOD ENDED 31 MARCH 2024

The following discussions should be read in conjunction with the Unaudited Condensed Interim Financial Statements of Dagupan Electric Corporation ("DECORP" or the "Company") as of and for the period ended 31 March 2024 with comparative figures as of December 31, 2023 and for the period ended 31 March 2023.

Discussion on Changes in Financial Position

For the Three-Month Period Ended 31 March 2024 and Period Ended 31 December 2023

Utility Plant and Equipment

The Company invested ₱35 million on capital expenditures for the three-month period ending 31 March 2024 for the continuous extension of distribution assets to accommodate the growth of customers and their electricity consumption. The total Utility Plant and Equipment, despite the investment, decreased by ₱ 11 million or 30%, due to the higher cost of depreciation than capital expenditures.

Other Property and Equipment

This Other Property and Equipment as of March 31, 2024, likewise decreased by ₱5.6 million or 7% due to depreciation.

Cash and Cash Equivalents

The Company's Cash and Cash Equivalent account increased by ₱1.3 billion or 141%. The increase was primarily due to the receipt of the proceeds from the initial public offering of the Company that was held from January 8 to 12, 2024 following the SEC's approval of the Company's registration of its shares on December 27, 2023. The proceeds shall be used solely in accordance with the purpose stated in the use of the proceeds of the public offering.

Prepayments and Other Current Assets

The Prepayments and Other Current Assets increased by ₱18 million or 24% due to the annual payments of property insurance, real property tax, and local franchise tax for the year 2024. This account is amortized monthly to recognize the expense portion in its applicable period.

Trade and Other Payables

The Trade and Other Payables increased by 4% from ₱636 million as of 31 December 2023 to ₱660 million as of 31 March 2024. This account includes the cost of power that the Company purchased from its generators under a bilateral agreement, the costs of energy drawn from the Wholesale Electricity Market (WESM), and payments for transmission services provided by theNational Grid Corporation of the Philippines (NGCP). The increase in this account was due to the higher cost of accrual of expenses from these generators and transmission service providers.

Capital Stock and Additional Paid-In Capital

The capital stock is measured at par value for all shares issued. The excess of proceeds from the issuance of shares over the par value is credited to additional paid-in capital.

On December 27, 2023, the SEC rendered effective DECORP's application for the registration of Fourteen Million Six Hundred Sixty-Two Thousand (14,662,000) common shares, of which Two Million Two Hundred Thousand (2,200,000) shares were issued and offered for sale to the public by way of an initial public offering at an offer price of Five Hundred Thirty Three (₱533.00) per share. In 2024, the 2,200,000 common shares offered to the public were fully subscribed and paid.

The Capital Stock increased by ₱220 million, which is the par value of the 2,200,000 common shares subscribed and paid through the public offering discussed above. The excess of the offer price over the par value, or ₱952.6 million, was recorded as additional paid-in capital.

Discussion on Results of Operations

For the Three-Month Period Ended 31 March 2024 and 2023

The Company generates its revenues from: (1) pass-through charges, which are Generation, Transmission, System Loss, and other related revenues; (2) Distribution Wheeling Charges consisting of Distribution, Supply, and Metering charges; and (3) other charges related to service reconnection and pole attachment rental.

The Company along with other electric distribution utilities were directed by the ERC to collect pass-through charges from electricity consumers. These pass-through charges are revenue-neutral to the Company. The ERC has set a limit which, when exceeded, prompts an adjustment to correct over or under recovery of these charges. In addition, the ERC evaluates these charges every three (3) years for any over- or under- recoveries. Upon ERC approval, DECORP refunds to or collects from its customers the over- or under- recoveries.

The distribution charges of the Company were based on the latest approved rates of the ERC, determined using the Performance-Based Regulation ("PBR") rate setting methodology. In 2022, the Company filed its application for the approval of its Annual Revenue Requirements ("ARR") under PBR, which will be the basis of the distribution rates for the regulatory years 2023 to 2026. The Company uses the distribution rates authorized by the ERC for the last regulatory year of the third regulatory period under PBR while it waits for the ERC to make a decision regarding its ARR application.

