

COVER SHEET

for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

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Company Name

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S	U	B	S	I	D	I	A	R	I	E	S																		

Principal Office (No./Street/Barangay/City/Town/Province)

L	O	P	E	Z		B	U	I	L	D	I	N	G	,		O	R	T	I	G	A	S		A	V	E	N	U	E
B	A	R	A	N	G	A	Y		U	G	O	N	G	,		P	A	S	I	G		C	I	T	Y	,			
M	E	T	R	O		M	A	N	I	L	A	,		P	H	I	L	I	P	P	I	N	E	S					

Form Type

1	7	-	A
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Department requiring the report

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Secondary License Type, If Applicable

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COMPANY INFORMATION

Company's Email Address

N/A

Company's Telephone Number/s

86312222/ 816220

Mobile Number

N/A

No. of Stockholders

41,338

Annual Meeting
Month/Day

Last Tuesday of May

Fiscal Year
Month/Day

December 31

CONTACT PERSON INFORMATION

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

Name of Contact Person

Atty. William Pamintuan

Email Address

wspamintuan@meralco.com.ph

Telephone Number/s

8632-8014

Mobile Number

N/A

Contact Person's Address

Lopez Building, Ortigas Avenue, Pasig City
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Note: In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

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SEC FORM 17-A

1. For the fiscal year ended **DECEMBER 31, 2022**

2. SEC Identification Number **PW-102** 3. BIR Tax Identification No. **000-101-528-000**

4. Exact name of issuer as specified in its charter **MANILA ELECTRIC COMPANY**

5. REPUBLIC OF THE PHILIPPINES
Province, Country or other jurisdiction
of incorporation or organization

6. (SEC Use Only)
Industry Classification Code:

7. LOPEZ BUILDING, ORTIGAS AVENUE, BRGY. UGONG, PASIG CITY 1605
Address of principal office Postal Code

8. (+632) 8631-5567
Issuer's telephone number, including area code

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

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

Title of Each Class	Number of Shares of Common Stock Outstanding
Common Stock	1,127,098,705
	Amount of Debt Outstanding
Debt Securities - bonds	¥7,000 million Fixed Rate Notes

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

Yes [/] No []

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

PHILIPPINE STOCK EXCHANGE

12. Check whether the issuer:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17.1 thereunder or Section 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 that 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 []

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

The aggregate market value of voting stock held by non-affiliates of the registrant as of December 31, 2022:

Shares: 294,230,500

Closing Price: ₱298.80

Aggregate: ₱87,916.07 million

PART I – BUSINESS AND GENERAL INFORMATION

Item 1. Business

1) Business Development

The businesses of Manila Electric Company (“*MERALCO*”) and its subsidiaries (the “*MERALCO Group*”) consist of the unregulated and regulated segments of the energy supply chain; engineering design services; construction and consulting services; payment fulfillment and bills collection services; after-the-meter and energy management services; and telecommunication and information technology services.

The regulated and unregulated segments of the energy supply chain of the *MERALCO Group* consist of electricity distribution, power generation, retail electricity supply, and management of electric distribution facilities.

As a distribution utility (“*DU*”), *MERALCO* holds a 25-year congressional franchise under Republic Act (“*RA*”) No. 9209 valid through June 28, 2028 to construct, operate, and maintain the electric distribution system in the cities and municipalities of Bulacan, Cavite, Metro Manila, and Rizal and certain cities, municipalities and barangays in the provinces of Batangas, Laguna, Pampanga, and Quezon. The Energy Regulatory Commission (“*ERC*”) granted *MERALCO* a consolidated Certificate of Public Convenience and Necessity (“*CPCN*”) for the operation of electric service within its franchise area, which shall be valid within the franchise period.

Clark Electric Distribution Corporation (“*Clark Electric*”), a 65%-owned subsidiary of *MERALCO* is a registered private distribution utility with a franchise granted by Clark Development Corporation (“*CDC*”) to own, operate and maintain the electric distribution system within the Clark Freeport Zone and the sub-zones. The *Clark Electric* franchise is valid through October 2047.

Through a 60% owned subsidiary, Shin Clark Power Holdings, Inc. (“*Shin Clark*”), *MERALCO* together with a consortium, composed of Axia Power Holdings Philippines Corporation (a wholly-owned subsidiary of Marubeni Corporation), KPIC Netherlands BV [a wholly-owned subsidiary of the Kansai Electric Power, Inc. (“*Kansai*)], and Chubu Electric Power Co., Inc. (“*Chubu*)”, hold a 90% interest in Shin Clark Power Corporation (“*Shin Clark Power*”). *Shin Clark Power* is a company formed with Bases Conversion and Development Authority (“*BCDA*”) through a 25-year joint venture agreement to provide electricity distribution services within the New Clark City (“*NCC*”). *NCC* consists of a 9,450 hectare development within the Clark Special Economic Zone located in Capas and Bamban towns in the Tarlac province.

MERALCO also manages the electric distribution facilities of Pampanga Electric Cooperative II (“*PELCO II*”) through Comstech Integration Alliance, Inc. (“*Comstech*”) under a 25-year Investment Management Contract (“*IMC*”) and that of the Cavite Economic Zone (“*CEZ*”) under a 25-year concession agreement with Philippine Economic Zone Authority (“*PEZA*”).

MERALCO Group’s participation in retail electricity supply (“*RES*”) is directly through the local *RES* units, *MPower* and *Cogent Energy*, and indirectly through affiliate *RES* entities, Vantage Energy Solutions and Management, Inc. (“*Vantage*”), MeridianX Inc. (“*MeridianX*”), Phoenix Power Solutions, Inc. (“*Phoenix Power*”) and Global Energy Supply Corporation (“*GESC*”). Clarion Energy

Management Inc. ("*Clarion*"), a wholly owned subsidiary of *Clark Electric*, is awaiting issuance of license by the *ERC*.

MERALCO PowerGen Corporation ("*MGen*") is MERALCO's power generation investment vehicle. Global Business Power Corporation ("*GBPC*"), which has 970 MW of coal and diesel capacities, is a wholly owned subsidiary of *MGen*. Through *MGen Renewable Energy, Inc. ("MGreen")*, *MGen* has 80 MWdc/50 MWac utility scale solar facility in San Miguel, Bulacan and is in the process of developing 143 MWac of renewable power plants. *MGen* also holds a 58% interest in PacificLight Power Pte Ltd. ("*PacificLight Power*"), which owns and operates a 2 x 400 MW liquefied natural gas plant in Jurong Island, Singapore.

MERALCO's related businesses include engineering, design, construction and consulting services, bill collection services, distribution and energy management services, development, leasing and management of communication towers and infrastructure, and communication, information system and technology services.

The following are the subsidiaries of MERALCO, all of them incorporated in the Philippines except for Lighthouse Overseas Insurance Company, Limited ("*LOIL*") and Meridian Power Ventures Limited. MERALCO and its subsidiaries are herein referred to as the "*MERALCO Group*".

Meralco Industrial Engineering Services Corporation ("*MIESCOR*") is a wholly owned subsidiary of MERALCO. Together with its subsidiaries, *MIESCOR Builders Inc. (MBI)* and *MIESCOR Logistics, Inc. (MLI)*, *MIESCOR* provides expertise in Engineering Procurement and Construction (*EPC*), Distribution Utility and Pole Attachment Services, Telecommunications Infrastructure, Logistics and Facilities Management, and Trading of high-quality electrical supplies and equipment.

MIESCOR Infrastructure Development Corporation (MIDC) was incorporated in 2021. On April 8, 2022, *MIESCOR* signed a 51%-49% joint venture agreement with Connect Infrastructure (Philippines) PTE. Limited to develop a common tower business and use *MIDC* as the vehicle. *MIDC* specializes in tower construction, site acquisition, site permitting, tower erection and tower management services to telecommunications companies.

MIESCOR, with over 9,000 manpower, is one of the leading engineering and construction companies in the country, meeting global standards with its ISO 9001:2015 (*QMS*), ISO 14001:2015 (*EMS*), and ISO 45001:2018 (*OSH*) certifications. *MIESCOR* also holds a PCAB 'AAAA' license and was awarded numerous safety and health excellence awards for its outstanding safety records.

MIESCOR provides services to companies in the power and telecommunications industries.

Corporate Information Solutions, Inc. ("*CIS*") is a wholly-owned subsidiary of MERALCO. *CIS*, through its subsidiaries, provides a wide range of financial products and services that cater to business and customer needs.

CIS Bayad Center, Inc., ("Bayad"), a pioneer in outsourced payment collection service, has now evolved into a full-service fintech company offering a whole suite of financial products and services, available in its extensive physical and digital payment touchpoints. Powering more than 45,000 over-the-counter payment locations and leading online and mobile payment applications, the company, recently rebranded as "*Bayad*", launched its new identity, as well as introduced its

revitalized all-in-one pera transaction mobile app and new online payment facility, Bayad App and Online. Providing a seamless onsite-to-online customer experience that caters to both traditional and next generation of payers, *Bayad* cements itself as the authority in payments.

To complement its suite of value offerings, *Bayad* established Customer Frontline Solutions, Inc. (“*CFS*”). *CFS* specializes in providing outsourced tellering and other administrative services to different industries in the Philippines. *Bayad* continues to trailblaze the industry as it elevates the Filipinos’ payment experience, at the same time providing end-to-end payment solutions to major institutions and government agencies nationwide.

Meralco Energy, Inc. (“*MServ*”) is a wholly owned subsidiary of *MERALCO*. It is a one-stop shop for energy services and solutions that will guarantee total system efficiency for customer facilities. As a DOE-accredited Energy Service Company (ESCO) in the Philippines and as a “AAA” PCAB-licensed company, *MServ*’s scope of activities include Energy Audit of Customer Facilities, Advisory and Consultancy Services for Energy Efficiency, Engineering, Procurement and Construction (“*EPC*”) of Electrical, Mechanical, Plumbing, and Fire Protection (*MEPF*) Facilities, and Operations and Maintenance (*O&M*) of customer owned facilities. *MServ* also has the expertise to value-engineer electrical designs and offers energy solutions to help the sustainability goals of its customers by lowering energy consumption. *MServ* also provides Energy Efficiency solutions such as sub-metering and energy management systems, Smart City solutions such as smart streetlighting, and building management systems, Sewage Treatment Plant (*STP*) solutions, and Hyperscale Data Center Solutions.

e-Meralco Ventures, Inc. (“*e-MV*”) is a wholly owned subsidiary of *MERALCO*. It was established on June 22, 2000. Through a wholly owned subsidiary, Paragon Vertical Corporation, it owns 100% of the equity in Radius Telecoms, Inc. (“*Radius*”). *Radius* holds a congressional telecommunications franchise to construct, install, establish, operate, and maintain for commercial purposes and in the public interest, the business of providing basic and enhanced telecommunications services in the Philippines, and between the Philippines and other countries and territories.

Radius delivers its services on an end-to-end full fiber optic network covering more than 8,000 kms in Metro Manila and nearby provinces, as well as Clark and Cebu, with plans to expand to other major cities in the Visayas and Mindanao regions.

Radius provides world-class data connectivity solutions over its dense fiber optic network, with access nodes strategically located within business districts, industrial and Information Technology (“*IT*”) parks, data centers, and main thoroughfares.

In 2020, *Radius* launched the high demand broadband internet product, Red Fiber, to address the unserved and underserved consumers, as well as micro, small, and medium enterprise segments.

Currently, *Radius* provides leading edge connectivity solutions, products, and services, not just for the business sector but also for the consuming public. It aims to deliver an enhanced customer experience at every touchpoint.

Meralco Financial Services Corporation (“Finserve”) was incorporated on March 19, 2002 as a wholly-owned subsidiary of MERALCO. It aims to enhance MERALCO’s shareholder value creation and expand customer service through innovative consumer and customer-based products and services that support MERALCO’s core business.

In 2007, *Finserve* embarked on investing and managing commercial center operations with The Strip along Ortigas Avenue as its flagship project. At present, this two-storey building with a leasable space of 1,030 square meters houses several retail establishments.

Finserve, has a 10% equity interest in AF Payments, Inc. (“*AF Payments*”) since its incorporation in February 2014. *AF Payments* was incorporated primarily to operate and maintain an electronic payment clearing and settlement system through a contactless automated fare collection system for public utility, including generic contactless micropayment solution. It also supplies and issues fare media and store value cards or reloadable cards for use in transport and non-transport facilities. *AF Payments* operates and maintains the related hardware and software.

Clark Electric Distribution Corporation (“Clark Electric”) is 65% owned by MERALCO. *Clark Electric* is a private stock corporation with an authorized capital stock of ₱1.5 billion, divided into 15 million common shares with par value of ₱100 each, and a paid-up capital stock of ₱900 million. *Clark Electric* is a franchise-grantee to distribute electric power in the Clark Special Economic Zone (“CSEZ”), site of the former U.S. Clark Air Base in the Philippines transformed into a premier economic zone comprising the Clark Freeport Zone (“CFZ”) and contiguous subzones. *Clark Electric*’s 2022 energy sales amounted to 645.0 GWh, 15.7% higher than in 2021.

Clark Electric serves a total of 2,711 customers composed of commercial (48.8%), industrial (5.6%), and residential and streetlight (45.6%) accounts, with a peak demand of 113.917 MW.

Clark Electric has an aggregate substation capacity of 333 MVA (100 MVA at 230 kV – 69 kV level and 233 MVA at 69 kV – 13.8 kV level), more than enough to meet the power requirements of existing and future customers in the next 3 to 5 years, including projected load growth in the franchise area, especially with the recent construction of its Mabalacat substation. Over the years, *Clark Electric* has developed and grown its distribution network valued at ₱ 1.5 billion at the end of 2022. Its present distribution network consists of 2,058 distribution transformers, 42.18 circuit-km of sub-transmission lines, and 166.04 circuit-km of primary lines.

It continues to expand its asset base and upgrade its distribution network to ensure power adequacy, stability, reliability, and quality at reasonable cost within its franchise area, for the benefit of its customers.

In response to the increasing demand coupled with the desire to provide excellent service, *Clark Electric* will pursue the following projects: completion of the Sunvalley substation to serve additional loads from new and existing customers; installation of additional two (2) Remote-Controlled Line Reclosers (RCLRs) and one (1) Ring Main Unit (RMU) as part of *Clark Electric*’s smart grid initiatives to minimize power interruptions and to expedite power restoration; and the acquisition and operation of an Advanced Distribution Management System (ADMS) to further improve system reliability and flexibility through the effective management of outages.

Due to the numerous projects being implemented in 2022, there was an increase in the duration of planned power interruptions, while the frequency of unscheduled power interruptions due

to system reliability improvement resulting from these projects was contained to a minimal level at 2.04 times. System loss for the year was at 1.81%, much lower than the system loss cap and is considered as one of the lowest among all the distribution utilities in the country.

MERALCO PowerGen Corporation (“MGen”) is a wholly owned subsidiary of *MERALCO* and serves as its power generation unit. *MGen* has a diversified power generation portfolio that utilizes advanced and highly efficient technologies to provide reliable and cost-competitive supply.

MGen’s subsidiaries and affiliates are as follows:

A. Operational Projects:

- San Buenaventura Power Ltd. Co.’s (“SBPL”):
 - SBPL owns a 500 MW (gross) supercritical coal-fired power plant in Mauban, Quezon which started commercial operations on September 26, 2019. The Power Supply Agreement (“PSA”) with Manila Electric Corporation was approved by the Energy Regulatory Commission on May 19, 2015.
 - The power plant, which provides baseload power supply to electricity consumers in Luzon, is a Board of Investments (“BOI”) registered pioneer project that utilizes state-of-the-art supercritical technology, which is more fuel efficient compared to coal plants currently in operation in the Philippines.
 - SBPL is a partnership between MGen and New Growth B.V. of Electricity Generating Public Company Limited (“EGCO Group”) of Thailand with MGen owning a 51% stake while EGCO owning 49%.

B. Investments:

- PacificLight Power Pte. Ltd. (“PLP”):
 - PLP owns a 2 x 400 MW combined cycle turbine power plant mainly fueled by liquefied natural gas (“LNG”) in Jurong Island, Singapore and has been operating since February 2014.
 - It is the largest Clean Development Mechanism (“CDM”) project in Singapore registered under the United Nations Framework Convention on Climate Change.
 - MGen effectively holds 58% equity interest in PLP.
 - PLP is 70% owned by FPM Power Holdings Ltd. (“FPM”). The remaining 30% interest is directly held by MPG Asia Limited, a wholly owned subsidiary of MGen. FPM is a 60:40 joint venture between First Pacific Company Ltd and MGen.

- Global Business Power Corporation (“GBP”):
 - GBP with a total gross capacity of 1,091MW, is one of the leading independent power producers in Visayas and Mindanao. On March 31, 2021, MGen completed the acquisition of all shareholdings in GBP.
 - Subsidiaries and affiliates:
 - Cebu Energy Development Corporation (“CEDC”) owns and operates a 246MW clean coal-fired power plant located in Toledo City, Cebu. CEDC is 44% owned by Abovant Holdings, Inc. and 56% owned by Global Formosa Power Holdings, Inc.—a corporation that is 93.2% owned by GBP.
 - Toledo Power Co. (“TPC”) owns and operates 60MW and 82MW coal-fired power plants in Daanlungsod, as well as a 40MW diesel-fired power plant in Carmen – all in Toledo City, Cebu. It is 100% beneficially owned by GBP.
 - Panay Energy Development Corporation (“PEDC”) owns and operates 164MW and 150MW clean coal-fired power plants located in Iloilo City, Iloilo. PEDC is 100% owned by Panay Power Holdings Corporation—a corporation that is 89.3% owned by GBP.
 - Panay Power Corporation (“PPC”) owns and operates four diesel-fired power plants. In Iloilo City, it has a 75MW plant and a 20 MW plant. It also has a 7.5MW plant and a 5MW plant in Nabas and New Washington, Aklan. PPC is wholly owned by Panay Power Holdings Corporation—a corporation that is 89.3% owned by GBP.
 - GBH Power Resources, Inc. (“GPRI”) owns a 7.5MW diesel-fired plant in Pinamalayan, Oriental Mindoro. At present, it is operating for purposes of plant preservation. It is 100% owned by GBP.
 - Global Energy Supply Corporation (“GES”) is a Retail Electricity Supplier (RES) licensed by the ERC and serves as GBP’s RES arm. It is 100% owned by GBP.
 - Global Trade Energy Resources (“GTERC”) is primarily engaged in trading thermal coal and consumable commodities for wholesale retail, as well as chartering freight barges and vessels. It is 100% owned by GBP.
 - Alsons Thermal Energy Corporation (“ATEC”) is a Mindanao-based power generation holding company that has 75% equity interest in Sarangani Energy Corporation (“SEC”). SEC owns and operates a 237MW coal-fired power plant in Maasim, Sarangani. ATEC also has 100% ownership in San Ramon Power, Inc. (“SRPI”). SRPI is developing a 120MW coal-fired power plant in Zamboanga. GBP owns a 50% minus 1 stake in ATEC.
- MGEN Renewable Energy, Inc. (“MGreen”)
 - MGen incorporated MGreen on June 6, 2019 as MGen’s vehicle for its investments in renewable power generation projects. MGreen is 100% owned by MGen.
 - Subsidiaries and affiliates:
 - PowerSource First Bulacan Solar, Inc. (“PFBSI”) owns a 55MWac solar power plant in San Miguel, Bulacan. It is a joint venture between MGreen (60%) and PowerSource

Energy Holdings Corporation (40%). PFBSI provides clean and renewable power to the Luzon Grid through its 20-year PSA with *MERALCO* approved by the ERC on December 22, 2016. PFBSI started commercial operations in May 2021.

- PH Renewables, Inc. (“PHRI”) is developing a 75MWac solar plant in Baras, Rizal. Target commercial operations is by first quarter of 2023. PHRI is 100% owned by CACI Power Corporation, a corporation that is 60% owned by MGreen and 40% owned by Mitsui & Co., a subsidiary of Mit-Renewables Philippine Corporation (Mit-Renewables). PHRI was incorporated on December 10, 2018.
- Nuevo Solar Energy Corporation (“NSEC”) owns a 68MWac solar plant in Currimao, Ilocos Norte, which is set to commence commercial operations by first quarter of 2023. NSEC is 50% owned by MGreen and 50% owned by Pasuquin Energy Holdings, Inc.
- Nortesol III, Inc. (“Nortesol”) is engaged in the development, construction, and operation of power plant and related facilities using renewable energy system and hybrid energy system with target capacity of 110 MW dc/90 MWac. It is 70% owned by MGreen. Nortesol is awaiting the issuance of the leasing policy by the Laguna Lake Development Authority.
- Lagunasol Corporation (“LagunaSol”) is engaged in the development, construction, and operation of a power plant and related facilities using solar energy. It was incorporated on September 24, 2020 and is 100% owned by MGreen.

C. Development Projects:

- Atimonan One Energy, Inc. (“A1E”):
 - A1E is MGen’s wholly owned subsidiary developing a 4 x 600 MW (net) liquefied-natural gas (“LNG”) power plant in Atimonan, Quezon.
- Redondo Peninsula Energy, Inc. (“RP Energy”):
 - RP Energy is 47% owned by MGen, 25% owned by Therma Power, Inc., 25% owned by Taiwan Cogeneration International Corporation (Philippine Branch Office), and 3% owned by Meralco Pension Fund. (25%).

MSpectrum Inc. (“Spectrum”) is a wholly owned subsidiary of *MERALCO* which provides renewable energy solutions to its customers, mainly microgrid, utility-scale and roof-top solar projects.

Vantage Energy Solutions and Management Inc. (“Vantage”) is the first wholly owned Retail Electricity Supplier (“RES”) of *MERALCO*. It was incorporated on November 21, 2016 and its license was issued by the *ERC* on January 10, 2017.

As a *RES* entity, *Vantage* provides retail energy services and solutions to the contestable customers in the Competitive Retail Electricity Market. It is also engaged in energy sourcing, trading and solutions, wholesale contracting and aggregating of electricity. As a licensed *RES*, *Vantage* operates and offers its services to all contestable customers nationwide where the *RCOA* is implemented.

Vantage offers competitive energy products and service innovations to help its customers manage their electricity requirements better. It provides stable and reliable power supply based on a blend of *Vantage's* supply portfolio, customized products offered at competitive process, value added services and technical collaborations with its expert engineers to maximize efficiency and profitability of its customers' operations.

eSakay, Inc. ("eSakay") is a wholly-owned subsidiary of *MERALCO*. *eSakay* supplies and provides multiple private sector clients with operatorship services across *EV* types - from *eVans* and *eShuttles* to *eMotorcycles* and *eScooters*.

Shin Clark Power Holdings, Inc. is a 60% owned subsidiary which provides electricity services in New Clark City ("*NCC*"). The 9,450-hectare *NCC* span through Angeles City in Pampanga and the towns of Capas and Bamban in Tarlac.

Phoenix Power Solutions, Inc. ("*Phoenix Power*") is a Retail Electricity Supplier wholly-owned by the *MERALCO*. *Phoenix Power* was established to provide electricity to contestable customers in Luzon through solutions tailored to each client's needs bundled with exceptional customer service.

2) Business of Issuer

The principal business of *MERALCO* is the distribution and sale of electric energy through its distribution network facilities in its franchise area. Its market is categorized into four (4) classes. Following are the percentage contribution to sales of each customer segment based on kWh-sales:

	2022	2021	2020
Residential	35.06%	36.71%	37.84%
Commercial	35.58%	33.07%	33.89%
Industrial	29.07%	29.91%	27.94%
Streetlights	0.29%	0.31%	0.33%
TOTAL	100.00%	100.00%	100.00%

MERALCO and its subsidiaries operate and generate substantially all of their revenues in the Philippines. There is no single external customer which accounts from more than 10% of the consolidated revenues.

MERALCO sources the electricity it distributes from different power suppliers as follows (percentage are based on kWh purchased/sourced):

	2022	2021	2020
First Gas Power Corporation ("FGPC") – Sta. Rita Power Plant and FGP Corp. ("FGP") – San Lorenzo Power Plant	27.28%	24.97%	24.95%
South Premier Power Corporation ("SPPC") – Ilijan Power Plant	13.47%	14.57%	13.55%
Philippine Electricity Market Corporation ("PEMC") - Wholesale Electricity Spot Market or WESM	10.78%	9.79%	11.98%
San Miguel Energy Corporation ("SMEC") – Sual Coal-fired Plant	9.67%	10.57%	11.37%
San Buenaventura Power Limited ("SBPL")	6.47%	7.93%	7.92%
Quezon Power (Philippines) Limited	6.48%	6.82%	5.33%
First NatGas Power Corporation ("FNPC")	6.25%	4.82%	4.24%
Masinloc Power Partners Co., Ltd. ("Masinloc")	6.02%	6.59%	5.97%
AC Energy Philippines, Inc. ("AC Energy")	5.45%	5.71%	4.84%
Southwest Luzon Power Generation Corporation ("SLPGC")	2.05%	1.59%	0.02%
Therma Luzon, Inc. ("TLI") – Pagbilao Coal Plant	1.06%	1.18%	4.81%
Sem-Calaca Power Corporation ("Sem – Calaca")	0.41%	2.90%	3.03%
Others	4.61%	2.56%	1.99%
TOTAL	100.00%	100.00%	100.00%

Franchise and Concession Agreements

MERALCO holds a congressional franchise under Republic Act ("RA") No. 9209 effective June 28, 2003. RA No. 9209 grants MERALCO a 25-year franchise valid through June 28, 2028 to construct, operate, and maintain the electric distribution system in the cities and municipalities of Bulacan, Cavite, Metro Manila, and Rizal and certain cities, municipalities and barangays in the provinces of Batangas, Laguna, Pampanga, and Quezon. On October 20, 2008, the ERC granted MERALCO a consolidated Certificate of Public Convenience and Necessity for the operation of electric service within its franchise coverage, effective until the expiration of MERALCO's congressional franchise. The franchise area of MERALCO over specified areas in Luzon is approximately 9,685 square kilometers, covering 38 cities and 73 municipalities.

CEDC is a registered private distribution utility with a franchise granted by Clark Development Corporation ("CDC") to own, operate and maintain a power distribution system and to distribute power exclusively within its franchise area, which includes the Clark Freeport Zone and the sub-zones. The franchise of CEDC covers 320 square kilometers in Clark Special Economic Zone.

The ERC granted the following subsidiaries distinct RES licenses to operate as affiliate retail electricity suppliers in Luzon and Visayas, namely; Vantage Energy Solutions and Management, Inc. ("Vantage"), a wholly owned subsidiary of MERALCO; Solvre, Inc., a wholly owned subsidiary of MERALCO PowerGen Corporation ("MGen"); and MeridianX Inc. ("MeridianX"), a wholly owned subsidiary of Comstech Integration Alliance, Inc., on January 10, 2017, February 9, 2017 and

February 9, 2017, respectively. Clarion Energy Management Inc. ("*Clarion*"), a wholly owned subsidiary of *Clark Electric*, and Phoenix Power Solutions, Inc. ("*PPSI*"), a wholly owned subsidiaries of *MERALCO*, have submitted the requirements for its *RES* licensing to *ERC*. The approval of its *RES* licensing is pending with the *ERC*.

MERALCO manages the electric distribution facilities of Pampanga Electric Cooperative II ("*PELCO II*") through *Comstech* under an Investment Management Contract ("*IMC*"). *MERALCO* also manages the electric distribution facilities in the Cavite Economic Zone ("*CEZ*") under a 25-year concession agreement with Philippine Economic Zone Authority ("*PEZA*").

Retail Competition and Open Access ("RCOA")

The transition period for *RCOA* commenced on December 26, 2012 in accordance with the joint statement released by the *ERC* and the *DOE* on September 27, 2012 and the Transitory Rules for the Implementation of *RCOA* (*ERC* Resolution No. 16, Series of 2012). The implementation of *RCOA* started on June 26, 2013.

On March 31, 2014, the *ERC* issued a resolution on the Withdrawal of the Rules on Customer Switching and the Retention of the Code of Conduct for Competitive Retail Market Participants. On the same date, *ERC* also issued a resolution adopting the Rules on the Establishment of Customer Information by the Central Registration Body ("*CRB*") and Reportorial Requirements, mandating all *DUs* to submit to the *ERC* and *CRB* information on end-users with (i) monthly average peak demand of at least one (1) *MW* for the preceding 12 months; and (ii) monthly average peak demand of 750 *kW* but not greater than 999 *kW*. The *ERC* will use these information in issuing the certificates of contestability.

On October 22, 2014, the *ERC* issued a resolution suspending the issuance of *RES* licenses. Under the resolution, the *ERC* resolves to hold in abeyance the evaluation of *RES* license applications and suspend the issuance of such licenses until such time that the amendments to the Rules for the issuance of *RES* licenses have been made by the *ERC*.

On July 1, 2015, the *DOE* published Department Circular No. DC2015-06-0010, "Providing Policies to Facilitate the Full Implementation of *RCOA* in the Philippine Electric Power Industry". The Circular essentially provided for mandatory contestability.

On March 8, 2016, the *ERC* promulgated Resolution No. 05 Series of 2016 entitled "A Resolution Adopting the 2016 Rules Governing the Issuance of Licenses to *RES* and Prescribing the Requirements and Conditions Therefor". The Resolution removed the term local *RES* as one of the entities that may engage in the business of supplying electricity to the contestable market without need of obtaining a license therefor from the *ERC*. Moreover, while an affiliate of a *DU* is allowed to become a *RES*, the allowance is "subject to restrictions imposed by the *ERC* on market share limits and the conduct of business activities".

DU is allowed to become a *RES*, the allowance is "subject to restrictions imposed by the *ERC* on market share limits and the conduct of business activities".

On May 12, 2016, the *ERC* issued Resolutions No. 10 and 11, Series of 2016, which:

- Provided for mandatory contestability. Failure of a contestable customer to switch to *RES* upon date of mandatory contestability (December 26, 2016 for those with average demand of at least one (1) *MW* and June 26, 2017 for at least 750 *MW*) shall result in the physical disconnection from the *DU* system unless it is served by the supplier of last resort ("*SOLR*"), or, if applicable, procures power from the *WESM*;
- Prohibits *DUs* from engaging in the supply of electricity to the contestable market except in its capacity as a *SOLR*;
- Mandates Local *RESs* to wind down their supply businesses within a period of three (3) years;
- Imposes upon all *RESs*, including *DU*-affiliate *RESs*, a market-share cap of 30% of the total average monthly peak demand of all contestable customers in the competitive retail electricity market; and,
- Prohibits *RESs* from transacting more than 50% of the total energy transactions of its supply business, with its affiliate contestable customers.

On May 27, 2016, *MERALCO* filed a Petition before *RTC-Pasig*, praying that: (a) a *TRO* and subsequently a Writ of Preliminary Injunction ("*WPI*") enjoining the *DOE* and *ERC* from implementing the assailed rules be issued; and the assailed rules be declared null and void for being contrary to the *EPIRA* and its *IRR*. In an Order dated June 13, 2016, *RTC-Pasig* granted a 20-day *TRO*, which became effective on June 16, 2016. In an Order dated July 13, 2016, *RTC-Pasig* granted a *WPI*, which became effective on July 14, 2016, and shall be effective for the duration of the pendency of the Petition.

Meanwhile, the *ERC* filed a Petition for Certiorari and Prohibition with prayer for *TRO* and/or *WPI* before the *SC*, which asserted that *RTC-Pasig* has no jurisdiction to take cognizance of *MERALCO*'s Petition, citing Sec. 78 of the *EPIRA*. A similar petition was subsequently filed by the *DOE* before the *SC*.

On October 10, 2016, the *SC*, in relation to the Petition filed by the *DOE*, issued a *TRO* that restrained, *MERALCO*, the *RTC-Pasig*, their representatives, agents or other persons acting on their behalf from continuing the proceedings before the *RTC-Pasig*, and from enforcing all orders, resolutions and decisions rendered in Special Civil Action No. 4149 until the petition before the *SC* is finally resolved. In a Resolution dated November 9, 2016, the *SC* denied *MERALCO*'s *MR*.

On November 2, 2016, in relation to the Petition filed by the *ERC*, the *SC* issued a Resolution dated September 26, 2016, which partially granted the Petition of the *ERC*. While the *SC* allowed the *RTC-Pasig* to proceed with the principal case of declaratory relief, it nonetheless issued a Preliminary Mandatory Injunction ("*PMI*") against *RTC-Pasig* to vacate the preliminary injunction it previously issued, and Preliminary Injunction ("*PI*") ordering the *RTC-Pasig* to refrain issuing further orders and resolutions tending to enjoin the implementation of *EPIRA*. On November 14, 2016, *MERALCO* filed a Motion for Partial Reconsideration with Very Urgent Motion to lift *PMI/PI*.

On November 24, 2016, the *ERC* promulgated a resolution moving the contestability date of end users with an average monthly peak demand of at least one (1) *MW* from December 31, 2016 to

February 26, 2017. On January 17, 2017, *MERALCO*, through its counsel, received an SC Resolution dated December 5, 2016, which consolidated the SC *DOE* Petition with the SC *ERC* Petition. The same resolution also denied the Motion for Partial Reconsideration filed by *MERALCO*.

In relation to the *ERC* and *DOE* Petitions, a separate Petition for Certiorari, Prohibition and Injunction was filed by several institutional customers. In said Petition, said customers sought to declare as null and void, as well as to enjoin the *DOE* and *ERC* from implementing *DOE* Circular No. 2015-06-0010 and *ERC* Resolution Nos. 5, 10, 11 and 28, Series of 2016. Acting on the Petition, the SC en banc through a Resolution dated February 21, 2017, issued a *TRO* enjoining the *DOE* and the *ERC* from implementing *DOE* Circular No. 2015-06-0010 and *ERC* Resolution Nos. 5, 10, 11 and 28, Series of 2016. Pursuant to the foregoing, *PEMC* has taken the position that the *TRO* enjoined the voluntary contestability of 750 kW to 999 kW customers and has not allowed them to switch to the contestable market. The *DOE*, in a press release, has advised that it is in the process, together with *PEMC* and *ERC*, of drafting a general advisory for the guidance of *RCOA* stakeholders. The *PCCI* petition was consolidated with two (2) other separate petitions filed by an educational institution and several *DUs*. The *DOE* and *ERC* have also filed a consolidated comment on these petitions.

On November 29, 2017, the *DOE* issued two (2) *DOE* Circulars, namely: DC 2017-12-0013, entitled, Providing Policies on the Implementation of *RCOA* for Contestable Customers in the Philippines Electric Power Industry and DC 2017-12-0014, entitled Providing Policies on the Implementation of *RCOA* for *RES* in the Philippine Electric Power Industry. The *DOE* Circulars became effective on December 24, 2017.

Under the *DOE* Circular No. DC 2017-12-0013, it is provided that voluntary participation for contestable customers under *RCOA*-Phase 2 shall now be allowed upon effectivity of said Circular, while voluntary participation of contestable customers with a monthly average peak demand of 500 kW to 749 kW for the preceding 12 months and demand aggregation for electricity end users within a contiguous area with an aggregate average peak demand of not less than 500 kW for the preceding 12-month period, will also be allowed by June 26, 2018 and December 26, 2018, respectively.

On December 22, 2017, *MERALCO* wrote *ERC* and *DOE* to seek guidance on the impact of the *DOE* Circulars in the light of the *TRO* issued by the SC. On January 17, 2018, the *DOE* responded that there is no legal impediment to the implementation of the *DOE* Circulars but it defers to the OSG for guidance on the legal aspect of the issuances. The *ERC* has yet to respond to *MERALCO*'s letter.

In a Notice dated September 23, 2020, the *ERC* released its draft "Resolution Prescribing the Timeline for the Implementation of *RCOA*" for comments of interested parties. *MERALCO* submitted its comments thereto. On December 28, 2020, the *ERC* released Resolution No. 12, Series of 2020, entitled "A Resolution Prescribing the Timeline for the Implementation of Retail Competition and Open Access ("*RCOA*")". In said Resolution, the *ERC* expanded the coverage of *RCOA* for end-users with an average monthly peak demand of at least 500 KW in the preceding 12 months, on a voluntary basis.

Government Approval of Principal Products or Services

On June 9, 2003, Republic Act (“RA”) No. 9209, otherwise known as the “An Act Granting the Manila Electric Company A Franchise To Construct, Operate and Maintain A Distribution System for the Conveyance of Electric Power to the End-Users in the Cities/Municipalities of Metro Manila, Bulacan, Cavite and Rizal and Certain Cities/Municipalities/Barangays in Batangas, Laguna, Quezon and Pampanga”, was signed into law and took effect on June 28, 2003.

MERALCO distributes and supplies electricity to customers within its franchise area. It is subject to the rate-making regulations and regulatory policies of the *ERC*. *MERALCO*'s billings to customers are itemized or “unbundled” into a number of bill components that reflect the various costs incurred in providing electric service.

The adjustment of each bill component is governed by mechanisms promulgated and enforced by the *ERC*, mainly: (i) the “Rules Governing the Automatic Cost Adjustment and True-up Mechanisms and Corresponding Confirmation Process for Distribution Utilities”, which govern the recovery of pass-through costs, including over- or under-recoveries in the following bill components: generation charge, transmission charge, system loss charge, inter-class rate and lifeline subsidies, local franchise and business taxes, as modified by *ERC* Resolution No. 2, Series of 2021 (“Rules on the Recovery of Pass-Through Taxes (Real Property, Local Franchise and Business Taxes) of Distribution Utilities”) with respect to the recovery of local franchise and business taxes; and (ii) the “Rules for the Setting of Distribution Wheeling Rates” (“*RDWR*”), which govern the determination of *MERALCO*'s distribution, supply, and metering charges, as modified by *ERC* Resolution No. 2, Series of 2021 with respect to the recovery of real property taxes.

Government Approval and Regulation

Energy Regulatory Agency

In accordance with the Electric Power Industry Reform Act of 2001 (“*EPIRA*”), *MERALCO*, as a Distribution Utility and Electric Power Industry Participant, is subject to regulation by the *ERC* and recognizes the rate-making policies of the *ERC*.

Costs and Effects of Compliance with OSH and Environmental Laws

Organizational Safety

MERALCO remains steadfast in upholding the right of its employees and stakeholders to a safe and healthy work environment, in line with the provisions of RA 11058 or the Occupational Safety and Health Standards Act. The Organization continues to advocate the elimination of work-connected incidents through its flagship safety campaign, “TARGET ZERO: Zero Incident, Zero Harm”. This program is reinforced by fundamental Occupational Safety and Health initiatives, such as “First Working Day Safety” Campaign, “Una sa Lahat-Safety” Communication Program, Safety Innovation, “Araw ng mga Linecrew” and various safety training and competency certification programs. The Company also continues to leverage information technology advancements through the ESH Matters Portal Hazard Hunter Online App and Incident Reporting Management System, which aims to further strengthen the sound safety culture of *MERALCO* and continually improve its OSH performance.

In 2022, *MERALCO* achieved 100% safety compliance requirements and passed all forty-eight (48) Department of Labor and Employment (“*DOLE*”) audits across its various operating facilities. As a

result of strict compliance to all applicable regulatory requirement and all efforts to keep employees safe, the Organization clocked-in 13 million safe manhours with a 15% decrease in the count of disabling injuries compared with the previous year.

MERALCO strengthens its culture of safety with the continuous learning interventions it provides for its employees. In 2022, several batches of Basic Occupational Safety and Health (“*BOSH*”) trainings, Defensive Driving Seminars, 8-hour Mandatory Occupational Safety and Health seminars and other safety-related training were conducted resulting to a total of 1,485 personnel trained.

Moreover, *MERALCO* was recognized for its exceptional safety performance during the 18th Energy Safety, Health and Environment Conference hosted by the Safety and Health Association of the Philippine Energy Sector (“*SHAPES*”) in partnership with *DOE* awarded the Company’s *ESH* Committees and Safety Officers. A total of eight (8) Corporate Safety & Health Excellence Awards and eighteen (18) Outstanding Safety & Health Professional Awards were awarded to *MERALCO* for the effective implementation of OSH Programs and achieving zero lost time incidents across *MERALCO* facilities.

Lastly, true to its vision to be a world-class company, *MERALCO* maintained its ISO 45001:2018 certification for OHS Management System after successfully passing the 2022 certification audit conducted by SOCOTEC Certification Philippines, Inc. This proves that *MERALCO*’s robust OSH Management System is at par with the global standard for occupational health and safety.

Environment Management

It is mandatory to keep pace with all the requirements of the Department of Environment and Natural Resources - Environmental Management Bureau (“*DENR-EMB*”) and Laguna Lake Development Authority (“*LLDA*”) as failing to understand and comply with changes in their requirements can result to violations and monetary fines. For 2022, *MERALCO* secured a total of 323 permits (59 newly acquired, 264 renewed/amended), which include Certificate of Non-Coverage (“*CNC*”) for eight (8) new Substations and submitted a total of 1,238 environmental monitoring reports, which is 14% higher than the 1,090 reports submitted for 2021. The total costs incurred in 2022 for securing environmental permits amounted to Php 3,440,584 including Php 1,400,000 for the amendment of Environmental Compliance Certificates (“*ECCs*”) for eight (8) major operating facilities.

To continuously develop knowledge and skills in environmental management among the Company’s Pollution Control Officers and Managing Heads, a total of sixteen (16) environmental training sessions were conducted, wherein nine (9) were regulatory compliance related, while seven (7) were environmental programs related.

MERALCO generated a total of 1,018 metric tons (“*MT*”) of hazardous wastes, including busted lamps, electronic wastes, and infectious wastes generated in the workplace, which were disposed through a *DENR-EMB* registered transporter and treater, while a total of 2,660 *MT* of non-hazardous solid wastes was generated to which a 96% diversion rate was achieved. Through *MERALCO*’s participation in the Philippine Business for Social Progress’ (“*PBSP*”) X-Trash Challenge, a total of 87.7 *MT* of recyclable plastics, paper and metal were collected and disposed through their partner recycling companies. The total recyclables had an equivalent environmental points amounting to ₱396,727

(1 EP = 1 Peso), which was used to purchase Christmas food packs for 1,000 marginalized families in various communities in Quezon City.

To intensify and sustain the Company's composting activities, through its Race to Zero Waste ("RZW") Program, *MERALCO* purchased five (5) mechanized dual-drum composters in partnership with the Department of Science and Technology-Industrial Technology Development Institute ("DOST-ITDI"). For 2022, a total of 1,963 kgs. of completed compost was produced, which is used for the Company's greening activities.

As part of the continuing Company's Wastewater Management Program and compliance with the DILG Memorandum Circular 2019-62, RA 9275 or the Philippine Clean Water Act and its IRR, DAO 2016-08, the two-phased Septic tank Desludging Program for all *MERALCO* operating facilities was completed in March 2022. In coordination with *DOH/DENR* Registered desludging facilities, a total of 141 (35 BCs, 101 Substations, 4 Support facilities, and 1 Repeater Station) operating facilities were desludged.

MERALCO successfully passed the 2022 Stage 1 and 2 Audits for its ISO 14001:2015 Environmental Management System which covered the Corporate Office. The remaining offices of Networks will undergo the audit by the first quarter of 2023.

Disaster Resiliency

Aspiring to be one of the most resilient organizations in the Philippine Power Industry, *MERALCO* continues to enhance its internal capability through capacity building (i.e., acquisition of equipment, hiring of skilled professionals, conduct of trainings, participation in exercises/drills) and strong collaborations with external agencies, such as the Department of Energy (DOE), Department of Interior and Local Government (DILG), Bureau of Fire Protection (BFP), Philippine National Police (PNP), Office of Civil Defense (OCD) and local disaster risk reduction management offices.

As of December 2022, a total of 43 *MERALCO* Rescue members, 14 emergency vehicles, and various emergency equipment were available and ready for deployment on any emergencies. Two webinars and twelve trainings on emergency preparedness and response were conducted for skills and knowledge enhancement: Fire Safety Webinar (BFP), and Weather Webinar (Philippine Atmospheric, Geophysical and Astronomical Services Administration), Crisis Management (BSI Philippines), Fire Truck Operations Training (Rosenbauer), Water Safety and Rescue Boat Operation Training (Pasig DRRMO), Basic Incident Command System (OCD), Emergency Operations Center (OCD), High Angle Rescue (PEME Consultancy, Inc.), BCM Practitioner (APEX Global), and some internal trainings conducted by the *MERALCO* Rescue members. Overall, there is a total of 1,296 participants.

MERALCO played a major role by participating and contributing to the finalization of the DOE's National Energy Contingency Plan ("NECP") for the Magnitude 7.2 Earthquake Scenario in the Greater Metro Manila Area. After the table-top exercise on April 8, 2022, and public consultation on April 20-21, 2022, the NECP was officially launched on December 14, 2022.

In July 2022, the memorandum between *MERALCO* and BFP on joint operation and manning of the *MERALCO* Rescue Fire Station was officially signed. Since November 2022, the *MERALCO* Rescue Fire Brigade has been on a 24/7 operations and has responded to fire incidents within its area of responsibility as of December 31, 2022.

Aside from the Fire Brigade, the *MERALCO* Rescue Emergency Medical Services (“*EMS*”) had also responded to a total of 195 runs involving 171 patients. In the first quarter of 2022, the team received the ambulances’ License to Operate as an Ambulance Service granted by the Department of Health, which is valid until December 31, 2024.

The third unit of the *MERALCO* Rescue - the Search and Rescue – had a total of 27 operational activities for 2022, wherein two responses were due to strong impacts of typhoons. By end of 2022, the S&R unit had a total of 24 members, after 15 employees volunteered and signed-up to be part of the team.

As part of *MERALCO*’s resiliency initiatives, nine (9) exercises were conducted from January 1 to December 31, 2022. On top of the Company’s participation in the Nationwide Simultaneous Earthquake Drill led by the National Disaster Risk Reduction Management Council, actual evacuation drills were conducted in Robinsons Cyberscape Gamma (July 9, July 15), Robinsons Cyberscape Alpha (July 22), and Business Solutions Center (August 31). These activities are regularly conducted, not just to comply with legal requirements, but also to improve the competency of each responder involved in emergency management.

Tax Reform for Acceleration and Inclusion (“TRAIN”) Law

The first package of the *TRAIN* Law or RA 10963 was effective on January 1, 2018. The *TRAIN* law introduced amendments to personal income taxation, transfer taxes, value-added tax, excise tax, taxation of sale of shares of stocks, and documentary stamp tax, among others.

The *TRAIN* Law increased the excise tax on coal from ₱10.00 per metric ton to ₱50.00 per metric ton upon its effectivity. This tax is to increase year on year, up to ₱150.00 per metric ton for coal, effective January 1, 2020. Under *MERALCO*’s *PSA* with certain generators, should there be any increase in existing charges, fees, taxes, duties assessments, or other similar amounts, a party to the *PSA* may claim the same as a charge due to change in law, upon *ERC* approval thereof. *MERALCO* and certain generators filed a joint application for approval of recovery of the increase in excise tax as a result of the implementation of the *TRAIN* Law. As at filing date, the parties await the decision of the *ERC*.

The *TRAIN* Law was implemented by *MERALCO* and has complied with the requirements of the *TRAIN* law. The implementation has no significant impact on the results of operations of *MERALCO*.

Corporate Recovery and Tax Incentives for Enterprises Act (“CREATE”)

On November 26, 2020, the Senate approved on 3rd and final reading Senate Bill No. 1357, otherwise known as the “Corporate Recovery and Tax Incentives for Enterprises Act” (“*CREATE*”), which seeks to reduce the corporate income tax rates and to rationalize the current fiscal incentives by making it time-bound, targeted, and performed-based.

General features of the *CREATE* bill are the following:

- Reduction in current income tax rate effective July 1, 2020

- Proprietary educational institutions and hospitals which are nonprofit previously subject to a tax of 10% on their taxable income, shall be imposed a tax rate of 1% beginning July 1, 2020 until June 30, 2023.
- Regional operating headquarters of multinational companies previously subject to a tax of 10% on their taxable shall be subject to the regular corporate income tax effective December 31, 2020
- Effective July 1, 2020 until June 30, 2023, the *MCIT* rate shall be one percent 1%.

On February 1, 2021, the Bicameral Conference Committee, under the 18th Congress of the Philippines, approved the reconciled version of the House Bill No. 4157 and Senate Bill No. 1357 (the *CREATE*). The *CREATE* bill, with vetoed provisions, was signed into law by the President on March 26, 2021 as Republic Act No. 11534.