The Company distributes electricity to five (5) customer classes, namely: residential, small commercial, large commercial, bulk power, and streetlights.

The sale of electricity and other revenues amounted to ₱887.76 million for the three-month period ended 31 March 2024, which is ₱146 million or 14% lower than the ₱1,033.99 million sales for the three-month period ended 31 March 2023. The details of the revenues are as follows:

In Millions

	Unaudited March 31,	
	2024	**2023**
Generation	535.97	704.36
Transmission	89.75	88.08
System loss	47.20	56.27
Distribution	204.49	176.99
Other pass-through charges	8.23	5.83
Total electric revenues	**885.64**	**1,031.53**
Other revenues	2.12	2.46
Total revenues	**887.76**	**1,033.99**

The decrease in revenues can be attributed to the significant reduction in the costs of electricity purchased by the Company from its suppliers, specifically GNPower Mariveles Energy Center Ltd. Co. (GMEC), a coal-fired power plant. The decline in fuel costs materially reduced the power cost of GMEC by 34%, resulting in a reduction of generation costs passed on to end users.

	Energy Sales in MWH		**No. of Customers**	
	March 31, 2024	**March 31, 2023**	**March 31, 2024**	**March 31, 2023**
Residential	55,605	46,575	126,818	123,942
Small Commercial	21,631	18,855	12,924	12,519

Large Commercial	12,670	11,470	258	249
Bulk Power	18,070	15,671	34	30
Streetlights	1,100	1,100	54	57
Total	**109,076**	**93,671**	**140,088**	**136,797**

Operating Expenses

The total operating costs of the Company is lower by ₱48 million, or 5%, for the three-month period ending 31 March 2024 compared with the same period in 2023. The details of operating expenses are as follows:

	March 31, 2024 (Unaudited)	March 31, 2023 (Unaudited)
Purchased power	**₱684,536,796**	779,035,473
Depreciation	**52,563,614**	49,654,749
Salaries and wages	**39,211,733**	₱38,768,284
Outside services	**7,630,490**	6,109,760
Professional fees	**34,358,258**	888,222
Repairs and maintenance	**4,243,696**	2,941,948
Telephone and water	**1,243,386**	1,470,590
Transportation	**1,284,497**	1,315,020
Office supplies	**868,799**	1,653,682
Rent	**1,061,700**	1,294,220
Insurance	**575,276**	1,130,963
Electric materials	**669,706**	684,574
Training and seminars	**125,488**	250,691
Donations	**65,000**	37,000
Association and membership fees	**69,630**	68,041
Advertising and promotion	**-**	15,000
Taxes other than income tax	**12,082,930**	4,481,816
Others	**3,676,768**	2,052,104
Total	**₱844,267,767**	₱891,852,136

Purchased power

The Company has three (3) bilateral contracts with the following generators to supply its electricity requirements: 1.) GNPower Mariveles Energy Center, Ltd. Co. (GMEC), a coal-fired power plant; 2) One Manaoag Solar Corporation (OMSC), a solar power plant; and 3.) Energy Development Corporation (EDC), a geothermal power plant. The Company also purchased electricity from the Wholesale Electricity Spot Market (WESM) for its requirements that could not be supplied by their genfcustoerators. Payments made to the National Grid Corporation of the Philippines (NGCP) for transmission services are also included in this account.

The significant reduction in the costs of electricity supplied by GMCP, due to the decline in fuel costs, resulted in a 12% or ₱94 million reduction in this account.

Salaries and wages
This account consists of salaries and benefits provided to the employees of the Company. For the three-month period ended 31 March 2024 and 2023, the salaries and wages amounted to ₱39.2 million and ₱38.8 million, respectively.

Outside services
This account consists of payments to service providers for distribution of statement of accounts and disconnection notices, withdrawal of meters of delinquent customers, distribution line expansions and revamps, security services, and janitorial services. For the three-month period ended 31 March 2024 and 2023, outside service amounted to ₱7.6 million and ₱6.1 million, respectively.