Number of Employees

As at December 31, 2022, *MERALCO* has a total of 5,930 regular employees (Managerial/Executive - 1,584, Supervisory – 2,936 and Rank & File – 1,410) covered by two (2) unions, namely, First Line Association of Meralco Supervisory Employees (“*FLAMES*”) and Meralco Employees and Workers Association (“*MEWA*”). The Company has existing Collective Bargaining Agreements with these unions expiring on November 30, 2025 (*FLAMES*) and November 30, 2024 (*MEWA*). The Company does not expect that there will be significant hiring nor reduction of employees in the next 12 months.

Item 2. Properties

MERALCO’s assets include utility plant assets, which are part of the regulatory asset base (“*RAB*”). *RAB* consists of electrical capital assets and non-electric capital assets. In addition, *MERALCO* also holds assets held for future substation or branch sites or retired office or sector sites, which are recognized as “Investment Properties” in the consolidated statement of financial position.

MERALCO’s facilities in Pasig City host the networks system, which is the heart of the electric distribution operations, the telecommunications and trunk radio system, logistics process, customer retails services and other support services organizations.

As at December 31, 2022, in addition to the head office, *MERALCO* has 10 networks sector offices, 38 business centers and 17 customer centers or extension offices. Its network facilities consist of 133 substations (total capacity of 21,263 *MVA*), 956 circuits (sub-transmission and distribution) with linear length of 1,044 circuit-kms. for sub-transmission lines, 19,084 circuit-kms. of primary lines and 22,129 circuit-kms. secondary lines) and 213,433 distribution transformers in service (total capacity of 18,062 *MVA*).

Separately, *Clark Electric* facilities consist of subtransmission and distribution assets and buildings and improvements located in *CSEZ*. *CEDC* distribution facilities include five (5) substations with a capacity of 100 *MVA* at 230 *kV* – 69 *kV* level and 233 *MVA* at 69 *kV* – 13.8 *kV* level (energize). Its present distribution network consists of 2,058 distribution transformers, 42.18 circuit-km. linear length of sub-transmission lines, 166.04 circuit-km. linear length of primary lines, and 29.29 circuit-km. linear length (117.17 conductor length) of secondary lines.

MGen, through its subsidiaries, Atimonan Land Ventures Development Corporation (“*ALVDC*”) and Calamba Aero Power Corporation (“*CAPC*”), owns several parcels of land for the development and construction of power plant projects. The land of *ALVDC*, located in Atimonan, Quezon, is intended to be used by *A1E* for its power plant project while the land of *CAPC* is held for future power plant project in Calamba, Laguna. *A1E* is a subsidiary of *MGen*. *GBPC* and its subsidiaries own coal and diesel power plants, including several parcels of land and buildings, in the Visayas and Mindanao islands.

Radius, *MERALCO*’s telecommunications subsidiary, has 9,998 kilometers of fiber optic cables and telecommunications infrastructure in certain parts of Metro Manila, Bulacan, Rizal, Cavite, Laguna, Batangas, Pampanga and Cebu.

As of December 31, 2022, *MIDC* completed the acquisition of 860 towers from *Globe*.

For more information on these properties, see Note 7 – Utility Plant and Others to the accompanying audited consolidated financial statements in Item 7.

The properties of the *DUs* (*MERALCO* and *Clark Electric*) are located within the franchise area to efficiently serve their customers. These properties are in good condition, except for ordinary wear and tear, and are adequately insured.

The properties of *MERALCO* and its subsidiaries are free from any mortgage, charge, pledge, lien or encumbrance except for the power plant complex of *PHRI* and the generation plant and equipment of *First Bulacan* which are pledged as securities for the long-term debt.

The *MERALCO* Group also has various lease contracts as lessee for periods ranging from one (1) year to 30 years covering certain office spaces, payment offices and substation sites and towers.

The *MERALCO* Group has a *BOD*-approved annual capital expenditure budget which mainly represents planned expenditures for the electric capital projects of the power distribution business, power generation projects, expansion of *Radius* to new areas and segments, and replacement and additional telecommunication towers and equipment of *MIESCOR Group* to support its growing business, including that of *MIDC*. Power generation projects consist of *A1E*’s development of its power plant project in Atimonan, Quezon, and solar power plants including 45 *MWac* in Cordon, Isabela, 75 *MWac* in Baras, Rizal and 64 *MWac* in Ilocos Norte. The distribution utility capital expenditure budget shall address the requirements in areas with large concentration of core customers, correct normal deficiencies in the system, stretch loading limits of *MERALCO* facilities and initiate practical and cost-effective projects to correct system deficiencies. These capital expenditures are financed through funds from operating and financing activities of *MERALCO*.

Item 3. Legal Proceedings

In accordance with the Securities Regulation Code Implementing Rules and Regulations, the following are the material legal proceedings to which the registrant (also referred to as, *MERALCO*), or its subsidiary, is a party, or to which any of their property is a subject, including pending claims for damages against the registrant exceeding ten percent (10%) of its current assets:

1. In the matter of the Joint Application for Approval of the Settlement Agreement between Manila Electric Company (“*MERALCO*”) and National Power Corporation (“*NPC*”), with Prayer for Provisional Authority, National Power Corporation and Manila Electric Company, Applicants

ERC Case No. 2004-109

(Filed by NPC and *MERALCO* on April 15, 2004)

This is a joint application filed by *MERALCO* and the *NPC* for the approval of their Settlement Agreement (“*SA*”) which resolved their dispute concerning their 10-year Contract for Supply of Electricity (“*CSE*”).

Under the *SA*, *NPC* acknowledged and accepted the losses incurred by *MERALCO* due to *NPC*’s act of serving directly-connected customers in violation of *MERALCO*’s franchise rights, and for transmission line delays affecting *MERALCO*’s Independent Power Producers (“*IPPs*”). On the other hand, *MERALCO* shall pay *NPC* the net settlement amount of ₱14,320 million, representing *NPC*’s minimum charges corresponding to the fixed costs it incurred for the period 2002-2004. Variable costs, such as fuel and similar operating expenses that were not incurred by *NPC*, were not included in the minimum charge computation.

In a Decision dated May 29, 2012, the *RTC-Pasig* declared the *SA* valid and binding, independent of the pass-through for the settlement amount which is reserved for the *ERC*. The *OSG* has filed a Notice of Appeal with the *RTC-Pasig* on June 19, 2012. After both parties filed their respective appeal briefs, the *CA* rendered a Decision dated April 15, 2014 denying the appeal and affirming the *RTC* Decision, which declared the *SA* as valid and binding. The *OSG* filed a Petition for Review with the *SC*. On November 10, 2014, *MERALCO* filed its comment to the Petition. *PSALM* likewise filed its comment to the Petition. In a Resolution dated July 8, 2015, the *SC* resolved to serve anew its Resolutions requiring *NPC* to comment on the Petition. In compliance, *NPC* submitted its Comment dated September 8, 2015. *MERALCO* submitted its Motion for Leave to File and to Admit Attached Reply on October 12, 2015. Pursuant to the *SC* Resolution dated November 11, 2015, the *OSG* filed a Consolidated Reply to the comments filed by *NPC*, *MERALCO* and *PSALM*. *MERALCO* then filed a Motion for Leave to File and to Admit the Attached Rejoinder. The parties have filed their respective memoranda. In a Resolution dated September 28, 2022, the *SC* denied the Petition filed by the *OSG* and affirmed the validity of the Settlement Agreement. The implementation of the *SA* is subject to the approval of the *ERC*.

MERALCO v. NPC, Power Sector Assets and Liabilities Management Corporation (“PSALM”), and the Republic of the Philippines, represented by the Office of the Solicitor General

S.C.A. Case No. 3392, RTC Pasig City, Branch 71

(Filed on November 23, 2009)

In connection with the SA between *MERALCO* and *NPC*, *MERALCO* filed a petition seeking the declaration by the Regional Trial Court (“*RTC*”)– Pasig that said SA, independent of the pass-through provision which is reserved for approval by the *ERC*, is valid and binding.

The *RTC* Pasig rendered a Decision dated May 29, 2012 declaring the SA, independent of the pass-through provision which is reserved for *ERC* approval, valid and binding. The OSG filed a Notice of Appeal and, in an Order dated June 28, 2012, the *RTC* Pasig forwarded the records to the Court of Appeals (“*CA*”) for appeal proceedings.

MERALCO v. NPC, PSALM, and the Republic of the Philippines,
represented by the Office of the Solicitor General
CA-GR CV No. 99110, Court of Appeals

Republic of the Philippines v. MERALCO v. NPC, PSALM
GR No. 212268, Supreme Court

This is an appeal filed by the OSG questioning the *RTC* Pasig Decision dated May 29, 2012 which declared the SA valid and binding. In a Notice dated October 16, 2012, the *CA* required the OSG to file its appeal brief. Acting on a motion for extension filed by the OSG, the *CA*, in a Resolution dated December 20, 2012, granted the OSG the maximum extension of 90 days, or until March 20, 2013, within which to file its appeal brief. Both parties have submitted their respective appeal briefs. In a Decision dated April 15, 2014, the *CA* affirmed the validity of the *RTC* Pasig Decision.

The OSG then filed a Petition for Review with the Supreme Court (“*SC*”) to question the *CA* Decision. *MERALCO* and *NPC* filed their respective comments thereon while the OSG filed its Reply. *MERALCO* filed a Rejoinder. The parties have filed their respective memoranda.

In a Resolution dated September 28, 2022, the *SC* denied the Petition filed by the OSG and affirmed the validity of the Settlement Agreement. The implementation of the SA is subject to the approval of the *ERC*.

2. In the Matter of the Application for the Approval of the Unbundled Rates Pursuant to the Provision of Republic Act No. 9136, *MERALCO*, Applicant
ERC Case No. 2001-900 RC
(Filed on October 30, 2001)

In connection with the decision of the *SC* in G.R. Nos. 166769 and 166818, where the *ERC* was directed to request the Commission of Audit (“*COA*”) to undertake a complete audit of the books, records and accounts of *MERALCO*, the *COA* submitted its Report No. 2009-01 on the rate audit of the unbundled Charges of *MERALCO* for calendar years 2004 to 2007 to the *ERC*.

In an Order dated June 21, 2011, the *ERC*, acting on the *COA* Audit Report, resolved to maintain and affirm its findings and conclusions in its Decision dated March 20, 2003 and Order dated May 20, 2003 in the original unbundling case.

National Association of Electricity Consumers for Reforms, Inc. ("*NASECORE*") filed its motion for reconsideration of the Order, which was opposed by *MERALCO*. In an Order dated February 4, 2013, the *ERC* denied *NASECORE*'s motion for reconsideration for lack of merit.

NASECORE v. ERC and MERALCO

C.A.-G.R. SP No. 129052

(Petition dated April 2, 2013)

**National Association of Electricity Consumers for Reforms, Inc.
(*NASECORE*) v. Energy Regulatory Commission, Manila Electric
Company and the Commission on Audit**

G.R. No. 226443

(Petition dated September 30, 2016)

NASECORE filed a Petition for Review before the *CA* questioning the June 21, 2011 and February 4, 2013 Orders of the *ERC*. In a Decision dated February 29, 2016, the *CA* denied the petition filed by *NASECORE*. *NASECORE*'s motion for reconsideration was denied in a Resolution dated August 18, 2016.

NASECORE then filed a Petition for Review on Certiorari with the *SC* to assail the *CA* Decision and Resolution. In a Resolution dated October 11, 2016, the *SC* directed the respondents to file their comment to the Petition. *MERALCO*, the *OSG* for the *ERC* and the *COA* have all filed their respective comments.

On June 22, 2017, *MERALCO* received the Motion for Leave to Intervene and Admit Comment-in-Intervention [Re: Petition dated September 2016] filed by other *DUs*, such as Clark Electric Distribution Corporation, Dagupan Electric Corporation, Angeles Electric Corporation, Cagayan Electric Power and Light Company, Inc., San Fernando Electric Light and Power Company, Inc., Cabanatuan Electric Corporation, Tarlac Electric, Inc., and Olongapo Electric Distribution Company, Inc., that sought to intervene in the case. In a Resolution dated October 3, 2017, the *SC* granted the Motion for Leave to Intervene and Comment-in-Intervention.

On November 13, 2019, *MERALCO* received a Decision dated October 8, 2019 partially granting the Petition filed by *NASECORE*, which among other things, (i) voided the adoption by the *ERC* of the current or replacement cost in the valuation of *MERALCO*'s Regulatory Asset Base; and (ii) remanded the case to *ERC* to determine, within 90 days from finality of the Decision. *MERALCO*, the *DU* intervenors and the *ERC* filed their respective motions for reconsideration which are pending before the *SC*.

**3. In the Matter of the Application for Refund of Overcharge (sic)
Distribution Rates in the Residential Rates of ₱39 Billion in 2004-2007.**

ERC Case No. 2008-092 CC

(Filed by the Applicant on July 15, 2008)

This application was filed against *MERALCO* by a customer, seeking the refund to residential consumers a total of ₱39 billion on the ground that *MERALCO* allegedly overcharged its distribution costs (distribution, metering, supply and systems loss charges) for the period of 2004-2007. *MERALCO* received the Joint Memorandum filed by the *NASECORE*, Federation of Village Association ("*FOVA*") and Federation of Las Piñas Village Association ("*FOLVA*") on October 22,

2008. *MERALCO* filed its Memorandum on October 24, 2008, while it received the customer's Memorandum on October 28, 2008. On September 14, 2010, the *ERC* issued a Decision dismissing the case. The customer filed a *MR* which is pending resolution by the *ERC*.

4. **In the Matter of the Application for Approval of: a) *MAP* for *RY* 2012; and b) Translation of the *MAP* for *RY* 2012 into a Distribution Rate Structure for *MERALCO*'s Various Customer Classes, with Prayer for the Issuance of a Provisional Authority, *MERALCO*, Applicant.**
ERC Case No. 2011-088 RC
(Filed on June 21, 2011)

In an Order dated October 3, 2011, the *ERC* provisionally granted *MERALCO*'s proposed *MAP* of ₱1.6012 and rate structure. *MERALCO* started implementing the provisionally approved *MAP* 2012 in the October 2011 billing month. *MERALCO* has completed the presentation of its evidence and the parties have submitted their respective memoranda. Hearings for the final approval of the application have been completed and all parties have submitted their respective memoranda.

On April 29, 2022, *MERALCO* received the consolidated Order dated March 8, 2022 for ERC Case Nos. 2010-069 RC, 2011-088 RC, 2012-054 RC, 2013-056 RC and 2014-029 RC. In said Order, the *ERC* resolved the true-up of the value of *MERALCO*'s regulatory asset base for the 3rd *RP*. Based thereon, the *ERC* adjusted the *MAP*s for 2012, 2013, 2014 and 2015. The *ERC* then granted interim relief, which among other things, directed the implementation of a refund of ₱7.8 billion or equivalent to ₱0.2583 per *kWh* starting *MERALCO*'s next billing period and for an approximate 12-month period as a separate line item in the customers' bill. *MERALCO* implemented the refund in its May 2022 billing. In a Decision dated June 10, 2022, the *ERC* made the interim approval under the Order dated March 8, 2022 permanent and directed *MERALCO* to continue implementing the refund. As at December 31, 2022, the amount has been fully refunded.

5. **In the Matter of the Application for Approval of: a) *MAP* for *RY* 2013; and b) Translation of the *MAP* for *RY* 2013 into a Distribution Rate Structure for *MERALCO*'s Various Customer Classes, with Prayer for the Issuance of a Provisional Authority, *MERALCO*, Applicant.**
ERC Case No. 2012 - 054 RC
(Filed on March 29, 2012)

On March 29, 2012, *MERALCO* filed an application for the verification of its *MAP* for *RY* 2013 of ₱1.6333 per *kWh* and its translation into tariffs by customer category. The public hearings started on May 24, 2012. On June 11, 2012, the *ERC* released an Order provisionally approving a *MAP* for *RY* 2013 of ₱1.6303 per *kWh* which was reflected starting with the July 2012 customer bills.

On April 29, 2022, *MERALCO* received the consolidated Order dated March 8, 2022 for ERC Case Nos. 2010-069 RC, 2011-088 RC, 2012-054 RC, 2013-056 RC and 2014-029 RC. In said Order, the *ERC* resolved the true-up of the value of *MERALCO*'s regulatory asset base for the 3rd *RP*. Based thereon, the *ERC* adjusted the *MAP*s for 2012, 2013, 2014 and 2015. The *ERC* then granted interim relief, which among other things, directed the implementation of a refund of ₱7.8 billion or equivalent to ₱0.2583 per *kWh* starting *MERALCO*'s next billing period and for an approximate 12-month period as a separate line item in the customers' bill. *MERALCO* implemented

the refund in its May 2022 billing. In a Decision dated June 10, 2022, the *ERC* made the interim approval under the Order dated March 8, 2022 permanent and directed *MERALCO* to continue implementing the refund. As at December 31, 2022, the amount has been fully refunded.

6. In the Matter of the Application for Approval of: a) *MAP* for RY 2014; and b) Translation of the *MAP* for RY 2014 into a Distribution Rate Structure for *MERALCO*'s Various Customer Classes, with Prayer for the Issuance of a Provisional Authority, *MERALCO*, Applicant.

ERC Case No. 2013-056 RC

(Filed on April 1, 2013)

On April 1, 2013, *MERALCO* filed its application for the approval of its *MAP* for RY 2014 of ₱ 1.6510 per *kWh* and the translation thereof into rate tariffs by customer category. On June 10, 2013, the *ERC* provisionally approved the *MAP* for RY 2014 of ₱1.6474 per *kWh* and the rate translation per customer class.

On April 29, 2022, *MERALCO* received the consolidated Order dated March 8, 2022 for ERC Case Nos. 2010-069 RC, 2011-088 RC, 2012-054 RC, 2013-056 RC and 2014-029 RC. In said Order, the *ERC* resolved the true-up of the value of *MERALCO*'s regulatory asset base for the 3rd *RP*. Based thereon, the *ERC* adjusted the *MAP*s for 2012, 2013, 2014 and 2015. The *ERC* then granted interim relief, which among other things, directed the implementation of a refund of ₱7.8 billion or equivalent to ₱0.2583 per *kWh* starting *MERALCO*'s next billing period and for an approximate 12-month period as a separate line item in the customers' bill. *MERALCO* implemented the refund in its May 2022 billing. In a Decision dated June 10, 2022, the *ERC* made the interim approval under the Order dated March 8, 2022 permanent and directed *MERALCO* to continue implementing the refund. As at December 31, 2022, the amount has been fully refunded.

7. In the Matter of the Application for Approval of: a) *MAP* for RY 2015; and b) Translation of the *MAP* for RY 2015 into a Distribution Rate Structure for *MERALCO*'s Various Customer Classes, with Prayer for the Issuance of a Provisional Authority, *MERALCO*, Applicant.

ERC Case No. 2014-029 RC

(Filed on March 31, 2014)

On March 31, 2014, *MERALCO* filed its application for the approval of its *MAP* for RY 2015 of ₱1.5562 per *kWh* and the translation thereof into rate tariffs by customer category. On May 5, 2014, the *ERC* provisionally approved *MERALCO*'s *MAP* for RY 2015 of ₱1.5562 per *kWh* and the rate translation per customer class.

On April 29, 2022, *MERALCO* received the consolidated Order dated March 8, 2022 for ERC Case Nos. 2010-069 RC, 2011-088 RC, 2012-054 RC, 2013-056 RC and 2014-029 RC. In said Order, the *ERC* resolved the true-up of the value of *MERALCO*'s regulatory asset base for the 3rd *RP*. Based thereon, the *ERC* adjusted the *MAP*s for 2012, 2013, 2014 and 2015. The *ERC* then granted interim relief, which among other things, directed the implementation of a refund of ₱7.8 billion or equivalent to ₱0.2583 per *kWh* starting *MERALCO*'s next billing period and for an approximate 12-month period as a separate line item in the customers' bill. *MERALCO* implemented the refund in its May 2022 billing. In a Decision dated June 10, 2022, the *ERC* made the interim

approval under the Order dated March 8, 2022 permanent and directed *MERALCO* to continue implementing the refund. As at December 31, 2022, the amount has been fully refunded.

8. In the Matter of the Application for Approval of: a) an Interim Average Rate; and b) Translation of the Interim Average Rate into a Distribution Rate Structure for *MERALCO*'s Various Customer Classes, with Prayer for the Issuance of a Provisional Authority, *MERALCO*, Applicant.

ERC Case No. 2015-112 RC
(Filed on June 11, 2015)

On June 11, 2015, *MERALCO* filed its application for the approval of its proposed Interim Average Rate of ₱1.3939 per kWh and translation thereof into rate tariffs by customer category. On July 10, 2015, the *ERC* provisionally approved an Interim Average Rate of ₱1.3810 per kWh and the rate translation per customer class, which was reflected in the customer bills starting July 2015. Hearings on the case have been completed.

In a letter dated June 14, 2019, *MERALCO* advised the *ERC* that it shall continue implementing the existing *ERC*-approved interim average rate pending the regulatory reset process. In a letter dated July 4, 2019, the *ERC* authorized the continued implementation of the interim average rate but directed *MERALCO*, as well as other distribution utilities, to refund any remaining amount pertaining to regulatory reset cost for the previous regulatory periods. While *MERALCO* complied with the directive to refund the total amount of ₱263.9 million, equivalent to ₱0.0731 per kWh in its July 2019 billing, it wrote a letter seeking clarification or reconsideration on the basis for the refund of the regulatory reset cost, including the imposition of and basis for the interest computed therein. The refund was included as a separate line item in *MERALCO*'s July 2019 billing to its customers and has been completed. The *ERC* has yet to reply to *MERALCO*'s letter. However, in a letter dated April 29, 2022, the *ERC* directed all distribution utilities to submit the schedule of its regulatory reset cost collection remaining balance to date. *MERALCO* has submitted the information requested by the *ERC*.

In a Decision dated June 16, 2022, which was received by *MERALCO* on July 13, 2022, the *ERC* approved a revised and final *IAR* of ₱1.3522 per kWh which shall be implemented as the final distribution rate for the period from July 1, 2015 to June 30, 2022. The *ERC* likewise approved the corresponding distribution rate structure based thereon. *MERALCO* was authorized to continue implementing the *ERC*-approved *IAR* of ₱1.3522 per kWh until otherwise directed. *MERALCO* implemented the Decision starting its August 2022 billing.

9. In the Matter of the Application for Approval of: a) Confirmation of the True-Up Calculation of the Actual Weighted Average Tariff ("AWAT") vis-à-vis *ERC*-Approved Average Rate Implemented for the Lapsed Regulatory Years; and b) Approval of the Final Refund Scheme to Account for the Lapsed Regulatory Years, with Prayer for Provisional Authority, *MERALCO*, Applicant.

ERC Case No. 2020-043 RC
(Filed on December 23, 2020)

On December 23, 2020, *MERALCO* filed an Application for (1) confirmation of the true-up calculation of the Actual Weighted Average Tariff ("AWAT") vis-à-vis *ERC*-approved average rate for

the lapsed regulatory years; and (2) approval of the final refund scheme to account for the lapsed regulatory years. The lapsed regulatory years covered the period from June 30, 2015 to November 2020 when *MERALCO* implemented the Interim Average Rate (“*IAR*”).

MERALCO prayed that a Decision be rendered:

- a. Approving *MERALCO*'s proposed mechanism to address the issue of the rates governing the lapsed period from July 2015 to November 2020 through the true-up mechanism between *MERALCO*'s *AWAT* and *IAR*;
- b. Confirming *MERALCO*'s resulting calculation of the total amount to be refunded from its customers in the total amount of ₱13.886 million;
- c. Approving *MERALCO*'s proposed refund scheme and refund period, within 24 months or until fully refunded, to its customers;
- d. Declaring all issues relating to *MERALCO*'s lapsed period (and until a new rate has been determined by the *ERC* for the next regulatory period), as resolved, closed and terminated with prejudice.

The initial hearing was on February 16, 2021. In an Order dated January 27, 2021, the *ERC* granted *MERALCO* provisional authority to implement the refund. The refund will be reflected as a separate line item in the billings to customers. The refund was implemented starting March 2021 billing. Hearings on the case are ongoing.

In an Order dated February 23, 2022, which was received on March 7, 2022, the *ERC* issued an Order where it expanded the period covered by the refund to include December 2020 to December 2021. As such, *MERALCO* was directed to refund the total amount of Four Billion Eight Hundred Thirty-Seven Million One Hundred Sixty-Three Thousand and Eight Hundred Forty-Two Pesos (PhP4,837,163,842.00), or an average refund rate of PhP0.1064/kWh, covering the period from December 2020 to December 2021 beginning the billing cycle immediately following receipt of the Order. *MERALCO* implemented the revised refund rate starting its March 2022 billing.

In a Decision dated June 16, 2022, the *ERC* approved the application subject to certain conditions and modifications. *MERALCO* was directed to refund the additional amount of ₱21,769 million, or an average refund rate of ₱0.4790 per kWh, covering the period from July 2015 to June 2022. The refund shall be implemented over approximately 12 months, or until fully refunded. *MERALCO* implemented the Decision starting its July 2022 billing. As at December 31, 2022, the refund is ongoing. Several intervenors have filed their respective motions for reconsideration. *MERALCO* is awaiting the *ERC*'s resolution of these motions.

**10. In Re Petition for Dispute Resolution. *MERALCO* v. *PEMC*,
National Transmission Corporation (TransCo), *NPC* and *PSALM***
ERC Case No. 2008-083 MC
(Filed on September 9, 2008)

PSALM* vs. *ERC*, *MERALCO* and *PEMC
CA GR. SP. No. 132446
(Petition received on October 24, 2013)

PSALM vs. ERC, MERALCO and PEMC

G.R. No. 219977

(Petition received on October 27, 2015)

This is a petition filed by *MERALCO* for dispute resolution against *PEMC*, *TransCo*, *NPC* and *PSALM* as a result of the congestion in the transmission system of *TransCo* arising from the outage of the San Jose-Tayabas 500 kV Line 2 on June 22, 2008, followed by the outage of the 500 kV 600 MVA Transformer Bank #2 of *TransCo*'s San Jose, Bulacan substation on July 11, 2008. The petition seeks, among others, to direct *NPC* and *PSALM* to refund the transmission line loss components of the line rentals associated with *NPC/PSALM* bilateral transactions from the start of *WESM* operation on June 26, 2006.

In a Decision dated March 10, 2010, the *ERC* granted *MERALCO*'s petition and ruled that there is double charging of the transmission line cost on *MERALCO* by *NPC* for the Transition Supply Contract ("*TSC*") quantities to the extent of 2.98% loss factor, since the start of the *TSC* in November 2006. Thus, *NPC* was directed to refund/collect line rental adjustment to/from *MERALCO*. In the meantime, the *ERC* issued an Order on May 4, 2011 allowing *PEMC* to submit an alternative methodology for the segregation of line rental into congestion cost and line losses from the start of the *WESM*. *PEMC* has filed its compliance submitting its alternative methodology.

In an Order of the *ERC* dated June 21, 2012, *MERALCO* was directed to submit the computation of the amount of the double charging of line loss on a per month basis from June 26, 2006 up to June 2012. On July 4, 2012, *MERALCO* filed its Compliance to the said Order. Thereafter, the *ERC* issued an Order directing the parties to comment on *MERALCO*'s submissions.

In an Order dated March 4, 2013, the *ERC* approved the methodology proposed by *MERALCO* and *PEMC* in computing the double charged amount on line losses by deducting 2.98% from the *NPC-TOU* amount. Accordingly, the *ERC* determined that the computed double charge amount to be collected from *NPC* is ₱5.2 billion, covering the period November 2006 to August 2012 until actual cessation of the collection of the 2.98% line loss charge in the *NPC-TOU* rates imposed on *MERALCO*. In this regard, *NPC* was directed by the *ERC* to refund said amount by remitting to *MERALCO* the equivalent amount of ₱73.944 million per month until the over-recoveries are fully refunded. In said Order, the *ERC* likewise determined that the amount to be collected from the Successor Generating Companies ("*SGCs*") is ₱4.7 billion. Additionally, *MERALCO* was directed to file a petition against the following *SGCs*: *MPPCL APRI*, *TLI*, *SMEC* and *SCPC*, within 30 days from receipt thereof, to recover the line loss collected by them. On April 30, 2013 and May 8, 2013, *PSALM* and *NPC*, respectively, filed motions seeking reconsideration of the March 4, 2013 Order. *MERALCO* filed a motion seeking for an additional 15 days from its receipt of the *ERC*'s Order resolving its Motion for Clarification, within which to file its Petition against the *SGCs*.

In an Order dated July 1, 2013, the *ERC* issued the following clarifications/resolutions: 1) *SPPC* should be included as one of the *SGCs* against whom a petition for dispute resolution should be filed by *MERALCO*; 2) Amount to be refunded by *NPC* is not only ₱5.2 billion but also the subsequent payments it received from *MERALCO* beyond August 2012 until the actual cessation of the collection of the 2.98% line loss charge in its *TOU* rates and Petition to be filed by *MERALCO* against the *SGCs* should not only be for the recovery of the amount of ₱4.7 billion but also the subsequent payments beyond August 2012 until the actual cessation of the collection of the 2.98% line loss charge in its *TOU* rates. ; 3) "*SCPC* Ilijan" pertains to *SPPC* instead. Thus, the refundable

amount of ₱706 million pertaining to "SPPC Ilijan" should be added to SPPC's refundable amount of ₱1.1 billion; 4) Grant the "Motion for Extension" filed by MERALCO and directed MERALCO to file a petition against the following SGCs: MPPCL, APRI, TLI, SMEC, SCPC and SPPC, otherwise, it shall be the one liable to refund the subject amount to its customers; and 5) deny the respective "Motions for Reconsideration" filed by NPC and PSALM.

On October 24, 2013, MERALCO received PSALM's Petition for Certiorari with the Court of Appeals (With Urgent Temporary Restraining Order and/or Writ of Preliminary Mandatory Injunction Applications) to question the March 4, 2013 and July 1, 2013 Orders of the ERC. In a Resolution dated December 29, 2013, the CA directed MERALCO to submit its *Comment* on the *Petition for Certiorari* and to show cause why the prayer for the Application for Temporary Restraining Order and/or Preliminary Injunction should not be granted ("Comment and Opposition").

On February 3, 2014, MERALCO filed a Comment with Opposition to the Application for Temporary Restraining Order or Writ of Preliminary Injunction dated January 30, 2014. PEMC filed a Comment and Opposition Re: Petition for Certiorari with Urgent Temporary Restraining Order and/or Writ of Preliminary Mandatory Injunction dated January 6, 2014. On June 4, 2014, the CA issued a Resolution directing the parties to submit their simultaneous memoranda within 15 days from notice. On December 1, 2014, the CA issued a decision dismissing the Petition for Certiorari filed by PSALM against the ERC, MERALCO and PEMC and affirming ERC's ruling on the refund of the ₱5.2 billion of transmission line losses double charged by PSALM and NPC. On January 30, 2015, PSALM filed its MR of the December 1, 2014 Decision of the CA. MERALCO has filed its Opposition to the MR. In a Resolution dated August 11, 2015, the CA denied PSALM's MR.

On October 27, 2015, MERALCO received PSALM's Petition for Review with the SC. The Petition has been given due course and the parties have filed their respective memoranda. MERALCO is still awaiting further action of the SC on the Petition.

Petition for Dispute Resolution against SPPC, MPPCL, APRI, TLI, SMEC and SCPC
ERC Case No. 2013-077 MC

On August 29, 2013, MERALCO filed a Petition for Dispute Resolution against SPPC, MPPCL, APRI, TLI, SMEC and SCPC in compliance with the March 4, 2013 and July 1, 2013 Orders of the ERC. Said Petition sought the following reliefs: 1) refund of the 2.98% transmission line losses in the amount of ₱5.4 billion inclusive of the ₱758 million line loss amount for the period September 2012 to June 25, 2013, from said SGCs; and 2) approval of MERALCO's proposal to correspondingly refund to its customers the aforementioned line loss amounts, and when the same are received from the SGCs, until such time that the said over-recoveries are fully refunded, by way of automatic deduction of the amount of refund to the computed monthly generation rate. On September 20, 2013, MERALCO received the SGCs' Joint Motion to Dismiss. On October 7, 2013, MERALCO filed its Comment on the said Joint Motion. MERALCO is awaiting the ERC's resolution of the SGCs' Joint Motion to Dismiss.

On October 8, 2013, MERALCO received the SGCs Manifestation and Motion, which sought, among other things, the cancellation of the scheduled initial hearing of the case, including the submission of the parties' respective pre-trial briefs, until the final resolution of the SGC's Joint Motion to Dismiss. On October 11, 2013, MERALCO filed its pre-trial brief. On October 14, 2013, MERALCO filed its Opposition to the SGC's Manifestation and Motion. On October 24, 2013, MERALCO received the SGC's Reply to its Comment on the Joint Motion to Dismiss. On October 29, 2013,

MERALCO filed its Rejoinder. Thereafter, the *SGC*'s filed their Sur-Rejoinder dated November 4, 2013. The Joint Motion to Dismiss is pending resolution by the *ERC*.

**11. Bayan Muna Representatives Neri Javier Colmenares and Carlos Isagani v. *ERC*
NASECORE, et. al. v. *MERALCO* and *ERC*
SC G.R. Nos. 210245 and 210255
Filed: December 19, 2013**

On December 19, 2013, several party-list representatives in Congress filed a Petition docketed as G.R. 210245 before the SC questioning the *ERC*'s approval of *MERALCO*'s proposed staggered recovery of the increase in generation charge for the November 2013 supply month, allegedly for lack of due process. The increase in the generation charge was from ₱5.6673 per *kWh* in the November 2013 billing to ₱9.1070 per *kWh* for the December 2013 billing which *MERALCO* proposed to recover in three (3) tranches. A similar Petition was filed on December 20, 2013 challenging *MERALCO*'s automatic rate adjustments and increases, also allegedly for lack of due process. This Petition was docketed as G.R. 210255. Both Petitions prayed for the issuance of Temporary Restraining Order ("*TRO*") and Writ of Preliminary Injunction pending resolution of the case.

On December 23, 2013, the SC issued an Order consolidating the two (2) Petitions and granting the application for *TRO* effective immediately and, for 60 days, enjoining (1) *ERC*, its agents, representatives, or persons acting in its place and stead, from implementing its December 9, 2013 Order and acting further on the letter – request of *MERALCO* dated December 5, 2013; and (2) *MERALCO*, its agents, representatives, or persons acting in its place and stead, from increasing the rates it charges to its consumers based on the matters it raised in its December 5, 2013 letter. Said Order likewise set the cases for oral arguments on January 21, 2014 and required respondents *ERC* and *MERALCO* to file their respective Comments on the cases. On January 8, 2014, *MERALCO* filed its Consolidated Comment/Opposition with Counter-Petition.

On January 2, 2014, the OSG filed a Manifestation with Motion praying that it be excused from filing a comment on behalf of *ERC* and *DOE*. In keeping with the spirit and intent of the SC, *MERALCO* maintained the pass-through charges at the November 2013 billing level for its January 2014 billing to customers.

On January 9, 2014, *MERALCO* received copies of the *ERC*'s Comment and the Philippine Electric Power Operators Association's ("*PEPOA*") Comment-in-Intervention. On even date, *MERALCO* received an Order from the SC which directed the Petitioners in said case to implead the *PEMC* and [some] Suppliers with whom *MERALCO* has existing Power Supply Agreements ("*PSAs*"), namely, *Sem-Calaca Power Corporation*, *Masinloc Power Partners Corporation*, *Therma Luzon Inc.*, *San Miguel Energy Corporation*, *South Premiere Power Corporation*, and *Therma Mobile, Inc.*, as necessary parties to the case. Consequently, these additional respondents were required (i) to file their respective Comments on the Petitions no later than January 20, 2014 and (ii) to attend the preliminary conference set on January 13, 2014, or to file, on or before January 10, 2014, the necessary manifestation should they desire to waive their right to participate in the scheduled oral arguments on January 21, 2014. Incidentally, the SC also denied in said Order the OSG's motion to be excused from filing Comment/s in behalf of the *ERC* and *DOE*. Accordingly, it was directed to file the necessary Comment/s and attend the preliminary conference.

On January 10, 2014, *MERALCO* received a related Petition for Certiorari, Prohibition and Mandamus filed before the SC by Rep. Hicap (Anak Pawis), et. al, docketed as G.R. No. 210334.

On January 15, 2014, the SC issued an Advisory, which identified the issues, and outlined the procedure, for the oral arguments in G.R. Nos. 201245 and 210255 on January 21, 2014. The SC likewise acknowledged therein that the issues may involve technical matters, thus, it directed the *DOE* Secretary, the Chairman of *ERC* and the President of *PEMC* to serve as resource persons for technical questions.

On January 20, 2014, *MERALCO* received GN Power Mariveles Coal Plant Ltd. Co.'s ("*GMCP*"), National Grid Corporation of the Philippines' ("*NGCP*"), and *PEMC*'s Comments in the SC cases.

On January 21, 2014, *MERALCO* received Manifestations and Urgent Motions from Anak Pawis, et. al. On even date, *MERALCO* received another related Petition, dated January 16, 2014, which was filed before the SC by Mr. Augusto L. Syjuco, Jr. in his capacity as taxpayer and *MERALCO* customer. During the January 21, 2014 hearing, the SC, among other things, set the cases for additional hearings on February 4 and 11, 2014.

On January 24, 2014, a copy of Therma Mobile, Inc. ("*TMO*") and Therma Luzon, Inc.'s ("*TLI*") Consolidated Comment has been posted on the SC's website. On January 29, 2014, *MERALCO* received a copy of the *PSALM*'s Consolidated Comment on the Petitions (docketed as G.R. Nos. 210245 and 210255) and *MERALCO*'s Counter-Petition. Thereafter, or on January 30, 2014, *MERALCO* received Panasia Energy, Inc.'s Comment that prays for the dismissal of the Petitions and Counter-Petition in the SC cases.

Oral arguments on the cases were continued on February 4 and 11, 2014. *MERALCO* presented its position and was interpellated thereon by the SC. Therein, the SC clarified that the *TRO* only covered the December 2013 billing of *MERALCO*. During the February 11, 2014 hearing, the other respondents, including Department of Energy ("*DOE*"), *ERC*, *PEMC*, *TMO*, *NGCP*, and *PSALM*, presented their respective positions before the SC. The parties have filed their respective memoranda.

In the meantime, on January 30, 2014, *MERALCO* filed an Urgent Motion with Manifestation with the *ERC*. *MERALCO* manifested that certain statements were made that there have been gross violations of *WESM* rules and regulations as well as protocols on generation offers and plant dispatch by certain *WESM* participants which affected the market clearing prices. *MERALCO* prayed for the issuance of an Order: (a) directing *PEMC* to conduct market re-runs or re-calculations of *WESM* transactions and dispatches, or determine substituted prices or undertake any other appropriate measures to determine and recalculate the true cost of electricity in the *WESM*, during the November to December 2013 supply months (*MERALCO*'s December 2013 to January 2014 billing months) under such rules or guidelines as the *ERC* may deem appropriate and (b) directing *MERALCO* to subsequently recalculate its pass-through generation charges for the November to December 2013 supply months (*MERALCO*'s December 2013 to January 2014 billing months) based on the proper applicable prices for transactions in the *WESM* during the aforementioned months as so determined by the *ERC* based on the results of the market re-runs and/or re-calculations. This re-run is without prejudice to such action or decision the *ERC* may take following compliance of its investigation on whether or not there were acts committed by electric industry participants during the subject period

which constitute anti-competitive practices, market power abuse, violation of any law or rules and regulations, or any failure of market competition. *MERALCO* then filed an Urgent Ex-Parte Motion (to Set for Hearing and/or Resolve the Omnibus Motion) on February 5, 2014 praying that its Urgent Motion with Manifestation be immediately set for hearing and resolved. Both pleadings were noted by the *ERC* in its Order dated February 12, 2014.

On February 18, 2014, the *SC* extended the *TRO* for another 60 days, or until April 22, 2014, and expanded the coverage to include the generation companies, *PEMC* and *NGCP* to enjoin them from collecting from *MERALCO*. In its Resolution dated April 22, 2014, the *SC* extended the *TRO* indefinitely.

In a Decision promulgated on August 3, 2022, the *SC* affirmed the December 9, 2013 *ERC* letter approving *MERALCO*'s proposal to implement a staggered collection over three (3) months covering the December 2013 billing month. However, it voided the *ERC* March 3, 2014 Order which voided the Luzon *WESM* prices during the November and December 2013 supply months and imposed the use of regulated rates for said period. The *ERC* and the petitioners filed motions for reconsideration which were denied with finality in the *SC* Resolution dated October 11, 2022.

ATTY. ISABELO JOSEPH P. TOMAS II, in his capacity as the Investigating Officer of the Investigatory Unit Constituted by the Honorable Commission pursuant to its Office Order No. 38, Series of 2013 dated December 26, 2013 v. Manila Electric Company (MERALCO) and Therma Mobile, Inc. (TMO)

ERC Case No. 2015-025 MC

Complaint dated May 9, 2015

Manila Electric Company v. Energy Regulatory Commission and Director Alfredo R. Vergara, Jr. and Engr. Nelson D. Canlas, in their capacity as the Investigating Officers of the Investigatory Unit of the Energy Regulatory Commission

CA-G.R. SP No. 152612

(consolidated with the Petitions filed by TMO and APRI docketed as CA-GR SP Nos. 152588 and 152613)

Petition filed on September 19, 2017

Energy Regulatory Commission v. Therma Mobile, Inc., Manila Electric Company, and AP Renewables, Inc.

G.R. Nos. 244449 and 244455-56

On December 26, 2013, the *ERC* constituted the Investigating Unit ("*IU*") under its Competition Rules to investigate possible anti-competitive behavior by the industry players and possible collusion that transpired in the *WESM* during the supply months of November 2013 and December 2013. *MERALCO* participated in the proceedings and submitted a Memorandum.

An investigating officer of the *IU* filed a Complaint dated May 9, 2015 against *MERALCO* and *TMO* for alleged anti-competitive behavior constituting economic withholding in violation of Section 45 of the *EPIRA* and Rule 11, Section 1 and 8(e) of the *EPIRA IRR*. In an Order dated June 15, 2015 the *ERC* directed *MERALCO* to file its comment on the Complaint. *MERALCO* and *TMO* have filed their respective answers to the Complaint.

In an Order dated September 1, 2015, the *ERC* directed the investigating officer to file his reply to *MERALCO*. In a Manifestation and Motion to Set the Case for Hearing dated November 9, 2015, the investigating officer manifested that he would no longer file a reply and that the case be set for hearing.

On May 24, 2016, the *ERC* promulgated Resolution No. 14, Series of 2016, which resolved to divide the Commission into two (2) core groups for the conduct of hearings and to designate the commissioners to act as presiding officers in anti-competition cases. The raffle pursuant to said Resolution was conducted on June 15, 2016.

In a Notice of Pre-Trial Conference dated June 16, 2016, the *ERC* set the pre-trial conference on August 18, 2016 and required *MERALCO* and *TMO* to submit their respective pre-trial briefs. However, on July 27, 2016, the complainant filed two (2) omnibus motions for the consolidation and deferment of the pre-trial conferences. Hence, in an Order dated August 1, 2016, the respondents were given 10 days to submit their comments on the Motion for Consolidation, with the complainant given five (5) days to file his reply. As such, the pre-trial conferences as scheduled were deferred until further notice and all parties were granted 20 days to submit their respective pre-trial briefs.

In the meantime, *MERALCO* likewise filed an Urgent Motion to Dismiss with Motion to Suspend Proceedings which was adopted by *TMO* in its Manifestation and Motion filed on July 28, 2016. *MERALCO* maintained that the Complaint should be dismissed due to the absence of subject matter jurisdiction as it is now the Philippine Competition Commission ("*PCC*") which has original and primary jurisdiction over competition-related cases in the energy sector. On August 23, 2016, *MERALCO* filed an Urgent Motion Ad Cautelam for suspension of proceeding including period to file pre-trial brief and judicial affidavit.

In a Motion dated August 25, 2016, complainant filed a Motion to defer the submission of the complainant's pre-trial brief and judicial affidavit. In an Order dated June 13, 2017, the *ERC* denied the motion to consolidate but upheld the authority of private counsel to represent the complainants. *MERALCO* filed a Motion for Partial Reconsideration to question such authority.

In an Order dated February 2, 2017, the *ERC* denied the motion to dismiss and asserted jurisdiction over the Complaint. *MERALCO* filed its *MR* to the Order on February 23, 2017. In an Order dated June 20, 2017, the *ERC* denied the *MR*. On September 19, 2017, *MERALCO* filed a Petition for Certiorari with the *CA*. In a Resolution dated October 2, 2017, the *CA* required respondents to file their Comment on the Petition within 10 days and held in abeyance its resolution on the prayer for injunctive relief until the comments have been filed. *MERALCO* was likewise given five (5) days to file its reply. In a Manifestation dated October 23, 2017, the *ERC* stated that it is a nominal party in the case as the quasi-judicial tribunal that issued the assailed ordinances. The *IU* filed its own Comment dated December 19, 2017. In a Manifestation and Motion dated December 22, 2017, the *OSG* informed the *CA* that it will no longer represent the *IU* and will instead participate as "tribune of the people". In the meantime, *TMO* also filed a separate Petition for Review on Certiorari with the *CA*. In a Resolution dated January 10, 2018, the *CA* ordered the consolidation of the petitions of *TMO* and *MERALCO*. In a Decision dated May 23, 2018, the *CA* denied the consolidated Petitions filed by *MERALCO*, *TMO*, and *APRI*, and ruled that the jurisdiction to resolve the *IU* cases remains with the *ERC* because the Philippine Competition Act ("*PCA*") does not apply retroactively.

On June 20, 2018, *MERALCO* filed an *MR* with the *CA*. The *ERC* likewise filed its Motion for Partial Reconsideration on the ground that it retained concurrent jurisdiction together with the *PCC* over cases involving alleged anti-competitive conduct supposedly because the *PCA* did not repeal Section 45 of the *EPIRA*.

In a January 28, 2019 Resolution, the *CA* denied the motions for reconsideration filed by all of the parties. While it sustained its finding that the *PCC* now holds original, exclusive, and primary jurisdiction over all competition-related cases, the *CA* reiterated its view that the *PCA* has no retroactive effect. The *ERC* elevated the *CA* Decision to the *SC* where the petition remains pending.

In the meantime, the *ERC* called for a conference on March 26, 2021 in order to discuss updates and developments regarding the case. On April 14, 2021, *MERALCO* filed an Urgent Motion Ad Cautelam to Suspend Proceedings in view of the pendency of the case before the *SC*. The *ERC* then issued an Order dated August 13, 2021, setting the pre-trial conference on August 27, 2021. *MERALCO* filed a Manifestation and Urgent Omnibus Motion Ad Cautelam to (A) Resolve the Urgent Motion Ad Cautelam to Suspend Proceedings dated April 14, 2021 and (B) Cancel the August 27, 2021 Pre-Trial Conference dated August 20, 2021. The pre-trial conference proceeded on August 27, 2021. However, the *ERC* stated that, after the pre-trial conference and before the case can proceed with trial on the merits, the *ERC* will first resolve *MERALCO*'s motions. The *ERC* also issued an open court order denying the motion of the *ERC* IU that the case be resolved through the submission of the position papers and other supporting documents. The *ERC* IU filed a Motion for Reconsideration to which *MERALCO* filed an opposition. *MERALCO* is awaiting further action by the *ERC* on the matter.