Professional fees
This account consists of payments for legal services, financial advisory services, actuarial valuation of retirement fund, and audit of financial statements. The payment for legal and financial advisory services for the registration of the Company's common shares with the SEC leading to the initial public offering of its common shares significantly increased the professional fees.

Taxes other than income tax
This account consists of payments of national and local government taxes. The increase was due to the payment of documentary stamp tax for the issuance of common shares related to the shares sold by way of initial public offering. It also includes the monthly amortization of payment of local franchise and real property taxes for the year 2024.

ANNEX B

DAGUPAN ELECTRIC CORPORATION
MINUTES OF THE 2023 ANNUAL STOCKHOLDERS' MEETING
Veria I Building, 62 West Avenue, Quezon City
22 August 2023, 2:00 P.M.

The Annual Stockholders' Meeting of DAGUPAN ELECTRIC CORPORATION (the "Corporation") was held on 22 August 2023, at 2:00 p.m. at the Corporation's office at Veria I Building, 62 West Avenue, Quezon City.

Stockholders Present (in Person or by Proxy):

Mr. Rene Bernard L. Llames, Director and President

Mrs. Angelique Maxime L. James, Director and Chairperson

Ms. Cynthia Irene L. Llames, Director

Mr. Deon Peter James, Director

Mr. Vivencio M. Romero Jr., Director

Mr. Jose Maria Abaya, Director

Mr. Ranulfo M. Ocampo, Director

Also present:

Atty. Erwin Mark A. Gavino, Corporate Secretary

Ms. Lilian Saralde, Finance Manager

1. QUORUM

The Chairperson, Mrs. Angelique Maxime L. James presided over the meeting. The Corporate Secretary, Atty. Erwin Mark A. Gavino, certified that considering the presence in person or by proxy of one hundred percent of the Stockholders holding the outstanding capital stock of the Corporation, there was a quorum to conduct the meeting.

The Corporate Secretary determined and reported that the notices of the meeting had been properly given by the Stockholders of the Corporation in accordance with the By-Laws.

2. REPORT OF THE PRESIDENT & APPROVAL OF MINUTES OF THE 2023 ANNUAL STOCKHOLDERS' MEETING

The President of the Corporation, Mr. Rene Bernard L. Llames, apprised the shareholders of the business dealings of the Corporation for the previous fiscal year. The President thereafter allowed the shareholders present opportunity to raise questions on the same. There being none, the meeting proceeded to the next item.

3. ELECTION OF BOARD OF DIRECTORS

The Chairperson then called for the Stockholders present to vote to elect the Directors of the Corporation for 2023-2024. Upon motion made and duly seconded, the current membersof the Board of Directors were nominated, and nominations were closed. Thereafter, all seven stockholders present unanimously voted to elect the following persons to serve as members of the Board of Directors of the Corporation for 2023-2024:

Mr. Rene Bernard L. Llames

Mrs. Angelique Maxime L. James

Ms. Cynthia Irene L. Llames

Mr. Deon Peter James

Mr. Vivencio M. Romero Jr.

Mr. Jose Maria Abaya

Mr. Ranulfo M. Ocampo

4. ADJOURNMENT

There being no further business to discuss, the Chairman adjourned the meeting at 2:30 p.m.

CERTIFIED CORRECT:

ERWIN MARK A. GAVINO
Corporate Secretary

ATTESTED BY:

ANGELIQUE MAXIME L. JAMES
Chairperson

REPUBLIC OF THE PHILIPPINES)
Pasig City) S.S.

CERTIFICATION OF ATTENDANCE BY DIRECTORS

I, **ERWIN MARK A. GAVINO,** of legal age, Filipino, and with office address at Suite 501 One Magnificent Mile (OMM-Citra) Building, San Miguel Avenue, Ortigas Center, Pasig City, after being sworn into in accordance with law, hereby certify:

1. I am the duly appointed Corporate Secretary of **DAGUPAN ELECTRIC CORPORATION** (hereinafter, the "Corporation"), a corporation duly organized and existing under Philippine laws, with office address at A.B. Fernandez St., Dagupan City, Pangasinan.