**12. Recovery of the Differential Generation Charge for the December 2013 supply month
ERC Case No. 2014-013 RC
(Filed on February 17, 2014)**

In the light of the clarification of the *SC* that the *TRO* in G.R. Nos. 210245 and 210255 only covered the December 2013 billing, *MERALCO* filed an Application, with a prayer for provisional authority, on February 17, 2014 with the *ERC* to recover the incremental generation charge for the December 2013 supply month (January 2014 billing), docketed as *ERC* Case No. 2014-013RC. This represented the difference between the actual and billed generation charge for the January 2014 billing. The Application prayed that *MERALCO* be allowed: (a) to impose an incremental generation charge of ₱0.8440 per *kWh* on its customers in their March 2014 billing, until the total incremental fuel costs amounting to ₱2.0 billion is fully recovered, and (b) to recover the remaining balance of the deferred generation costs equivalent to ₱0.7433 per *kWh* every month, for an additional period of five (5) months starting April 2014 billing until the balance of ₱9.0 billion is fully recovered, without prejudice to the resolution of G.R. Nos. 210245 and 210255 by the *SC* or *MERALCO*'s pending Omnibus Motion with Manifestation in *ERC* Case No. 2013-092 MC, or the findings of the *ERC*'s Investigation Unit in *ERC* Case No. 2014-001 MC.

Subsequently, on March 11, 2014, *MERALCO* received the *ERC*'s Order dated March 3, 2014 in *ERC* Case No. 2014-021 MC, declaring the Luzon *WESM* prices as void during the November and December 2013 supply months and imposing regulated prices in lieu thereof.

The regulated prices shall be calculated based on the load weighted average of the ex-post nodal energy prices and meter quantity of the same trading interval that have not been administered covering the period December 26, 2012 to September 25, 2013, subject to the

payment to the oil-based plants of additional compensation to cover their full fuel and variable operating and maintenance costs, if warranted, following the manner and procedure for computing additional compensation under the Administered Price Determination Methodology.

PEMC was directed to calculate these regulated prices and implement the same in the revised *WESM* bills of the concerned distribution utilities in Luzon for the November and December 2013 supply months for their immediate settlement, except for *MERALCO* whose November 2013 *WESM* bill shall be maintained, unless otherwise ordered by the Commission, in compliance to the *TRO* issued by the SC in G.R. No. 21024 and G.R. No. 210255.

PEMC made recalculations based on the afore-quoted Order and on March 18, 2014, *MERALCO* received a copy of *WESM* billing adjustments to adjust the *WESM* bill for the regulated prices for the December 2013 supply month.

On March 19, 2014, Representatives Walden F. Bello and Ibarra M. Gutierrez III filed a Motion to Dismiss praying that *MERALCO*'s Application be dismissed, or at the very least, the proceedings be suspended pending submission by *PEMC* of the revised *WESM* Bills for the December 2013 supply month.

On March 25, 2014, *MERALCO* filed an Amended Application pursuant to the *ERC* Order and the recalculation made by *PEMC* of the December 2013 supply month bills.

On April 1, 2014, the *ERC* released an Order directing *MERALCO* to file its Comment on the Motion to Dismiss. On April 7, 2014, *MERALCO* filed its Comment on said Motion. On April 10, 2014, Congressmen Neri Colmenares, Carlos Isagani Zarate, former Congressman Teodoro Casino, Renato Reyes, Dr. Giovanni Tapang, Elmer Labog and Francisco Mariazeta III filed a Supplemental Opposition to *MERALCO*'s Amended Application.

On April 23, 2014, the *ERC* released an Order setting the case for hearing on May 26, 2014 and directing *MERALCO* to comply with the jurisdictional requirements. On the same date, the *ERC* likewise released an Order directing *MERALCO* to file its Comment on the Petitions for Intervention and Supplemental Opposition to its amended application filed by the Intervenors. On May 14, 2014, *MERALCO* filed its Consolidated Comment. On May 20 and 21, 2014, Mr. Robert F. Mallillin and *PEMC*, filed their Petitions for Intervention, respectively. On May 21, 2014, *MERALCO* filed its Pre-trial Brief. On May 26, 2014, *MERALCO* submitted its Compliance with the jurisdictional requirements to the *ERC*. On June 5, 2014, Mr. Uriel G. Borja filed his Petition for Intervention.

During the hearing on May 26, 2014, the *ERC* resolved to suspend further hearings on the case in view of the following: (i) filings of the parties in the case, i.e., *Motion to Dismiss*, *Supplemental Opposition to Amended Application* etc; (2) indefinite extension of the *TRO* by the SC; and (3) pendency of the *ERC* case on the regulated *WESM* prices for the November and December 2013 supply months. According to the *ERC*, it will just issue an Order after the pending issues in the case have been resolved.

13. **SMEC, SPPC, SPDC, SMC Powergen and Petron v. ERC and PEMC, SNAP-Magat and SNAP-Benguet v. ERC and PEMC 1590 v. ERC and PEMC**
APRI v. ERC, Team Energy v. ERC and PEMC
Sem Calaca v. ERC and PEMC
MPPCL v. ERC
TLI v. ERC
TMO v. ERC
Northwind v. ERC
CA-GR SP No. 133506, 138056, 138105, 138120, 138121, 138151, 138188, 138223, 138272, 138470
Court of Appeals

ERC v. SMEC, SPPC, SPDC, SMC Powergen and Petron, 1590, APRI, SEM Calaca, MPPCL, TLI, TMO, Northwind
S.C. GR No. 246621-30
Supreme Court

MERALCO v. SMEC, SPPC, SPDC, SMC Powergen and Petron, 1590, APRI, SEM Calaca, MPPCL, TLI, TMO, Northwind
S.C. GR No. 247352-61
Supreme Court

After the *ERC* issued its Order dated March 3, 2014 in *ERC* Case No. 2014-021 *MC*, declaring the Luzon *WESM* prices as void during the November and December 2013 supply months and imposing regulated prices in lieu thereof, and the subsequent Order dated October 15, 2014 denying their motions for reconsideration, generating companies appealed the Orders to the *CA*.

In a Decision dated November 7, 2017, the *CA* granted the consolidated petition and set aside the *ERC* orders which were declared null and void. The Decision reinstated and declared valid *WESM* Prices for the November and December 2013 supply months.

The *ERC* and *MERALCO* filed their respective motions for reconsideration. Several consumers likewise filed their own motions to intervene and motions for reconsideration. In a Resolution dated March 29, 2019, the *CA* denied the motions for reconsideration and upheld its Decision dated November 7, 2017.

On June 14, 2019, *MERALCO* filed a Petition for Review on Certiorari with the *SC* assailing the *CA* Decision and Resolution. *MERALCO* is awaiting further action of the *SC* on the Petition.

The *ERC* filed a separate Petition with the *SC* assailing the *CA* Decision and Resolution. In a Resolution dated September 11, 2019, the *SC* required the respondents to file their comment to the Petition. The respondents have filed their respective comments.

In a Resolution dated November 4, 2020, the *SC* consolidated *ERC*'s and *MERALCO*'s petitions and transferred *MERALCO*'s petition to the member-in-charge of *ERC*'s petition which was the lower-numbered case. The case remains pending with the *SC*.

14. *In the Matter of the Application for Authority to Implement the Proposed Capital Expenditure (CAPEX) Program for RY 2016, with Prayer for Provisional Authority, Manila Electric Company, Applicant*

ERC Case No. 2015-016 RC
(Filed on February 9, 2015)

Since the *ERC* has yet to issue the rules governing the reset for the Fourth Regulatory Period, *MERALCO* needed to secure approval of its *CAPEX* program before the end of the 3rd Regulatory Period on June 30, 2015. In view thereof, and pursuant to Section 20(b) of Commonwealth Act No. 146, as amended, otherwise known as the Public Service Act, *MERALCO*, on February 9, 2015, filed an application for approval of authority to implement its *CAPEX* program for RY 2016 (July 1, 2015 to June 30, 2016).

On April 10, 2015, *MERALCO* filed an Urgent Motion for Issuance of a Provisional Authority ("Urgent Motion") dated April 8, 2015 requesting that it be allowed to immediately implement its priority projects, the list of which was attached to said Urgent Motion. In said Urgent Motion, *MERALCO* begged the kind indulgence of the *ERC* to consider the issuance of a provisional authority for certain urgent projects that must be implemented by the start of the first half of RY 2016, or from July 1, 2015 to December 31, 2015, in order to upgrade the capacity and maintain the robustness of its distribution infrastructure and ensure the continuous provision of safe and reliable service to its customers.

On April 15, 2015, *MERALCO* filed a Motion of even date attaching a detailed list showing a further breakdown of the projects into business segments especially those that are shared by different business segments. Such list allows for a better appreciation and functional cross-checking, especially with the total costs per major or residual project.

In an Order dated April 20, 2015, the *ERC* set the instant Application for initial hearing on May 26, 2015. After said hearing, subsequent hearings were held on June 25, 2015, July 16, 2015, August 5, 2015 and September 30, 2015. On September 30, 2015, the parties completed the presentation of their evidence, and the *ERC* required *MERALCO* to submit certain documents. With *MERALCO*'s compliance to said directive and the submission by the parties of their respective Formal Offer of Evidence ("FOE"), the case is submitted for resolution.

In the meantime, the 4th regulatory period started on July 1, 2015. Prior thereto, or on June 11, 2015, *MERALCO* filed a Very Urgent Motion for Authority to Commence Implementation of RY 2016 priority projects with an attached list of the RY 2016 priority projects ("Very Urgent Motion"). These projects consist of 12 major projects amounting to ₱2.2 billion, and residual projects amounting to ₱6.1 billion, for a total of ₱8.3 billion. In an Order dated June 19, 2015, the *ERC* set the Very Urgent Motion for hearing on June 25, 2015 and the intervenors were given the opportunity to state their various positions on the Very Urgent Motion.

On August 3, 2015, *MERALCO* also wrote the *ERC* a letter stating its dire need for guidance on how to move forward in relation to its Application.

On September 2, 2015, *MERALCO* again filed a Very Urgent Motion to Resolve emphasizing on the urgency to implement its *CAPEX* projects to ensure reliability and quality of service and avoid further delays. On October 5, 2015, *MERALCO* filed its FOE.

In a Manifestation dated February 2, 2016, *MERALCO* informed the *ERC* that it was constrained to implement four (4) of its proposed major *CAPEX* projects subject of this Application. On June 15, 2016, *MERALCO* received a copy of the *ERC* Decision dated April 12, 2016 which partially approved *MERALCO*'s *CAPEX* program for RY 2016 amounting to ₱15.4 billion, subject to certain conditions. An intervenor has filed a Motion for Reconsideration of the Decision which is pending before the *ERC*. On July 25, 2016, *MERALCO* has filed its opposition to the Motion for Reconsideration. The *ERC* has yet to rule on the Motion for Reconsideration.

15. *In the Matter of the Application for Authority to Implement the Proposed Capital Expenditure (CAPEX) Program for RY 2017, with Prayer for Provisional Authority, Manila Electric Company, Applicant*

ERC Case No. 2016-017 RC
(Filed on March 8, 2016)

On March 8, 2016, *MERALCO* filed an application for approval of authority to implement its *CAPEX* program for RY 2017 (July 1, 2016 to June 30, 2017) pursuant to Section 20(b) of Commonwealth Act No. 146, as amended, otherwise known as the Public Service Act. On July 26, 2016, *MERALCO* received the Order dated May 5, 2016, granting *MERALCO* provisional authority to implement the nine (9) major projects and 37 residual projects, subject to certain conditions. On August 16, 2016, *MERALCO* filed a Motion for Partial Reconsideration on the requirement to submit an accounting of the depreciation fund. Hearings on the application have been completed. On September 14, 2016, *MERALCO* filed a Motion for Resolution. Subsequently, on April 25, 2017, *MERALCO* filed a Very Urgent Motion for Resolution of the application. Thereafter, on October 18, 2017, *MERALCO* filed a Manifestation and Urgent Motion for Resolution. On November 9, 2017, *MERALCO* filed a Manifestation with Third Urgent Motion to Resolve the Application. *MERALCO* is awaiting the final decision of the *ERC*.

In the meantime, *MERALCO* filed several manifestations regarding its need to implement certain urgent *CAPEX* projects pending final decision of the *ERC*.

In compliance with the directive of the *ERC* to provide additional data to assist in the evaluation of the Application, *MERALCO* filed its Compliance on February 17, 2020.

16. *In the Matter of the Application for Approval of Emergency and/or Urgent Major Capital Expenditure (CAPEX) Projects, Manila Electric Company, Applicant*

ERC Case No. 2016-161 RC
(Filed on August 15, 2016)

On August 15, 2016, *MERALCO* refiled several projects that were deferred in the RY 2016 *CAPEX* Application. On August 16, 2017, *MERALCO* filed its *FOE*. In an Order dated June 18, 2019, the *ERC* required additional data from *MERALCO*. *MERALCO* filed its Compliance on August 5, 2019. In a Decision dated January 28, 2020, the *ERC* approved the application. With respect to *MERALCO*'s motion to withdraw one (1) of the projects (for the acquisition of 115 kV line and 115 kV switchyard at the Navotas Fish Port Complex), the *ERC* likewise granted the withdrawal.

17. *In the Matter of the Application for Authority to Implement the Proposed Capital Expenditure (CAPEX) Program for RY 2018, with Prayer for Provisional Authority, Manila Electric Company, Applicant*

ERC Case No. 2017-027 RC
(Filed on April 3, 2017)

On April 3, 2017, *MERALCO* filed an application for approval of authority to implement its CAPEX program for RY 2018 (July 1, 2017 to June 30, 2018) pursuant to Section 20(b) of Commonwealth Act No. 146, as amended, otherwise known as the Public Service Act. Hearings have been completed and *MERALCO* is awaiting the final decision of the *ERC*. In the meantime, *MERALCO* filed several manifestations regarding its need to implement certain urgent CAPEX projects pending final decision of the *ERC*. In compliance with the directive of the *ERC* to provide additional data to assist in the evaluation of the Application, *MERALCO* filed its Compliance on February 17, 2020. In an Order dated June 5, 2020, *MERALCO* was directed to submit additional information regarding certain projects. On September 1, 2020, *MERALCO* filed its Partial Compliance and Manifestation with Motion for Extension. On November 3, 2020, *MERALCO* filed its Manifestation and Urgent Motion for Resolution and is awaiting final *ERC* decision.

18. *In the Matter of the Application for Authority to Implement the Proposed Capital Expenditure (CAPEX) Program for RY 2019, with Prayer for Provisional Authority, Manila Electric Company, Applicant*

ERC Case No. 2018-032 RC
(Filed on April 30, 2018)

On April 30, 2018, *MERALCO* filed an application for approval of authority to implement its ₱ 21.0 billion CAPEX program for RY 2019 (July 1, 2018 to June 30, 2019) pursuant to the Public Service Act. Hearings on the case are ongoing. In the meantime, *MERALCO* filed several manifestations regarding its need to implement certain urgent CAPEX projects pending final decision of the *ERC*. In an Order dated June 5, 2020, *MERALCO* was directed to submit additional information regarding certain projects. On September 1, 2020, *MERALCO* filed its Partial Compliance and Manifestation with Motion for Extension. On November 3, 2020, *MERALCO* filed its Manifestation and Urgent Motion for Resolution and is awaiting final decision.

19. *In the Matter of the Application for Authority to Implement the Proposed Capital Expenditure (CAPEX) Program for RY 2020, with Prayer for Provisional Authority, Manila Electric Company, Applicant*

ERC Case No. 2019-050 RC
(Filed on July 1, 2019)

On July 1, 2019, *MERALCO* filed an application for approval of authority to implement its ₱15.5 billion CAPEX program for RY 2020 (July 1, 2019 to June 30, 2020) pursuant to the Public Service Act. Hearings on the case are ongoing. In the meantime, *MERALCO* filed several manifestations regarding its need to implement certain urgent CAPEX projects pending final decision of the *ERC*.

20. *In the Matter of the Application for Authority to Implement the Proposed Capital Expenditure (CAPEX) Program for RY 2021, with Prayer for Provisional Authority, Manila Electric Company, Applicant*

ERC Case No. 2020-028 RC
(Filed on September 28, 2020)

On September 28, 2020, MERALCO filed an application for approval of authority to implement its ₱20.7 billion CAPEX program for RY 2021 (July 1, 2020 to June 30, 2021) pursuant to the Public Service Act. Hearings have been completed. MERALCO has filed its Formal Offer of Evidence and is awaiting final resolution of the ERC.

21. *In the Matter of the Application for Authority to Implement the Proposed Capital Expenditure (CAPEX) Program for RY 2022, with Prayer for Provisional Authority, Manila Electric Company, Applicant*

ERC Case No. 2021-060 RC
(Filed on July 27, 2021)

On July 27, 2021, MERALCO filed an application for approval of authority to implement its ₱24.6 billion CAPEX program for RY 2022 (July 1, 2021 to June 30, 2022) pursuant to the Public Service Act. Hearings have been completed. MERALCO has filed its Formal Offer of Evidence and is awaiting final resolution of the ERC.

22. *Bayan Muna Chairman Neri Colmenares and Bayan Muna Representative Carlos Zarate v. Department of Energy, et al., G.R. No. 248887 Supreme Court En Banc Petition dated September 5, 2019*

Bayan Muna Chairman Neri Colmenares and Representative Carlos Zarate filed a Petition for Certiorari and Prohibition with Application for the Issuance of a Writ of Preliminary Injunction and/or TRO dated September 5, 2019 before the SC against the DOE, MERALCO, and other DUs with published competitive selection process ("CSP") bids in the DOE website.

Petitioners seek to: (a) nullify the DOE Department Circular No. 2018-02-003 ("2018 DOE Circular") or, in the alternative, nullify Section 16.1 and the provisions related thereto or resulting therefrom; (b) prohibit DUs from implementing the CSP under the 2018 DOE Circular; (c) restrain the implementation of the 2018 DOE Circular pending the resolution of the Petition. Petitioners claim that the 2018 DOE Circular, which repealed DOE Department Circular 2015-06-0008 ("2015 DOE Circular"), is void for violating various policies and provisions intended to protect consumers under the EPIRA and under the Constitution. On December 17, 2019, MERALCO filed its Comment to the *Bayan Muna Petition*. MERALCO is awaiting further action of the SC on this matter.

23. *MERALCO v. DOE and ERC*

Special Civil Action No. 4149-PSG

For: Petition for Declaratory Relief with Application for Temporary Restraining Order and/or Writ of Preliminary Injunction
(Filed on May 27, 2016)

On May 27, 2016, *MERALCO* filed a Petition before *RTC Pasig*, praying that: (a) a *TRO* and subsequently a Writ of Preliminary Injunction ("*WPI*") enjoining the *DOE* and *ERC* from implementing the Assailed Rules be issued; and the Assailed Rules be declared null and void for being contrary to the *EPIRA* and its *IRR*. In an Order dated June 13, 2016, *RTC Pasig* granted a 20-day *TRO*, which became effective on June 16, 2016. In an Order dated July 13, 2016, *RTC Pasig* granted a *WPI*, which became effective on July 14, 2016, and shall be effective for the duration of the pendency of the Petition.

DOE v. RTC Pasig and MERALCO

G.R. No. 226800

In relation to the *WPI* issued by the *RTC-Pasig*, the *DOE* filed a Petition before the SC. On October 10, 2016, the SC issued a *TRO* that restrained, *MERALCO*, the *RTC-Pasig*, their representatives, agents or other persons acting on their behalf from continuing the proceedings before the *RTC-Pasig*, and from enforcing all orders, resolutions and decisions rendered in Special Civil Action No. 4149 until the petition before the SC is finally resolved. In a Resolution dated November 9, 2016, the SC denied *MERALCO*'s motion for reconsideration of the October 10, 2016 resolution. The case remains pending before the SC.

ERC v. RTC Pasig and MERALCO

G.R. No. 225141

In relation to the *WPI* issued by the *RTC Pasig*, the *ERC* filed a Petition before the SC. On November 2, 2016, the SC issued a Resolution dated September 26, 2016, which partially granted the *ERC* Petition. While the SC allowed the *RTC Pasig* to proceed with the principal case of declaratory relief, it nonetheless issued a Preliminary Mandatory Injunction ("*PMI*") against *RTC Pasig* to vacate the preliminary injunction it previously issued, and Preliminary Injunction ("*PI*") ordering the *RTC Pasig* to refrain issuing further orders and resolutions tending to enjoin the implementation of *EPIRA*. On November 14, 2016, *MERALCO* filed a Motion for Partial Reconsideration with Very Urgent Motion to lift *PMI/PI*.

On November 24, 2016, the *ERC* promulgated a resolution moving the contestability date of end users with an average monthly peak demand of at least one (1) *MW* from December 31, 2016 to February 26, 2017.

On January 17, 2017, *MERALCO*, through counsel, received a SC Resolution dated December 5, 2016, which consolidated the SC *DOE* Petition with the SC *ERC* Petition. The same resolution also denied the Motion for Partial Reconsideration filed by *MERALCO*.

PCCI, et. al. v. DOE and ERC

G.R. No. 228588

In relation to the *ERC* and *DOE* Petitions, a separate Petition for Certiorari, Prohibition and Injunction was filed by several institutional customers. In said Petition, said customers sought to declare as null and void, as well as to enjoin the *DOE* and *ERC* from implementing *DOE* Circular No. 2015-06- 0010, Series of 2015, *ERC* Resolution Nos. 5, 10, 11 and 28, Series of 2016. Acting on the Petition, the SC *en banc* through a Resolution dated February 21, 2017, issued a *TRO* enjoining the *DOE* and the *ERC* from implementing *DOE* Circular No. 2015-06- 0010, Series of 2015, *ERC* Resolution Nos. 5, 10, 11 and 28, Series of 2016. Pursuant to the foregoing, *PEMC* has taken the position that the *TRO* enjoined the voluntary contestability of 750 kW to 999 kW customers and has not allowed them to switch to the contestable market. The *DOE*, in a press release, has advised that it is in the process, together with *PEMC* and *ERC*, of drafting a general advisory for the guidance of *RCOA* stakeholders. The *PCCI* petition was consolidated with two (2) other separate petitions filed by an educational institution and several distribution utilities. The *DOE* and *ERC* have also filed a consolidated comment on these petitions.

On November 29, 2017, the *DOE* issued two (2) *DOE* Circulars, namely: DC 2017-12-0013, entitled, Providing Policies on the Implementation of Retail Competition and Open Access (“*RCOA*”) for Contestable Customers in the Philippines Electric Power Industry and DC 2017-12-0014, entitled Providing Policies on the Implementation of Retail Competition and Open Access (*RCOA*) for Retail Electricity Suppliers (*RES*) in the Philippine Electric Power Industry. The *DOE* Circulars became effective on December 24, 2017.

Under the Department Circular No. DC 2017-12-0013, it is provided that voluntary participation for contestable customers under *RCOA*-Phase 2 shall now be allowed upon effectivity of said Circular, while voluntary participation of contestable customers with a monthly average peak demand of 500 kW to 749 kW for the preceding 12 months and demand aggregation for electricity end-users within a contiguous area with an aggregate average peak demand of not less than 500 kW for the preceding 12-month period, will also be allowed by June 26, 2018 and December 26, 2018, respectively.

On December 3, 2020, the *ERC* promulgated *ERC* Resolution No. 12, Series of 2020, entitled, A Resolution Prescribing the Timeline for the Implementation of Retail Competition and Open Access (*RCOA*). The *ERC*, among other things, expanded the coverage of *RCOA* for end-users with an average monthly peak demand of at least 500 KW in the preceding 12 months, on a voluntary basis.

On September 24, 2021, the SC issued a Decision which granted the Petition and declared *DOE* Circular No. 2015-06-0010 and *ERC* Resolution Nos. 5, 10, 11 and 28, Series of 2016 void for lack of legal basis. The *ERC* was also directed to promulgate the supporting guidelines to *DOE* Circular No. DC 2017-12-0013 and DC 2017-12-0014.

24. In Re: Draft Regulatory Asset Base (RAB) Roll Forward Handbook for Privately Owned Electric Distribution Utilities (DUs)
ERC Case No. 2016-003 RM

In a Notice dated November 15, 2016, the Honorable Commission approved the draft “Regulatory Asset Base (“*RAB*”) Roll Forward Handbook for Privately Owned Electricity Distribution Utilities (*DUs*)” (*RAB* Handbook) for posting in its website. All interested parties were given until December 19, 2016 to submit their respective comments to the draft *RAB* Handbook. Thereafter,

during the public consultation on January 9, 2017, the parties were given until February 9, 2017 to file their comments to the draft Handbook. In an Omnibus Motion filed on February 9, 2017, *MERALCO* submitted its initial comments to the draft *RAB* Handbook but moved for the deferment of the proceedings until the *MSK* Petition has been resolved. The *ERC* has yet to act on *MERALCO*'s Omnibus Motion.