2. I hereby certify that all directors of the Corporation attended all regular and special meetings of the Board of Directors held on the following dates:

   a. 2 October 2023
   b. 11 December 2023
   c. 12 December 2023
   d. 20 December 2023
   e. 21 December 2023
   f. 15 February 2024
   g. 13 March 2024
   h. 27 March 2024
   i. 08 April 2024
   j. 07 May 2024
   k. 29 May 2024

3. I further certify that the Corporation is still in the process of organizing its Committees, and no Committee meetings have been held to date.

IN WITNESS WHEREOF, I have hereunto set my hand this July 5, 2024 in Pasig City.

ERWIN MARK A. GAVINO
Corporate Secretary

SUBSCRIBED AND SWORN to before me this 5th July 2024 in Pasig City, affiant personally exhibiting to me his Driver's License No. N02-86-040053 valid until 2033-08-31, a competent evidence of his identity bearing his photograph and signature in accordance with A.M. No. 02-8-13-SC dated 06 July 2004.

NOREENESSE JOSZEL F. SANTOS
Notary Public for and in the City of
Pasig and in the
Municipality of Pateros, Metro Manila
Until 31 December 2024
PTR No. 0173813; 01/03/2024; Rizal
IBP No. 331799; 12/20/2023; RSM
Appointment No. 360 [2023-2024]
Roll No. 87378
MCLE Compliance:
Admitted to the Philippine Bar on 02 May 2023
S501 OMM-CITRA Bldg., San Miguel Avenue
Ortigas Center, 1605 Pasig City

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Annex D

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

CERTIFICATION OF
NO DIRECTORS IN GOVERNMENT

I, **ERWIN MARK A. GAVINO**, of legal age, Filipino, and with office address at Suite 501 One Magnificent Mile Building, San Miguel Avenue, Ortigas Center, Pasig City, after being sworn into in accordance with law, hereby certify:

1. I am the duly appointed Corporate Secretary of **DAGUPAN ELECTRIC CORPORATION**, (hereinafter, the "Corporation"), a corporation duly organized and existing under the laws of Philippines with principal address at A.B. Fernandez Street, Dagupan City 2400.

2. I hereby certify that no member of the Board of Directors, and no Officers of the Corporation are connected with any government agency or instrumentality.

3. The foregoing *Certification* is in accordance with the records of the Corporation.

IN WITNESS WHEREOF, I have hereunto set my hand this 5th day of July 2024 in Pasig City.

ERWIN MARK A. GAVINO
Corporate Secretary

SUBSCRIBED AND SWORN to before me this 5th July 2024 in Pasig City, affiant personally exhibiting to me his Driver's License No. N02-86-040053 valid until 2033-08-31, a competent evidence of his identity bearing his photograph and signature in accordance with A.M. No. 02-8-13-SC dated 06 July 2004.

NOREENESSE JOSZEL F. SANTOS
Notary Public for and in the City of
Pasig and in the
Municipality of Pateros, Metro Manila
Until 31 December 2024
PTR No. 0173813; 01/03/2024; Rizal
IBP No. 331799; 12/20/2023; RSM
Appointment No. 360 [2023-2024]
Roll No. 87378
MCLE Compliance:
Admitted to the Philippine Bar on 02 May 2023
S501 OMM-CITRA Bldg., San Miguel Avenue
Ortigas Center, 1605 Pasig City

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CERTIFICATION OF INDEPENDENT DIRECTOR

I, **RANULFO M. OCAMPO**, Filipino, of legal age and a resident of 221 Riverside Drive, Provident Village, Marikina City, having been duly sworn to in accordance with law do hereby declare that:

1. I am a nominee for independent director of **DAGUPAN ELECTRIC CORPORATION** and have been its independent director since 2015.

2. I am affiliated with the following companies or organizations:

Company/Organization	Position/Relationship	Period of Service
Private Electric Power Operators Association	President	2006 to present
National Renewable Energy Board	Member	December 2010 to June 2016

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of DAGUPAN ELECTRIC CORPORATION, as provided for in Section 38 of the Securities Regulation Code, its Implementing Rules and Regulations and other SEC issuances.