In the meantime, the *ERC* in its Notice of Award dated November 24, 2020, assigned the project "Development of the *RAB* Handbook to include the Standardization of the Replacement Costs and Asset Lives for Privately-Owned Distribution Utilities and Fieldwork for the True-Up Valuation Report (Lot No. 2020-18)" to Royal Asia Appraisal Corporation (RAAC). In December 2021, the *ERC* promulgated *ERC* Resolution No. 11, Series of 2021, which adopted the final *RAB* Roll Forward Handbook.

25. *In Re: Rules for Setting Distribution Wheeling Rates (RDWR)*
ERC Case No. 2019-003 RM

On June 13, 2019, the *ERC* posted the working drafts of the *RDWR* and "Regulatory Reset for the Fourth and Fifth Regulatory Period for the First Entry Group of Privately Owned Distribution Utilities subject to Performance Based Regulations" Issues Paper. The Draft Rules and Issues Paper were works in progress by the technical staff that will be presented to the *ERC* together with the consolidated inputs from stakeholders. Interested parties were given until July 1, 2019 to submit their comments to the drafts. The public consultation was originally scheduled on July 5, 2019. *MERALCO* and other stakeholders submitted their respective comments.

In a Notice dated July 4, 2019, the *ERC* cancelled the public consultation and gave the stakeholders until July 15, 2019 to submit their additional comments. Public consultations were scheduled in Cebu, Davao and Manila on July 24, 26 and 29, 2019, respectively.

MERALCO submitted additional comments on July 15, 2019 and August 2, 2019 and attended the public consultations.

In a Notice dated 15 March 2021, the *ERC* posted the proposed Rules for Setting Distribution Wheeling Rates (*RDWR*) (2nd Draft), and Regulatory Reset for the July 2022 to June 2026 Fifth Regulatory Period for the First Entry Group of Privately Owned Distribution Utilities subject to Performance Based Regulation, Issues Paper (2nd Draft) for comments of all interested parties. *MERALCO* submitted its comments to the draft.

Under *ERC* Resolution No. 10, Series of 2021 dated December 2, 2021, the *ERC* promulgated the revised *RDWR*.

26. ***In the Matter of the Application for Approval of the Annual Revenue Requirement and Performance Incentive Scheme for the Fifth Regulatory Period (2023 to 2026) in Accordance With the Provisions of the Rules for Setting Distribution Wheeling Rates (RDWR), As Amended, With Prayer For Provisional Authority***
ERC Case No. 2022-015 RC
Docketed on March 16, 2022

In accordance with the RDWR, on March 16, 2022, *MERALCO* filed its application for approval of its Annual Revenue Requirement (ARR) and Performance Incentive Scheme (PIS) for the Fifth Regulatory Period (Regulatory Years 2023 to 2026). In an Order dated March 24, 2022, the ERC set the case for initial hearings on April 26 and 28, 2022. Hearings on the case are ongoing.

27. ***In the Matter of the Application for Authority to Issue Bonds or Evidence of Long Term Indebtedness and to Mortgage, Pledge, or Encumber Property for this Purpose, with Prayer for Provisional Authority***
ERC Case No. 2019-029 MC
Filed on October 28, 2019

In compliance with the provisions of the Public Service Act, on October 28, 2019, *MERALCO* filed an application, with prayer for provisional authority, for continuing authority to (a) issue bonds or other evidence of indebtedness; and (b) whenever necessary, to mortgage, pledge or encumber any of its property to any creditor in connection with its authority to issue bonds or any other evidence of long-term indebtedness. Hearings have been completed. On December 10, 2020, *MERALCO* submitted its Formal Offer of Evidence. On January 25, 2021, *MERALCO* filed a Manifestation with Urgent Motion for Resolution. On September 12, 2021, *MERALCO* filed a Motion to Withdraw Application in light of the amendments to the Public Service Act which removed the requirement for prior regulatory approval for these matters. The motion is currently pending before the *ERC*.

28. ***Neri J. Colmenares, et. al. v. ERC, COA, MERALCO***
G.R. No. 246422
Supreme Court
Petition for Certiorari dated April 27, 2019

Petitioners filed the instant Petition for Certiorari to question the legality of the collection of bill deposits by *MERALCO*. The Petition likewise questioned the interest rate earned by the bill deposit. In compliance with the SC's Resolution dated June 4, 2019, *MERALCO* filed its Comment on October 18, 2019.

In the meantime, the *ERC* has engaged the services of an independent party to verify whether *MERALCO* refunds, including bill deposits, have been fully accounted for, returned or credited to customers' accounts. *MERALCO* is awaiting further instructions from the *ERC*.

29. *In the Matter of Alleged Violation of the Advisories issued by the Energy Regulatory Commission (ERC) during the Enhanced Community Quarantine (ECQ) and Modified Enhanced Community Quarantine (MECQ).*

ERC Case No. 2020-001 SC

Energy Regulatory Commission

Show Cause Order received June 2, 2020

On June 2, 2020, *MERALCO* received a copy of the Show Cause Order issued by the ERC directing *MERALCO* to submit, within 10 days from receipt thereof, its explanation on why it should not be held liable for alleged violations of the Honorable Commission's directives as contained in: (1) Item No. 3 of the March 26, 2020 Advisory, Item No. 4 of April 15, 2020 Advisory and Item No. 5 of May 5, 2020 Advisory; (2) Item No. 6 of April 15, 2020 Advisory; and (3) Item No. 2 of May 5, 2020 Advisory. In its Explanation to the Show Cause Order, *MERALCO* explained that it complied with the ERC advisories. In a Decision dated August 20, 2020, the ERC ordered *MERALCO* to pay a fine of ₱19 million and directed that the Distribution, Supply and Metering ("*DSM*") charges be set to zero for lifeline customers. On September 11, 2020, *MERALCO* paid the ₱19 million fine and filed a Motion for Partial Reconsideration with respect to the directive to set the *DSM* charges to zero for lifeline customers. The Motion for Partial Reconsideration is pending with the ERC. *MERALCO* implemented the directive to set the *DSM* charges to zero for lifeline customers in its October 2020 billing to customers subject to the resolution of its Motion for Partial Reconsideration. *MERALCO* is awaiting the ERC's resolution of the Motion for Partial Reconsideration.

30. *In Re: Non-Compliance to the Directive to Submit Data on the Validation of Actual/Historical Expenditure*

ERC Case No. 2020-106 SC

Energy Regulatory Commission

Show Cause Order received December 15, 2020

In reference to the validation of the actual or historical expenditure of private Distribution Utilities ("*DUs*") being undertaken by the ERC through its appointed consultant, Royal Asia Appraisal Corporation ("*RAAC*"), the ERC sent a letter dated January 17, 2020 directing *MERALCO* to submit specific data regarding the actual/historical expenditure covering the last approved regulatory period, or *MERALCO*'s Third Regulatory Period (July 1, 2011 to June 30, 2015), on or before February 24, 2020.

On August 4, 2020, *MERALCO* received a letter dated July 30, 2020 from the ERC granting *MERALCO*'s request for extension to defer its submission, but only until August 2020, or 27 days from its receipt of the letter, without further extension. Unfortunately, despite exerting its best efforts, *MERALCO* was only able submit its partial but substantial compliance through a letter dated August 31, 2020, which was sent by electronic mail on September 1, 2020, given the magnitude of the detailed information required. As such, *MERALCO* could only submit information covering the Third Regulatory Period as well as other system statistics. However, *MERALCO* undertook to submit the remaining information within the next three (3) months. On November 2020, the ERC sent a letter dated 29 October 2020 inviting *MERALCO* and its concerned officers to 4, a virtual clarificatory meeting to clarify *MERALCO*'s submission and discuss the Honorable Commission's initial review thereon on November 23, 2020. Similarly, the Honorable Commission informed *MERALCO* that it shall allow the submission of additional information as required during the meeting as well as

answers to the clarificatory questions no later than five (5) business days from the date of the clarificatory meeting.

Through a letter dated November 30, 2020, which was sent via electronic mail on December 1, 2020, *MERALCO* submitted the expenditure data for the period from July 1, 2015 to September 30, 2019 as well as the additional information requested by the *ERC* during the November 23, 2020 clarificatory meeting.

In a letter dated December 15, 2020, which was received by *MERALCO* via electronic mail on December 24, 2020, the *ERC* acknowledged *MERALCO*'s submission of expenditure data as of September 30, 2019 as well as the additional information requested during the clarificatory meeting held on November 23, 2020. On December 15, 2020, *MERALCO* received a copy of the Show Cause Order issued by the *ERC* requiring *MERALCO* to submit an explanation on why no administrative penalty should be imposed for its (1) delayed submission of data covering its last approved regulatory period; (2) no lapsed data submitted; (3) incomplete templates; and (4) inadequate supporting information on certain items required by the *ERC*. *MERALCO* filed its Compliance on January 14, 2021. *MERALCO* is awaiting further action of the *ERC* on the matter.

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

No matter was submitted during the fourth quarter of the fiscal year covered by this report to a vote of security holders.

PART II – OPERATIONAL AND FINANCIAL INFORMATION

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

(1) Market Information

The principal market where *MERALCO*'s common equity is traded in the Philippine Stock Exchange. The quarterly high and low sales prices for the fiscal years 2022 and 2021 and first quarter 2023 are as follows:

FROM	TO	HIGH	LOW
01/01/23	03/31/23	₱320.60	₱280.00
10/01/22	12/31/22	310.00	265.00
07/01/22	09/30/22	369.60	263.00
04/01/22	06/30/22	374.80	330.00
01/01/22	03/31/22	380.80	295.20
10/01/21	12/31/21	307.00	286.00
07/01/21	09/30/21	263.20	298.00
04/01/21	06/30/21	285.40	270.20
01/01/21	03/31/21	338.60	261.20

As of March 31, 2023, the share price of *MERALCO* is ₱311.00.

(2) Holders

As of March 31, 2023, the Company has 41,250 stockholders.

Top 20 Stockholders as of March 31, 2023

	STOCKHOLDER NAME	NUMBER OF SHARES	PERCENT
1	Beacon Electric Asset Holdings, Inc.	394,059,235.00	34.96%
2	JG Summit Holdings, Inc.	297,189,397.00	26.37%
3	PCD Nominee Corporation - Filipino	154,532,414.00	13.71%
4	Metro Pacific Investments Corporation	140,906,807.00	12.50%
5	PCD Nominee Corporation - Non-Filipino	56,816,365.00	5.04%
6	First Philippine Holdings Corporation	44,382,436.00	3.94%
7	Mantes Corporation	2,486,427.00	0.22%
8	Lucio W. Yan	403,208.00	0.04%
9	Charlotte Cua Cheng	314,534.00	0.03%
10	Albert Ferreros Del Rosario and/or Margaret Gretchen De Venecia Del Rosario	291,140.00	0.03%
11	Avesco Marketing Corporation	284,427.00	0.03%
12	B. P. Insurance Agency, Inc.	281,079.00	0.02%
13	Makati Supermarket Corporation	240,308.00	0.02%
14	Albert Ferreros Del Rosario and/or Margaret Gretchen De Venecia Del Rosario	182,500.00	0.02%

	STOCKHOLDER NAME	NUMBER OF SHARES	PERCENT
15	Laarni Nieman Enriquez	164,388.00	0.01%
16	Jose Ignacio A. Carlos	161,687.00	0.01%
17	Antonino T. Aquino and/or Evelina S. Aquino	133,855.00	0.01%
18	Agikik Corporation	120,100.00	0.01%
19	BP Insurance Agency, Inc.	116,730.00	0.01%
20	Raul Joseph Concepcion	112,431.00	0.01%

(3) Dividends

Following are the cash dividends declared by *MERALCO's BOD* in favor of *MERALCO* common shares for the two (2) most recent years ended December 31, 2022 and 2021:

YEAR	RATE PER SHARE	RECORD DATE	PAYMENT DATE
2021	₱ 7.824	03/25/2021	04/26/2021
	5.057	08/18/2021	09/15/2021
2022	₱ 10.226	03/30/2022	04/26/2022
	5.806	08/18/2022	09/14/2022

On February 27, 2023, the *BOD* of *MERALCO* approved the declaration of cash dividends of ₱11.028 a share to all shareholders of record as at March 29, 2023, payable on April 26, 2023.

MERALCO's loan agreements contain restrictions on payments of cash dividends to common stockholders subject to meeting certain financial measures, which *MERALCO* complied with.

MERALCO strictly implements its dividend policy, approved by the *BOD*, in 2010, which prescribes the regular payment of dividends equivalent to fifty percent (50%) of consolidated core net income for the year, which may be supplemented by a special dividend determined on a "look-back" basis. In 2022, *MERALCO* paid cash dividends of ₱16.04 a share to all its shareholders.

(4) Recent Issuance of Securities Constituting an Exempt Transaction

None.

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

The following discussion and analysis of financial position and results of operations of Manila Electric Company ("MERALCO") and its subsidiaries, collectively referred to as the "*MERALCO Group*" should be read in conjunction with the audited consolidated financial statements as at December 31, 2022 and 2021 and for the years ended December 31, 2022, 2021, and 2020. The consolidated financial statements have been prepared in compliance with the Philippine Financial Reporting Standards ("*PFRSs*"). *PFRS* includes statements named *PFRS* and Philippine Accounting Standards, including Interpretations issued by the *PFRS* Council.

The financial information appearing in this report and in the accompanying audited consolidated financial statements is presented in Philippine peso, *MERALCO Group's* functional and presentation currency, as defined under *PFRS*. All values are rounded to the nearest million pesos, except for earnings per share ("*EPS*") data. The exchange rate used to translate U.S. dollar to Philippine peso in this report and in the accompanying audited consolidated financial statements is US\$1.00 to ₱55.76, the closing rate as at December 31, 2022 quoted through the Philippine Dealing System.

Financial Highlights and Key Performance Indicators

(amounts in million, except earnings per share, operational data and system loss)

	As at December 31		Increase (Decrease)	
	2022	2021	Amount	%
Condensed Statements of Financial Position				
Total assets	₱519,261	₱483,615	₱35,646	7
Current assets	154,287	138,154	16,133	12
Cash and cash equivalents	55,832	55,007	825	1
Equity attributable to equity holders of the parent	109,664	95,204	14,460	15
Total debt	103,833	90,668	13,165	15
Current liabilities	205,725	161,581	44,144	27

	For the Years Ended December 31			% Change	
	2022	2021	2020	2022 vs. 2021	2021 vs. 2020
Condensed Statements of Income					
Revenues	₱426,529	₱318,547	₱275,304	34	16
Costs and expenses	406,348	289,208	254,313	41	14
Other income, net of expenses	15,055	3,656	1,424	312	157
Income before income tax	35,236	32,995	22,415	7	47
Net income	28,588	24,083	16,149	19	49
Net income attributable to equity holders of the parent	28,431	23,498	16,316	21	44
Core net income ¹	27,105	24,608	21,711	10	13
Earnings per share (EPS), attributable to equity holders of the parent	25.23	20.85	14.48	21	44
Core EPS ²	24.05	21.83	19.26	10	13

	For the Years Ended December 31			% Change	
	2022	2021	2020	2022 vs. 2021	2021 vs. 2020
Condensed Statements of Cash Flows					
Net cash provided by operating activities	25,182	43,181	29,872	(42)	45
Net cash provided by (used in)					
investing activities	(22,081)	(49,467)	2,776	(55)	(1,882)
Net cash provided by (used in) financing activities	(2,273)	10,861	(20,291)	(121)	(154)
Operational Data					
Number of customers (in thousands):					
Residential	7,041	6,838	6,575	3	4
Commercial	569	554	541	3	3
Industrial	11	11	11	—	—
Streetlight	5	5	5	—	—
Electricity sales volume (in GWh)	48,916	46,073	43,572	6	6
System loss (in percentage) :					
MERALCO	5.77	5.85	6.08	(1)	(4)
Clark Electric Distribution Corporation ("Clark Electric")	1.81	2.08	2.10	(13)	(1)

¹ Reported net income, adjusted to exclude the effect of foreign exchange gains or losses, impairment charges, mark-to-market adjustments and other one-time, exceptional transactions.

² Core net income divided by the number of common shares outstanding.

The Key Performance Indicators (“KPI”) of *MERALCO* are as follows:

Financial KPI	Definition	For the Years Ended December 31		
		2022	2021	2020
Core EBITDA	CCNI excluding depreciation and amortization, interest and other financial charges, interest and other financial income, and provision for income tax	₱51,213	₱44,581	₱35,287
Debt to Equity	$\frac{\text{Total debt}}{\text{Equity attributable to equity holders of the parent}}$	0.95	0.95	0.51
Current Ratio	$\frac{\text{Current assets}}{\text{Current liabilities}}$	0.75	0.86	0.90
Profit Margin	$\frac{\text{Net income attributable to equity holders of the parent}}{\text{Revenues}}$	7%	7%	6%
Return on Equity	$\frac{\text{Net income attributable to equity holders of the parent}}{\text{Equity attributable to equity holders of the parent}}$	26%	25%	21%
Asset Turnover	$\frac{\text{Revenues}}{\text{Average total assets}}$	85%	73%	74%

OVERVIEW

MERALCO is the Philippines' largest electric power distribution company, with franchise area covering 9,685 square kilometers. It provides power to over 7.6 million customer accounts in 38 cities and 73 municipalities, which include Metro Manila, all of the provinces of Rizal, Cavite and Bulacan, and parts of the provinces of Pampanga, Batangas, Laguna and Quezon.

The *MERALCO* Group's business is grouped into two (2) segments, namely, power and other services.

- Power

The power segment consists of (a) electricity distribution, (b) power generation and (c) retail electricity supply ("*RES*").

Electricity distribution – This is principally electricity distribution and supply of power on a pass-through basis covering all captive customers in the *MERALCO* and the Clark Electric Distribution Corporation ("*Clark Electric*") franchise areas in Luzon. Electricity supplied within the *MERALCO* franchise area accounts for over 50% of Philippine total energy sales. *Clark Electric*'s franchise area covers Clark Special Economic Zone ("*CSEZ*") and the sub-zones.

Shin Clark Power Holdings, Inc. ("*Shin Clark*") through a Joint Venture Agreement ("*JVA*") with *BCDA*, manages the development, operation, and maintenance of the electric power distribution system in the 9,450-hectare New Clark City located within the Clark Special Economic Zone in the towns of Capas and Bamban, Tarlac. In accordance with the *JVA*, *BCDA* assigned its franchise to operate the electric distribution system in New Clark City, granted to it by the Congress under Republic Act no. 11420, to Shin Clark Power Corporation ("*SCPC*" or "Joint Venture Company"). *BCDA*'s assignment of its franchise to *SCPC*, based on a valuation by a third-party independent appraiser, represents *BCDA*'s contribution to *SCPC* in exchange for a 10% equity interest in *SCPC*. *SCPC* was incorporated and registered with the Securities and Exchange Commission ("*SEC*") and is awaiting the Energy Regulatory Commission's ("*ERC*") approval of its *CPCN* to be able to operate as a distribution utility.

MERALCO manages the electric distribution facilities of Pampanga Electric Cooperative II ("*PELCO II*") through *Comstech* under an Investment Management Contract ("*IMC*"). *MERALCO* also manages the electric distribution facilities in the Cavite Economic Zone ("*CEZ*") under a 25-year concession agreement with Philippine Economic Zone Authority ("*PEZA*").

Power generation – The *MERALCO* Group has a combined group generating capacity of 2,251 *MW* (net) of coal, liquid natural gas, and oil and diesel plants in the Philippines and Singapore.

MERALCO PowerGen Corporation ("*MGen*") owns 51% of San Buenaventura Power Ltd. Co. ("*SBPL*") which operates a 455 *MW* (net) supercritical coal-fired plant in Mauban, Quezon. In 2022, it delivered a total of 2,765 *GWh* to *MERALCO* under an *ERC*-approved *PSA*.

Global Business Power Corporation ("*GBPC*") owns 970 *MW* (net) of operating coal and diesel-fired power plants in the Visayas and Mindanao. *GBPC* also has a 50% interest in Alsons Thermal Energy Corporation ("*ATEC*"), which holds a 75% interest in Sarangani Energy

Corporation (“*Sarangani Energy*”). *Sarangani Energy* operates a 2 x 105 MW (net) CFB plant in Maasim, Sarangani.

MGen Renewable Energy, Inc. (“*MGreen*”) is a wholly owned subsidiary of MGen engaged in the development, construction and operation of solar-powered generation facilities. It has a 60% equity in *First Bulacan*. *First Bulacan* owns and operates a 80 MWdc/50 MWac utility scale solar facility located in San Miguel, Bulacan, the largest single operating solar plant in the country, which began commercial operations on May 12, 2021 and has since delivered solar energy to MERALCO under an ERC-approved PSA. The PSA is for a period of 20 years.

MGreen is in the final stages of the construction of its 75 MWac solar plant in Baras, Rizal through *PHRI*, a joint venture with Mitsui’s local unit Mit-Renewables Philippine Corporation. In August 2022, the project company secured a ₱2,650 million, 15-year term project financing facility to fund the construction of the solar plant. Also under construction is a 68 MWac solar plant in Ilocos Norte in partnership with Pasuquin Energy Holdings, Inc. of Vena Energy Solar PH B.V. (“*Vena Energy*”). These two (2) projects are expected to commence operations in the first quarter of 2023.

MGen also has a combined 58% (direct and indirect interests) in PacificLight Power Pte Ltd. (“*PacificLight Power*”). *PacificLight Power* owns and operates a 2 x 400 MW combined cycle turbine power plant mainly fueled by liquefied natural gas (“*LNG*”) in Jurong Island, Singapore.

RES – covers the sourcing and supply of electricity to qualified contestable customers. MERALCO and *Clark Electric* also operate as local retail electricity suppliers within their respective franchise area under a separate business unit, *MPower* and *Cogent Energy*, respectively. Under Retail Competition and Open Access (“*RCOA*”), qualified contestable customers who opt for contestability and elect to be among contestable customers may source their electricity supply from any retail electricity suppliers, including *MPower* and *Cogent Energy*.

The ERC granted the following subsidiaries distinct RES licenses to operate as retail electricity suppliers within Luzon and Visayas: *Vantage* and *Phoenix Power*, wholly owned subsidiaries of MERALCO; *MeridianX*, a wholly owned subsidiary of *Comstech*, and *GESC*, a wholly owned subsidiary of *GBPC*. *Vantage* and *MeridianX*’s RES licenses which were issued by the ERC are valid for five (5) years up to January 10, 2022 and February 9, 2022, respectively. The validity of their RES licenses was extended until July 9, 2023 pending final evaluation by the ERC of the renewal applications. *Clarion*, a wholly owned subsidiary of *Clark Electric*, submitted the requirements for its RES licensing to ERC on November 17, 2017. As at February 27, 2023, the approval of its RES licensing is pending with the ERC. *GESC* is a wholly owned subsidiary of *GBPC*. On September 10, 2021, *GESC*’s RES license was renewed for another five (5) years beginning September 13, 2021.

- Other Services

The other services segment is involved principally in electricity-related services, such as: electro-mechanical engineering, construction, consulting and related manpower services, e-transaction and bills collection, telecommunications services, rail-related operations and maintenance services, insurance and re-insurance, e-business development, power distribution management, energy systems management, harnessing renewable energy, construction and leasing of communication towers, electric vehicle and charging infrastructure solutions. These services are provided by *MIESCOR*, Miescor Infrastructure Development Corporation (“*MIDC*”), Miescor

Builders, Inc. (“*MBI*”), and Miescor Logistics, Inc. (“*MLI*”) (collectively known as “*MIESCOR Group*”), Corporate Information Solutions, Inc. (“*CIS*”), CIS Bayad Center, Inc. (“*Bayad*”) and Customer Frontline Solutions, Inc. (“*CFSI*”) (collectively referred to as “*CIS Group*”), eMeralco Ventures, Inc. (“*e-MVI*”), Paragon Vertical Corporation (“*Paragon*”) and Radius Telecoms, Inc. (“*Radius*”) (collectively referred to as “*e-MVI Group*”), Comstech, eSakay, Inc. (“*eSakay*”), Lighthouse Overseas Insurance Limited (“*LOIL*”), Meralco Financial Services, Inc. (“*Finserve*”), Meralco Energy, Inc. (“*MServ*”) and MSpectrum, Inc. (“*Spectrum*”).

Below is the summary of *MERALCO Group's* business segments:

BUSINESS SEGMENTS	
Power	Other Services
Electricity distribution <ul style="list-style-type: none"> • <i>MERALCO</i> • <i>Clark Electric</i> • <i>Shin Clark</i> Power generation <ul style="list-style-type: none"> • <i>MGen</i> and its subsidiaries <i>RES</i> <ul style="list-style-type: none"> • <i>MERALCO</i> through <i>MPower</i> business unit • <i>Clark Electric</i> through <i>Cogent Energy</i> business unit • <i>Clarion</i> • <i>GESC</i> • <i>MeridianX</i> • <i>Phoenix Power</i> • <i>Vantage</i> 	<ul style="list-style-type: none"> • <i>CIS Group</i> • <i>Comstech</i> • <i>e-MVI Group</i> • <i>eSakay</i> • <i>Finserve</i> • <i>LOIL</i> • <i>MIESCOR Group</i> • <i>MServ</i> • <i>Spectrum</i>

RESULTS OF OPERATIONS

The consolidated results of operations and the contribution of each business segment to *MERALCO Group's* revenues, costs and expenses, other income, and net income for the years ended December 31, 2022, 2021 and 2020 are summarized below.

For the Year Ended December 31, 2022				
		Inter-segment		
	Power	Other Services	Transactions	Consolidated
	<i>(Amounts in millions)</i>			
Revenues	₱413,950	₱17,012	(₱4,433)	₱426,529
Costs and expenses	397,152	13,667	(4,471)	406,348
Other income (expense) - net	15,103	(10)	(38)	15,055
Net income attributable to equity holders of the parent	26,060	2,528	(157)	28,431

For the Year Ended December 31, 2021				
		Inter-segment		
	Power	Other Services	Transactions	Consolidated
	<i>(Amounts in millions)</i>			
Revenues	₱309,238	₱15,250	(₱5,941)	₱318,547
Costs and expenses	282,921	9,971	(3,684)	289,208
Other income (expense) - net	3,836	(145)	(35)	3,656
Net income attributable to equity holders of the parent	22,395	1,688	(585)	23,498

For the Year Ended December 31, 2020				
		Inter-segment		
	Power	Other Services	Transactions	Consolidated
	<i>(Amounts in millions)</i>			
Revenues	₱267,946	₱10,382	(₱3,024)	₱275,304
Costs and expenses	249,319	8,048	(3,054)	254,313
Other income (expense) - net	2,004	(550)	(30)	1,424
Net income attributable to equity holders of the parent	15,059	1,090	167	16,316

2022 compared with 2021

REVENUES

The composition of *MERALCO Group's* consolidated revenues by business segment is shown below.

	2022		2021		Increase/Decrease	
	Amount	%	Amount	%	Amount	%
	<i>(Amounts in millions)</i>					
Power	₱413,950	97	₱309,238	97	₱104,712	34
Other services	17,012	4	15,250	5	1,762	12
Inter-segment transactions	(4,433)	(1)	(5,941)	(2)	1,508	(25)
Total	₱426,529	100	₱318,547	100	₱107,982	34

Consolidated revenues rose by 34% to ₱426,529 million from ₱318,547 million mainly due to (a) higher generation pass-through charges with persisting increases in global fuel prices, higher spot market prices, and peso depreciation; (b) higher *kWh* sales with the easing of pandemic-related restrictions; and (c) higher contribution of the power generation business driven by increases in volume and fuel prices and consolidation of full year revenue in 2022 versus nine (9) months in 2021 (consolidation of *GBPC* began on March 31, 2021).

Non-electric revenues, which accounted for 4% of consolidated total revenues, grew by 12% due to increase in business activities of subsidiaries following more relaxed quarantine restrictions and business expansion initiatives.

Power

Revenues from electricity distribution and *RES* consist of generation, transmission, system loss, distribution, subsidies and other charges related to electricity distribution and energy trading. *MERALCO* and *Clark Electric* distribute electricity to captive industrial, commercial and residential customers while *MPower*, *Cogent Energy*, *Vantage* and *MeridianX* supply electricity to their respective contestable customers. Beginning April 1, 2021, revenues of the power generation companies of *GBPC* are included in the power segment. *GBPC* owns coal and oil plants with a net capacity of 970 MW, of which 800 MW are contracted under *PSAs* with captive and contestable customers and Ancillary Services Procurement Agreements (“*ASPAs*”).

Revenues of the power segment in 2022 was at ₱413,950 million, ₱104,712 million or 34% higher compared with 2021.

MERALCO's average retail rate increased by 16% to ₱9.52 per *kWh* from ₱8.24 per *kWh* as generation charges, which accounted for about 66% of total retail rate, went up by 32%. Transmission charges, comprising 9% of the retail rate, increased by 19%.

The retail rate increase was mitigated by the ₱0.67 per *kWh* average refund of distribution over-recoveries, which was implemented by *MERALCO* following the refund orders of the *ERC* beginning March 2021. The average effective distribution rate charged to customers by *MERALCO* was at ₱0.85 per *kWh* for 2022.

MERALCO's 12-month moving average ("12-MMA") system loss at end-December improved by 0.08 percentage point to 5.77% from 5.85% indicative regulatory cap due to increasing share of commercial and industrial volume compared with higher residential volume in the previous year. In addition, system loss management initiatives also contributed to the lower SL rate. *Clark Electric's* 12-MMA system loss was at 1.81% as at December 31, 2022.

The following summarizes the customer count of the electricity distribution business as at December 31, 2022 and 2021 and the corresponding electric consumption per customer class for the years ended December 31, 2022 and 2021:

Customer Class	No. of Customers (in thousands)		Electricity Sales (in GWh)		% Change	
	2022	2021	2022	2021	No. of Customers	Electricity Sales
Residential	7,041	6,838	17,148	16,913	3	1
Commercial	569	554	17,403	15,234	3	14
Industrial	11	11	14,221	13,782	—	3
Streetlights	5	5	144	144	—	—
Total	7,626	7,408	48,916	46,073	3	6

Consolidated distribution utility energy sales volumes for the year ended December 31, 2022, rose to 48,916 GWh from 46,073 GWh in 2021 following the easing of pandemic-related restrictions and warmer temperatures.

In terms of the sales mix, residential sales accounted for 36%, commercial sales increased to 35% from 33% in 2021, while industrial sales was at 29% from 30% in 2021.

Demand of residential consumers continue to normalize with the resumption of travel and increasing face-to-face activities in offices, factories, service companies, schools and others. This resulted in residential volume growing by only 1% to 17,148 GWh from 16,913 GWh.

Commercial sales volumes grew to 17,403 GWh from 15,234 GWh amid the increase in economic activities. Demand in the real estate and education sectors posted growth as schools began face-to-face classes. Full operations of retail, restaurants, and hospitality sectors also contributed to the higher commercial sales volumes.

With the more relaxed restrictions, growth in industrial sales volumes was sustained, increasing to 14,221 GWh from 13,782 GWh. The contributors are Growth mainly came from the semiconductor, cement, food and beverage, plastics, and chemical packaging industries.

Meanwhile, consolidated customer count grew at steadily at 3% to 7.6 million by the end of December 2022 from 7.4 million in 2021. Energization of new customers for both ordinary service and project-covered applications recovered, as local government units and developers cleared backlogs and normalized operations.

Other Services

Non-electric revenues consist mainly of businesses generated from (i) foreign attachments to the MERALCO and *Clark Electric* poles; (ii) space rentals; and (iii) revenues of subsidiaries not engaged in the power business, which include businesses generated from third party customers by:

(a) *MIESCOR Group* from its engineering, procurement and construction (“EPC”) contracts, operations and maintenance works involving transmission and telecommunications lines, and *MIDC*’s leasing of its telecommunications towers; (b) *MServ* for the supply and installation of powerhouse, load side equipment, and energy efficiency services; (c) *CIS Group* handling payment collections for corporate and government billers, spot billing volumes, remittances and other fee-based transactions; (d) *Radius* with its data and internet services; and (e) *eSakay* with its sales of e-vehicles to electric vehicles expansion enterprises, Makati-Mandaluyong route operations, and e-shuttle services and (f) *MIDC* for leasing of communication towers..

Revenue of other services is higher this year compared with last year due to new *ECP* projects of *MIESCOR Group*, higher transactions volume of *Bayad*’s bills payment transactions and increase in business activities of subsidiaries following more relaxed quarantine restrictions.

COSTS AND EXPENSES

Consolidated costs and expenses for the year ended December 31, 2022, amounted to ₱406,348 million, higher by ₱117,140 million compared with ₱289,208 million in 2021. The following table shows the breakdown of consolidated costs and expenses by business segment:

	2022		2021		Increase	
	Amount	%	Amount	%	Amount	%
<i>(Amounts in millions)</i>						
Power	₱397,152	98	₱282,921	98	₱114,231	40
Other services	13,667	3	9,971	3	3,696	37
Inter-segment transactions	(4,471)	(1)	(3,684)	(1)	(787)	21
Total	₱406,348	100	₱289,208	100	₱117,140	41

Power

Costs and expenses of power segment for year ended December 31, 2022 amounted to ₱397,152 million, 40% higher compared with ₱282,921 million in 2021. The details of costs and expenses are summarized below:

	2022		2021		Increase/Decrease	
	Amount	%	Amount	%	Amount	%
<i>(Amounts in millions)</i>						
Purchased power	₱322,645	81	₱224,621	79	₱98,024	44
Coal and fuel	22,578	6	8,793	3	13,785	157
Depreciation and amortization	15,084	4	11,913	4	3,171	27
Salaries, wages and employee benefits	12,921	3	13,042	5	(121)	(1)
Contracted services	8,352	2	7,687	3	665	9
Others	15,572	4	16,865	6	(1,293)	(8)
Total	₱397,152	100	₱282,921	100	₱114,231	40

Purchased power accounted for 81% and 79% of the total costs and expenses for the years ended December 31, 2022 and 2021, respectively. A significant portion of the electricity distributed by *MERALCO* and *Clark Electric* are contracted through *PSAs* with generators and long-term Power

Purchase Agreements (“PPA”) with Independent Power Producers (“IPP”), with any uncontracted volume sourced from the Wholesale Electricity Spot Market (“WESM”).

Purchased power cost (“PPC”) increased by 44% to ₱322,645 million from ₱224,621 million with the spike in global fuel prices, as well as the increase in WESM prices with the tight supply conditions and higher average capacity on outage in Luzon. The average Malampaya natural gas price also increased to US\$10.18 per GJ in 2022 versus US\$7.50 per GJ the previous year. The Malampaya gas supply restrictions, which began in March 2021, forced the 1500 MW of gas capacities to use more expensive alternative fuel. The depreciation of the peso versus the US dollar to ₱55.76 at the end of December 2022 from ₱51.00 as at end of December 2021 added to the already higher PPC.

Coal and fuel are costs incurred by the power generation business, mainly GPBC and its subsidiaries. The coal and fuel costs in 2021 represent nine months beginning April 1, 2021 while the coal and fuel costs in 2022 represent the full year, with the consolidation of GBPC beginning March 31, 2021.

Depreciation and amortization increased to ₱15,084 million due to additional depreciation of completed capital expenditures (“CAPEX”) projects and full year depreciation of GBPC plant assets.

Other expenses consist of business taxes and permits, provision for probable losses and expenses from claims (net of reversals and adjustments), provision for expected credit losses, costs of materials, transportation, and other corporate expenses.

Other Services

Costs and expenses of other services business segment for the year ended December 31, 2022 amounted to ₱13,667 million, 37% higher compared with ₱9,971 million in 2021.

	2022		2021		Increase/Decrease	
	Amount	%	Amount	%	Amount	%
	<i>(Amounts in millions)</i>					
Salaries, wages and employee benefits	₱4,608	34	₱3,947	40	₱661	17
Contracted services	2,756	20	1,851	18	905	49
Depreciation and amortization	947	7	586	6	361	62
Others	5,356	39	3,587	36	1,769	49
Total	₱13,667	100	₱9,971	100	₱3,696	37

The increase in the cost and expenses of other business segment reflects the costs of increasing business activities for the year ended December 31, 2022 compared with 2021, consistent with the increase in revenues of other business segment. These costs pertain to (i) project costs of Miescor group and MServ, and (ii) major costs of Radius and Bayad.

OTHER INCOME (EXPENSES)

The following shows the breakdown of other income, net of expenses, by business segment:

	2022	2021	Increase/Decrease	
			Amount	%
	<i>(Amounts in millions)</i>			
Power	₱15,103	₱3,836	₱11,267	294
Other services	(10)	(145)	135	(93)
Intersegment transaction	(38)	(35)	(3)	9
Total	₱15,055	₱3,656	₱11,399	312

Other income, net of expenses for the year ended December 31, 2022 increased by ₱11,399 million mainly due to higher share in net earnings of associates and joint ventures and foreign exchange gains with the depreciation of Philippine peso against the U. S. dollar, offset by lower yield from financial investments and higher interest and other financial charges.

Power

Other income (expenses) of power segment consist of:

	2022	2021	Increase/Decrease	
			Amount	%
	<i>(Amounts in millions)</i>			
Interest and other financial income	₱1,942	₱2,144	(₱202)	(9)
Interest and other financial charges	(3,555)	(3,633)	78	(2)
Equity in net earnings of associates and joint ventures	12,053	3,161	8,892	281
Foreign exchange gains	982	451	531	118
Others	3,681	1,713	1,968	115
Total	₱15,103	₱3,836	₱11,267	294

The higher share in net earnings of associates and joint ventures was attributed to the net income contribution of *SBPL* and *PacificLight Power*. *PacificLight Power*'s operations in 2022 resulted in total equity in net earnings of ₱12.1 billion compared with ₱2.2 billion last year. The increase in the results of operations of *PacificLight Power* was attributable to the higher margins generated from the spot market and 2% growth in demand.

Interest and other financial income include dividend income from associates and joint venture. The lower yield was mainly due to lesser investible funds resulted in lower financial income. Dividends declared by investees were also lower in 2022. The decline in this account was due to lower dividend declared by associates this year and lower yield from investments.

Interest and other financial charges decreased by ₱78 million with the capitalization of interest totaling ₱398 in 2022 related to construction of *ECPs* during the year.

The depreciation of Philippine peso versus the U.S. dollar resulted in higher foreign exchange gains in 2022 compared with 2021. The exchange rate of U.S. dollar is ₱55.76 as at December 31, 2022 compared with ₱51.00 as at December 31, 2021.

NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The following shows the breakdown of net income attributable to equity holders of the parent for the years ended December 31, 2022 and 2021 by business segment:

	2022		2021		Increase/Decrease	
	Amount	%	Amount	%	Amount	%
<i>(Amounts in millions)</i>						
Power	₱26,060	92	₱22,395	95	₱3,665	16
Other services	2,528	9	1,688	7	840	50
Inter-segment transactions	(157)	(1)	(585)	(2)	428	(73)
Total	₱28,431	100	₱23,498	100	₱4,933	21

The higher net income attributable to equity holders of the parent is largely due to significant increase in contribution of power generation companies. A total of ₱8.9 billion net income contribution was provided by *PacificLight Power*, *SBPL* and *First Bulacan* in 2022 versus ₱2.8 billion in 2021.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31, 2022	December 31, 2021	Increase (Decrease)	
		(As restated)*	Amount	%
<i>(Amounts in millions)</i>				
ASSETS				
Noncurrent Assets				
Utility plant, generation plant and others	₱243,323	₱225,326	₱17,997	8
Investments in associates and interests in joint ventures	31,888	23,317	8,571	37
Investment properties	1,495	1,496	(1)	—
Intangible assets	21,691	15,054	6,637	44
Deferred tax assets - net	22,657	27,143	(4,486)	(17)
Financial and other noncurrent assets	43,920	53,125	(9,205)	(17)
Total Noncurrent Assets	364,974	345,461	19,513	6

	December 31, 2022	December 31, 2021 (As restated)*	Increase (Decrease)	
			Amount	%
<i>(Amounts in millions)</i>				
Current Assets				
Cash and cash equivalents	55,832	55,007	825	1
Trade and other receivables	54,683	45,013	9,670	21
Inventories	10,629	9,817	812	8
Financial and other current assets	33,143	28,317	4,826	17
Total Current Assets	154,287	138,154	16,133	12
Total Assets	P519,261	P483,615	P35,646	7
EQUITY AND LIABILITIES				
Equity attributable to equity holders of the parent	P109,664	P95,204	P14,460	15
Non-controlling interests	14,445	10,124	4,321	43
Total Equity	124,109	105,328	18,781	18
LIABILITIES				
Noncurrent Liabilities				
Interest-bearing long-term financial liabilities - net of current portion	68,757	52,720	16,037	30
Customers' deposits - net of current portion	31,590	30,901	689	2
Long-term employee benefits	2,893	10,257	(7,364)	(72)
Provisions	12,657	13,554	(897)	(7)
Refundable service extension costs - net of current portion	4,653	5,334	(681)	(13)
Deferred tax liabilities - net	5,427	5,959	(532)	(9)
Other noncurrent liabilities	63,450	97,981	(34,531)	(35)
Total Noncurrent Liabilities	189,427	216,706	(27,279)	(13)
Current Liabilities				
Notes payable	29,491	28,834	657	2
Trade payables and other current liabilities	163,902	119,067	44,835	38
Customers' refund	2,905	2,929	(24)	(1)
Income tax payable	92	1,637	(1,545)	(94)
Current portion of long-term employee benefits	3,750	—	3,750	—
Current portion of interest-bearing long-term financial liabilities	5,585	9,114	(3,529)	(39)
Total Current Liabilities	205,725	161,581	44,144	27
Total Liabilities	395,152	378,287	16,865	4
Total Liabilities and Equity	P519,261	P483,615	P35,646	7

* The 2021 comparative information was restated to reflect the adjustments to the provisional amounts of the fair values of the assets and liabilities of GBPC as at the date of acquisition. Please refer to Note 3 of the consolidated financial statements.

Utility Plant, Generation Plant and Others

The ₱17,997 million increase in utility plant, generation plant and others reflects the completed and on-going construction of electric distribution-related facilities, and upgrade and major rehabilitation of existing electrical facilities and IT related assets, most of which represents regulated capital expenditures by *ERC*'s definition, development of power plant projects and acquisition of tower assets, totaling to about ₱35,886 million. This was offset by the depreciation and amortization of ₱14,117 million, impairment loss of ₱2,943 million and retirement/disposals of assets with net book value of ₱1,191 million in 2022.

Investments in Associates and Interests in Joint Ventures

For the year ended December 31, 2022, *MERALCO* recognized equity in net earnings of ₱12,035 million and dividends declared by investees of ₱4,039 million.

Intangible Assets

Intangible assets consist mainly of purchase price in excess of allocated fair value related to the acquisitions of (i) *GBPC*'s business in 2021, and (ii) telecommunication towers and related passive infrastructure of Globe Telecomm, Inc. in 2022. The total amount of intangibles attributable to the tower acquisition is ₱7,719 million.

Financial and Other Noncurrent Assets

The decrease was due to the redemption of certain *FVOCI* financial assets, offset by recognition of under recoveries of pass-through charges resulting from increasing generation and transmission charges during the year.

Trade and Other Receivables

The increase in trade and other receivables balance was mainly driven by higher *kWh* sales and average retail rate per *kWh* of ₱9.52 in December 2022 compared with that in December 2021 of ₱8.24.

Financial and Other Current Assets

The increase in this account represents proceeds from the redemption of *FVOCI* assets which were invested in short-term placements.

Interest-bearing long-term financial liabilities

The increase in this account represents loan availments amounting to ₱32,507 million to fund the tower acquisition by *MIDC* and an additional ₱10 billion loan availed by *MERALCO*, offset by settlement amounting to ₱18,679 million in 2022.

Long-term employee benefits

The decrease in this account represents actuarial gains recognized arising from change in financial assumptions (higher discount rate) used in the actuarial valuation report in 2022, partially offset by the accruals of long-term employee benefits recognized during the year.

Other Noncurrent Liabilities

Other noncurrent liabilities pertain to liabilities for customer-funded assets, generation and transmission charge over recoveries resulting from the lag in the billings and recovery from customers, and estimated liabilities for regulatory and tax matters, among others.

Trade Payables and Other Current Liabilities

The increase in trade payables and other current liabilities was driven by higher purchased power costs in December 2022 compared with December 2021.

2021 compared with 2020

REVENUES

The following shows the composition of *MERALCO Group's* consolidated revenues by business segment.

	2021		2020		Increase/Decrease	
	Amount	%	Amount	%	Amount	%
	<i>(Amounts in millions)</i>					
Power	₱309,238	97	₱267,946	97	₱41,292	15
Other services	15,250	5	10,382	4	4,868	47
Inter-segment transactions	(5,941)	(2)	(3,024)	(1)	(2,917)	96
Total	₱318,547	100	₱275,304	100	₱43,243	16

The power segment in 2021 includes power generation revenues of ₱23,203 million for the nine months ended December 31, 2021 with the conclusion of *MERALCO's* acquisition of the 86% equity interest in *GBPC* on March 31, 2021. In 2020, the power segment included revenues from electricity distribution and *RES*. The combined revenues from electricity distribution and *RES* in 2021 increased by 7% from 2020 driven by higher energy sales volume, returning to near pre-pandemic level.

Non-electric revenues, which accounted for 5% of consolidated total revenues, grew by 47% due to increase in business activities of subsidiaries following more relaxed quarantine restrictions and business expansion initiatives.

Power

Revenues from electricity distribution and *RES* consist of generation, transmission, system loss, distribution, subsidies and other charges related to electricity distribution and energy trading. *MERALCO* and *Clark Electric* distribute electricity to captive industrial, commercial and residential customers while *MPower*, *Cogent Energy*, and *Vantage* supply electricity to their respective contestable customers. Beginning April 1, 2021, revenues of the power generation companies of *GBPC* are included in the power segment. *GBPC* owns coal and oil plants with a net capacity of 970 MW, of which 800 MW are contracted under *PSAs* with captive and contestable customers and Ancillary Services Procurement Agreements ("*ASPAs*").

Revenues generated by the power segment in 2021 was at ₱309,238 million, ₱41,292 million or 15% higher compared with 2020 mainly with: (a) recognition of ₱23,203 million power generation revenues, and (2) the higher energy sales volumes from electricity distribution and *RES*.

In 2021, *MERALCO's* average retail rate increased slightly by 4% to ₱8.24 per kWh from ₱7.96 per kWh due to higher pass-through charges. Generation and transmission charges, which accounted for 67% of the total retail price, went up by 7%. Feed-in-Tariff Allowance ("*FIT-All*") increased by 77% with the implementation of a higher *FIT-All* rate of ₱0.0983 per kWh starting

January 2021 from ₱0.0495 per kWh. Meanwhile, subsidies, taxes and other charges, which accounted for 14% of the retail price, were stable over the 12-month period.

MERALCO's 12-month moving average system loss ("SL") rate was at 5.64% as at December 31, 2021, higher than that as of December 31, 2020 mainly due to the shift in customer mix to residential customers which have higher technical losses as power is served at the secondary voltage level. Clark Electric's 12-month moving average SL rate was at 2.16%, 0.03 percentage point higher than last year.

The following summarizes the customer count of the electricity distribution business as at December 31, 2021 and 2020 and the corresponding electric consumption per customer class for the years ended December 31, 2021 and 2020:

Customer Class	No. of Customers (in thousands)		Electricity Sales (in GWh)		% Change	
	2021	2020	2021	2020	No. of Customers	Electricity Sales
Residential	6,838	6,575	16,913	16,488	4	3
Commercial	554	541	15,234	14,766	3	3
Industrial	11	11	13,782	12,176	—	13
Streetlights	5	5	144	142	—	2
Total	7,408	7,132	46,073	43,572	4	6

Consolidated electricity distributed volumes rose 6% to 46,073 GWh from 43,572 GWh in 2020 driven by sustained residential consumption, ramp-up in commercial volumes amid more relaxed quarantine restrictions, and strong industrial rebound within the franchise areas. Energy sales volumes from MERALCO and Clark Electric increased by 6% and 10%, respectively.

In terms of the sales mix, residential sales accounted for 37%, while commercial and industrial sales accounted for 33% and 30%, respectively.