4. I am not related to any director, officer, or substantial shareholder of DAGUPAN ELECTRIC CORPORATION, or any of its related companies.

5. To the best of my knowledge, I am not the subject of any pending criminal or administrative investigation or proceedings.

6. I shall faithfully and diligently comply with my duties and responsibilities as an independent director under the Securities Regulation Code and its Implementing Rules and Regulations, Code of Corporate Governance and other SEC issuances.

8. I shall inform the Corporate Secretary of DAGUPAN ELECTRIC CORPORATION of any changes in the abovementioned information within five days from its occurrence.

Done, this 4th day of July 2024, at Pasig City.

RANULFO M. OCAMPO
Affiant

SUBSCRIBED AND SWORN to before me this 05 day of July 2024, affiant personally appeared before me and exhibited to me his Driver's License No. 10-77-011473 valid until 12 June 2033.

NOREENESSE JOSZEL F. SANTOS
Notary Public for and in the City of Pasig and in the Municipality of Pateros, Metro Manila
Until 31 December 2024
PTR No. 0173813; 01/03/2024; Rizal
IBP No. 331799; 12/20/2023; RSM
Appointment No. 360 [2023-2024]
Roll No. 87378
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Ortigas Center, 1605 Pasig City

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Annex F

CERTIFICATION OF INDEPENDENT DIRECTOR

I, **GEROMIN T. NEPOMUCENO JR.**, Filipino, of legal age and a resident of 13 St. Joseph St. Villa Teresa Subdivision, having been duly sworn to in accordance with law do hereby declare that:

1. I am a nominee for independent director of DAGUPAN ELECTRIC CORPORATION, and have been its independent director since 21 December 2023.

2. I am affiliated with the following companies or organizations.

Company/Organization	Position/Relationship	Period of Service
Angeles Industrial Park, Inc.	Chairman	1996 to present
Crismin Realty Corporation	Chairman	2001 to present
M.S.N Foods Inc.	Chairman	1996 to present
Angeles Ice Plant, Inc.	President	1980 to present
Raslag Corp	Director (Vice Chairman) and Treasurer	2013 to present
Angeles Electric Corporation	Chairman	2020 to present
Clark Electric Distribution Corp	Director	2004 to present
Angeles Power, Inc.	Director and Treasurer	1993 to present
TGN Realty, Inc.	Director and Treasurer	1989 to present
Teresa Waterworks, Inc.	Director and Treasurer	1989 to present
J Ten Equities, Inc.	Director and Treasurer	2001 to present
Holy Angel University	Trustee	2006 to present
JDN Sons, Inc.	Director	1989 to present
Wespan Development Corporation	Director	2003 to present
Borealis Corporation	Director	2003 to present

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of DAGUPAN ELECTRIC CORPORATION, as provided for in Section 38 of the Securities Regulation Code, its Implementing Rules and Regulations and other SEC issuances.

4. I am not related to any director, officer, or substantial shareholder of DAGUPAN ELECTRIC CORPORATION, or any of its related companies.

5. To the best of my knowledge, I am not the subject of any pending criminal or administrative investigation or proceeding.

6. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code and its Implementing Rules and Regulations, Code of Corporate Governance and other SEC issuances.

7. I shall inform the Corporate Secretary of DAGUPAN ELECTRIC CORPORATION of any changes in the abovementioned information within five days from its occurrence.

Done, this JUL 08 2024 day of July 2024, at PASIG CITY.

GEROMIN T. NEPOMUCENO JR.
Affiant

SUBSCRIBED AND SWORN to before me this JUL 08 2024 day of July 2024, affiant personally appeared before me and exhibited to me his/her TIN 103-500-026 issued at ________, on ________.

NOREENESSE JOSZEL F. SANTOS
Notary Public for and in the City of Pasig and in the Municipality of Pateros, Metro Manila
Until 31 December 2024
PTR No. 0173813; 01/03/2024; Rizal
IBP No. 331799; 12/20/2023; RSM
Appointment No. 360 [2023-2024]
Roll No. 87378
MCLE Compliance:
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