Continued work-from-home and remote learning set-ups amid granular lockdowns pushed residential sales volume to grow 3% to 16,913 GWh from 16,488 GWh year-on-year, despite the slowdown in the second half of 2021 due to the coolest temperatures recorded in the last five (5) years, as well as increased mobility of vaccinated individuals.

Commercial sales volumes grew by 3% to 15,234 GWh in 2021 from 14,766 GWh, owing to the ramp-up of vaccination activities which resulted in easing of quarantine restrictions and relaxation of rules on mobility of minors. The increased foot traffic drove demand in the retail, restaurants, public transport, and hospitality sectors.

Industrial sales volumes returned to near pre-pandemic level, registering the highest increase of 13% to 13,782 GWh from 12,176 GWh, backed by the strong performance of the semiconductor industry with the growing demand for microchips, electronic parts, and devices, as well as higher operational output in the construction-related (cement and steel), food and beverage, and plastics industries.

Consolidated customer count increased 4% to 7.4 million at end-December from 7.1 million in 2020, as energization of new customers for both ordinary service and project-covered applications hit an all-time high, exceeding 2019 and 2020 levels.

The combined volumes of the *RES* business segment increased by 12% with the easing of restrictions and increased business activities.

Other Services

Non-electric revenues consist mainly of businesses generated by (i) foreign attachments to the *MERALCO* and *Clark Electric* poles; (ii) space rental; and (iii) revenues of subsidiaries, which include (a) *MIESCOR Group* from its engineering, procurement and construction (“*EPC*”), and operations and maintenance works involving various substations and transmission/telecommunications lines; (b) *MServ* for the supply and installation of powerhouse, load side and substation equipment, and energy efficiency services; (c) *CIS Group* handling payment collections for corporate and government billers, spot billing volumes, remittances and other fee-based transactions, (d) *Radius* with its data and internet services and (e) *eSakay* with its sales of e-vehicles to electric vehicles expansion enterprises, Makati-Mandaluyong route operations, and e-shuttle services.

Pole rental revenues were higher compared with last year resulting from increase in annual pole rental rates.

Revenues of *Bayad* increased in 2021 due to higher volume of bills payment transactions handled, load top-up and remittances. *Bayad* also added 81 new billers, bringing its total number of serviced billers to 438 as of end-December. Launched in January 2021, the *Bayad* App recorded over 120,000 downloads and executed ₱39.2 billion in bills payment transactions during the year. Meanwhile, *Bayad* Online recorded 42,206 registered users since its commercial launch in December 2020.

Radius booked ₱1.5 billion revenues in 2021 versus ₱1.4 billion the previous year. With the establishment of its capability to manage end-to-end broadband operations, *Radius*’ RED Fiber ended 2021 with 17,442 subscribers in Metro Manila, Bulacan, Cavite Laguna, Cebu and Clark in Pampanga.

COSTS AND EXPENSES

Consolidated costs and expenses for the year ended December 31, 2021 amounted to ₱289,208 million, higher by ₱34,895 million compared with ₱254,313 million in 2020. The following shows the breakdown of consolidated costs and expenses by business segment:

	2021		2020		Increase	
	Amount	%	Amount	%	Amount	%
	<i>(Amounts in millions)</i>					
Power	₱282,921	98	₱249,319	98	₱33,602	13
Other services	9,971	3	8,048	3	1,923	24
Inter-segment transactions	(3,684)	(1)	(3,054)	(1)	(630)	21
Total	₱289,208	100	₱254,313	100	₱34,895	14

Power

Costs and expenses of power segment for the year ended December 31, 2021 amounted to ₱282,921 million, 13% higher compared with ₱249,319 million in 2020. The details of costs and expenses are summarized below:

	2021		2020		Increase/Decrease	
	Amount	%	Amount	%	Amount	%
	<i>(Amounts in millions)</i>					
Purchased power	₱224,621	79	₱204,421	82	₱20,200	10
Salaries, wages and employee benefits	13,042	5	9,835	4	3,207	33
Depreciation and amortization	11,913	4	8,003	3	3,910	49
Coal and fuel	8,793	3	—	—	8,793	—
Contracted services	7,687	3	6,626	3	1,061	16
Others	16,865	6	20,434	8	(3,568)	(17)
Total	₱282,921	100	₱249,319	100	₱33,603	13

Purchased power accounted for 79% and 82% of the total costs and expenses for the years ended December 31, 2021 and 2020, respectively. All of the electricity distributed by *MERALCO* and *Clark Electric* are mostly contracted through *PSAs* with generators and long-term Power Purchase Agreements (“*PPA*”) with Independent Power Producers (“*IPP*”), with any uncontracted volume sourced from the Wholesale Electricity Spot Market (“*WESM*”).

Purchased power costs increased 10% to ₱224.6 billion from ₱204.4 billion due to overall higher cost of power with the unprecedented spike in global fuel prices. Prices from the *WESM* also increased due to tight supply conditions as demand continues to improve, while average capacity of 3,373 *MW* in Luzon went on outage versus 2,629 *MW* in 2020. Also contributing to the higher purchased power costs were the Malampaya gas supply restrictions that began in March 2021, and the maintenance shutdown in October 2021. Average Malampaya natural gas price was at \$7.50/GJ in 2021 versus \$6.65/GJ the previous year.

Salaries, wages and employee benefits expense is higher by 33% as a result of annual merit increase and higher employee retirement benefits expense driven by adjustment in discount rate assumption used in the actuarial computation. Also, salaries, wages and employee benefits expense in 2021 included that of *GBPC* of ₱1,570 million for the nine (9)-months period beginning April 1, 2021.

The increase in depreciation and amortization of ₱3,910 million pertains mainly to: (a) depreciation and amortization expense of *GBPC*'s property, plant and equipment amounting to ₱3,139 million in 2021 and (b) depreciation of emergency capital expenditures (“*CAPEX*”) of *MERALCO* to address its customer and load growth requirements, improve service efficiency and customer experience, ensure network resiliency and hardening, and meet information technology (“*IT*”), security and safety requirements.

Contracted services amounted to ₱7,687 million, higher by ₱1,061 million compared with 2020. Contracted services include information system/*IT* services, cloud subscriptions, and customer-related expenses such as billings and collections, meter reading, and messengerial services. The increase was driven by the resumption of disconnecting services for customers with overdue

accounts in 2021 resulting in higher collection and messengerial services. There was also an increase in maintenance activities for the distribution facilities amid easing quarantine restrictions.

Coal and fuel expenses pertain to costs incurred by the power generation companies for the nine months ended December 31, 2021, with the consolidation of *GBPC* beginning April 1, 2021. Other cost and expense items of *GBPC* beginning April 1, 2021 are included in the consolidated costs and expenses for the year ended December 31, 2021.

Other expenses consist of business taxes and permits, provision for probable losses and expenses from claims (net of reversals and adjustments), provision for expected credit losses, costs of materials, transportation, and other corporate expenses.

Other Services

Costs and expenses of other services business segment for the year ended December 31, 2021 amounted to ₱9,970 million, 24% higher compared with ₱8,048 million in 2020.

	2021		2020		Increase/Decrease	
	Amount	%	Amount	%	Amount	%
	<i>(Amounts in millions)</i>					
Salaries, wages and employee benefits	₱3,947	40	₱3,333	41	₱614	18
Contracted services	1,851	19	1,807	23	44	2
Depreciation and amortization	586	6	552	7	34	6
Others	3,587	36	2,356	29	1,231	52
Total	₱9,971	100	₱8,048	100	₱1,923	24

Salaries, wages and employee benefits expense is higher by ₱614 million with additional personnel requirements in *MIESCOR* and *Radius* for their new businesses/projects.

The increase in other expenses was driven by the subsidiaries' digital transformation projects and business expansion initiatives.

OTHER INCOME (EXPENSES)

The following shows the breakdown of other income, net of expenses, by business segment:

	2021	2020	Increase/Decrease	
			Amount	%
	<i>(Amounts in millions)</i>			
Power	₱3,836	₱2,004	₱1,832	91
Other services	(145)	(550)	405	74
Intersegment transaction	(35)	(30)	(5)	(17)
Total	₱3,656	₱1,424	₱2,232	157

Other income, net of expenses for the year ended December 31, 2021 increased by ₱2,232 million mainly due to higher share in the net earnings of associates and joint ventures and foreign exchange gain recorded with the depreciation of Philippine peso against the U. S. dollar in 2021, offset by lower

yield from investments and higher interest and other financial charges.

Power

Breakdown of other income (expenses) of power segment is as follows:

	2021	2020	Increase/Decrease	
			Amount	%
	<i>(Amounts in millions)</i>			
Interest and other financial income	₱2,144	₱2,281	(₱137)	(6)
Interest and other financial charges	(3,633)	(1,491)	(2,142)	144
Equity in net earnings of associates and joint ventures	3,161	1,276	1,885	148
Foreign exchange gains (losses)	451	(797)	1,248	(157)
Others	1,713	735	978	133
Total	₱3,836	₱2,004	₱1,832	91

Interest and other financial income declined by ₱137 million in 2021 with lower interest rates on peso and dollar placements during the year.

Interest and other financial charges increased by ₱2,142 million due to additional loans obtained in 2021 to fund the acquisition of *GBPC*, and consolidation of *GBPC* and subsidiaries' interest expense beginning April 1, 2021.

The higher equity in net earnings of associates and joint ventures was attributed to the net income contribution of *SBPL* and *PacificLight Power*. *SBPL*'s 455-MW (net) supercritical coal-fired plant delivered 3,234 GWh of energy in 2021 with an average plant availability of 89%, even with the 37 days of combined outage in March and December 2021. *PacificLight Power*'s 771-MW (net) liquefied natural gas facility in Jurong Island, Singapore delivered a total of 5,459 GWh of energy in 2021, an 11% increase from 2020.

The year ended December 31, 2021 resulted in foreign exchange gains with the depreciation of Philippine peso against the U.S. dollar. The exchange rate of U.S. dollar is ₱51.00 as at December 31, 2021 compared with ₱48.02 as at December 31, 2020.

NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The following shows the breakdown of net income attributable to equity holders of the parent for the years ended December 31, 2021 and 2020 by business segment:

	2021		2020		Increase/Decrease	
	Amount	%	Amount	%	Amount	%
	<i>(Amounts in millions)</i>					
Power	₱22,395	95	₱15,059	92	₱7,336	49
Other services	1,688	7	1,090	7	598	55
Inter-segment transactions	(585)	(2)	167	1	(752)	(450)
Total	₱23,498	100	₱16,316	100	₱7,182	44

Net income attributable to equity holders of the parent increased by ₱7,182 million compared with 2020 with higher kWh sales and increased equity in net earnings of associates and joint ventures, mainly from *SBPL* and *PacificLight Power*. The net income attributable to equity holders of the parent in 2020 included impairment loss recognized on *MERALCO* Group's advances to FPM Power Holdings Limited ("*FPM Power*") amounting to ₱2.7 billion.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31, 2021	December 31, 2020	Increase (Decrease)	
			Amount	%
	<i>(Amounts in millions)</i>			
ASSETS				
Noncurrent Assets				
Utility plant, generation plant and others	₱225,326	₱163,009	₱62,317	38
Investments in associates and interests in joint ventures	23,317	15,688	7,629	49
Investment properties	1,496	1,499	(3)	—
Deferred tax assets - net	27,143	28,943	(1,800)	(6)
Intangible assets	15,054	2,233	12,821	574
Financial and other noncurrent assets	53,125	50,513	2,612	5
Total Noncurrent Assets	345,461	261,885	83,576	32
Current Assets				
Cash and cash equivalents	55,007	50,912	4,095	8
Trade and other receivables	45,013	58,120	(13,107)	(23)
Inventories	9,817	5,484	4,333	79
Financial and other current assets	28,317	13,866	14,451	104
Total Current Assets	138,154	128,382	9,772	8
Total Assets	₱483,615	₱390,267	₱93,348	24

	December 31, 2021	December 31, 2020	Increase (Decrease)	
			Amount	%
<i>(Amounts in millions)</i>				
EQUITY AND LIABILITIES				
Equity attributable to equity holders of the parent	₱95,204	₱79,237	₱15,967	20
Non-controlling interests	10,124	1,494	8,630	578
Total Equity	105,328	80,731	24,597	30
LIABILITIES				
Noncurrent Liabilities				
Interest-bearing long-term financial liabilities - net of current portion	52,720	14,809	37,911	256
Customers' deposits - net of current portion	30,901	29,844	1,057	4
Long-term employee benefits	10,257	15,327	(5,070)	(33)
Provisions	13,554	17,065	(3,511)	(21)
Refundable service extension costs - net of current portion	5,334	6,632	(1,298)	(20)
Deferred tax liabilities - net	5,959	316	5,643	1,786
Other noncurrent liabilities	97,981	82,942	15,039	18
Total Noncurrent Liabilities	216,706	166,935	49,771	30
Current Liabilities				
Notes payable	28,834	23,373	5,461	23
Trade payables and other current liabilities	119,067	111,261	7,806	7
Customers' refund	2,929	2,949	(20)	(1)
Income tax payable	1,637	3,056	(1,419)	(46)
Current portion of interest-bearing long-term financial liabilities	9,114	1,962	7,152	365
Total Current Liabilities	161,581	142,601	18,980	13
Total Liabilities	378,287	309,536	68,751	22
Total Liabilities and Equity	₱483,615	₱390,267	₱93,348	24

On March 31, 2021, *MGen* acquired an additional 86% equity in *GBPC*, increasing *MGen's* equity interest in *GBPC* to 100%. As such, *MERALCO's* consolidated statement of financial position as at December 31, 2021 included the assets and liabilities of *GBPC*. Prior to acquisition, *MERALCO* accounted for its 14% investment in *GBPC* using equity method of accounting.

Utility Plant and Others

The ₱62,317 million increase in utility plant and others reflects the consolidation of GBPC's net property, plant and equipment amounting to ₱46,765 million as at March 2022, and the completed and on-going construction of electric distribution-related facilities, and upgrade and major rehabilitation of existing electrical facilities and IT related assets, most of which represents regulated capital expenditures by ERC's definition, totaling to about ₱26,559 million, net of depreciation and amortization of ₱10,846 million for the year.

Investments in Associates and Interests in Joint Ventures

The increase in this account was due to the combined effects of (a) additional investments in associates and joint ventures amounting to ₱992 million, (b) equity in net earnings amounting to ₱3,127 million, and (c) recognition of investments in ATEC of ₱10,447 million as a result of the consolidation of GBPC. The increase was offset by the reduction in the investment amounting to ₱5,192 million as a result of the consolidation of GBPC. Prior to March 31, 2021, MERALCO accounted for its 14% investment in GBPC using equity method of accounting.

Deferred Tax Assets

On March 26, 2021, the CREATE bill (Republic Act No. 11534) was signed into law which included provision on the reduction of corporate income tax rate to 25% from 30% effective July 1, 2020. The reduction of corporate income tax rate resulted in lower deferred tax assets as at December 31, 2021 compared with December 31, 2020.

Intangible Assets

Intangible assets from the acquisition of GBPC based on provisional purchase price allocation, accounted for ₱13,500 million, of the total of ₱15,054 million as of December 31, 2021.

Financial and Other Noncurrent Assets

The increase in this account is mainly attributed to the additional under recoveries of pass through charges resulting from increasing generation and transmission charges charge during the year.

Trade and Other Receivables

In January 2021, MERALCO resumed disconnection of services of customers with overdue accounts. This resulted in increased collections from customers as at December 31, 2021.

Inventories

Inventories as at December 31, 2021 included coal and spares inventories of GBPC amounting to ₱3,463 million.

Financial and Other Current Assets

The increase in this account was due to additional investments in debt securities at amortized cost made during the year.

Interest-bearing long-term financial liabilities

Interest-bearing long-term financial liabilities as at December 31, 2021 included the liabilities of GBPC totaling ₱44,388.

Long-term employee benefits

The decrease in this account is mainly due to the actuarial gains recognized in 2021 as a result of higher discount rate used in the actuarial valuation. Such actuarial gains reduced the retirement benefits liability. The actuarial gains were recorded as Other Comprehensive Income under equity account in the consolidated statement of financial position. This was offset partially by additional liabilities for employee long-term benefits expense recognized during the year and the consolidation of GBPC's long-term employee benefits amounting to ₱566 million.

Provisions

The decrease in provisions represents the net settlement, reversals and adjustments made during the year.

Other Noncurrent Liabilities

Other noncurrent liabilities pertain to liabilities to customers equivalent to the value of customer-funded assets, generation and transmission charge over recoveries resulting from the lag in the billings and recovery from customers, and estimated liabilities for regulatory and tax matters, among others. The increase in this account was due to additional obligations recognized during the year.

Notes Payable

On March 31, 2021, additional loan was availed to fund the first installment of the GBPC purchase price.

Trade Payables and Other Current Liabilities

Trade payables and other current liabilities as at December 31, 2021 included GBPC's trade payables and other current liabilities amounting to ₱4,551 million. The higher purchased power costs also contributed to the increased trade payables balance as at December 31, 2021.

2020 compared with 2019

REVENUES

The following shows the composition of *MERALCO Group's* consolidated revenues for the years ended December 31, 2020 and 2019 by business segment.

	2020		2019		Increase/Decrease	
	Amount	%	Amount	%	Amount	%
	<i>(Amounts in millions)</i>					
Power	₱267,946	97	₱310,098	97	(₱42,152)	(14)
Other services	10,382	4	11,299	4	(917)	(8)
Inter-segment transactions	(3,024)	(1)	(3,082)	(1)	58	(2)
Total	₱275,304	100	₱318,315	100	(₱43,011)	(14)

Consolidated electric revenues, which accounted for 97% of total revenues in 2020, decreased by 14% due to (i) lower sales volume as the pandemic limited the economic activities across and outside the franchise area and (ii) lower overall average retail rate in 2020 compared with 2019 with the lower average generation rate.

Non-electric revenues, which accounted for 4% of consolidated revenues in 2020, consist largely of revenues from non-electric subsidiaries. The limited economic activities due to the pandemic likewise affected operations of all the subsidiaries.

Power

Revenues from the power segment consist of generation, transmission, distribution, subsidies and other charges related to electricity distribution and energy trading. *MERALCO* and *Clark Electric* distribute electricity to industrial, commercial and residential customers while *MPower*, *Cogent Energy*, and *Vantage* supply electricity to their respective contestable customers.

Gross revenues for the year ended December 31, 2020 amounted to ₱267,946 million, 14% lower than 2019 as (i) *kWh* sales volume decreased by 7% from 46,871 *GWh* to 43,572 *GWh* and (ii) overall average retail rate declined from ₱8.87 per *kWh* in 2019 to ₱7.96 per *kWh* in 2020. The decrease in overall average retail rate is mainly attributed to lower generation rate with the implementation of new *PSAs*, decline in *WESM* prices, lower fuel cost and peso appreciation.

MERALCO's distribution charge per *kWh* remains unchanged with aggregate distribution revenues in 2020 lower by 8% at ₱60.6 billion compared with 2019.

MERALCO's 12-month moving average system loss ("SL") rate was at 6.08% as at December 31, 2020, higher than that of 2019 mainly due to the shift in customer mix to residential customers which have higher technical losses as power is served at the secondary voltage level. However, the SL rate is still 1.17 percentage points below the revised SL regulatory cap of 7.25% promulgated under Resolution 20, Series of 2017 of the *ERC*. *Clark Electric*'s 12-month moving average SL rate was at 2.10%, 5.15 percentage points below the regulatory cap and 0.05 percentage point lower than last year.

By the end of 2020, the combined volumes sold by *Meralco*'s several *RES* units were lower by 3%. The lower *WESM* prices brought about by reduced system demand limited trading opportunities. However, there were occasions which saw stability against plant outages and reduced delivery charges in the wholesale market.

The following summarizes the customer count as at December 31, 2020 and 2019 and the corresponding electric consumption per customer class for the years ended December 31, 2020 and 2019:

Customer Class	No. of Customers (in thousands)		Electricity Sales (in GWh)		% Change	
	2020	2019	2020	2019	No. of Customers	Electricity Sales
Residential	6,575	6,339	16,488	14,589	4	13
Commercial	541	528	14,766	18,483	2	(20)
Industrial	11	11	12,176	13,659	—	(11)
Streetlights	5	5	142	140	—	1
Total	7,132	6,883	43,572	46,871	4	(7)

Consolidated energy sales volumes, which include volumes distributed by *Clark Electric* of 505 *GWh* were at 43,572 *GWh*, 7% lower compared with 2019 volume. With the easing of community quarantine restrictions beginning May 2020, certain commercial and industrial establishments slowly

resumed operations. By the end of 2020, residential volumes accounted for 38%, commercial at 34% and industrial at 28% of the total, significantly different from the pre-pandemic share of 30%, 40% and 30%, respectively.

Sales volumes increased for residential sector as the lockdown and quarantine restrictions necessitated work-from-home (“WFH”) arrangements, online distance learning (“ODL”) and limited mobility. Residential volume peaked at 1,847 GWh in June 2020.

Commercial volumes dropped by 20% in 2020 compared with 2019 with hotels and retail trade operations, the hardest hit as foot traffic to these establishments drastically declined. The average decline in sales volume of the major malls within the franchise area was 34%.

Industrial volumes inched up gradually by the end of 2020 as manufacturers started to operate. In December 2020, the volume was at 1,127 kWh, showing signs of recovery from an all-time low volume of 655 GWh in April 2020. The semiconductor and non-metallic industries provided the increase to the volumes and took the share in sales from the food and beverage, and packaging industries.

MERALCO’s customer base grew 4% ending the year with a total of 7.1 million customer accounts, for a net 249,000 new customer accounts and a five (5)-year compound annual growth rate (“CAGR”) of 4%.

Other Services

Non-electric revenues consist mainly of businesses generated by (i) foreign attachments to the MERALCO and Clark Electric poles; (ii) space rental; and (iii) revenues from subsidiaries, which include (a) MIESCOR Group from its engineering, procurement and construction (“EPC”), and operations and maintenance works for various substations and transmission/telecommunications lines, which would have generated higher revenues, save for the delayed award of certain projects; (b) MServ for the supply and installation of powerhouse, loadside and substation equipment, and energy efficiency services; (c) CIS Group handling payment collections for corporate and government billers, spot billing volumes, remittances and other fee-based transactions; (d) Radius with higher recurring revenues as a result of an expanding customer base and high service reliability; and (e) eSakay with its sales of e-vehicles to electric vehicles expansion enterprises, Makati-Mandaluyong route operations, and e-shuttle services.

COSTS AND EXPENSES

Consolidated costs and expenses for the year ended December 31, 2020 amounted to ₱254,313 million, lower by ₱32,763 million compared with ₱287,076 million in 2019. The following shows the breakdown of consolidated costs and expenses for the years ended December 31, 2020 and 2019 by business segment:

	2020		2019		Increase	
	Amount	%	Amount	%	Amount	%
	<i>(Amounts in millions)</i>					
Power	₱249,319	98	₱281,004	98	(₱31,685)	(11)
Other services	8,048	3	9,233	3	(1,185)	(13)
Inter-segment transactions	(3,054)	(1)	(3,161)	(1)	107	(3)
Total	₱254,313	100	₱287,076	100	(₱32,763)	(11)

Power

The details of costs and expenses are summarized below:

	2020		2019		Increase/Decrease	
	Amount	%	Amount	%	Amount	%
	<i>(Amounts in millions)</i>					
Purchased power	₱204,421	82	₱241,032	86	(₱36,611)	(15)
Salaries, wages and employee benefits	9,835	4	10,679	4	(844)	(8)
Depreciation and amortization	8,003	3	8,181	3	(178)	(2)
Contracted services	6,626	3	6,619	2	7	—
Others	20,434	8	14,493	5	5,941	41
Total	₱249,319	100	₱281,004	100	(₱31,685)	(11)

Purchased power accounted for 82% of the total costs and expenses for the year ended December 31, 2020. The electricity distributed by MERALCO and Clark Electric were substantially contracted through PSAs with generators and long-term Power Purchase Agreements (“PPA”) with IPPs. Any unsourced volume through the PSAs and PPAs is purchased from the WESM.

Purchased power costs were at ₱204,421 million, 15% lower than 2019 mainly as a result of the lower generation costs (₱4.19 per kWh in 2020 versus ₱4.97 per kWh in 2019), due to the implementation of new PSAs, decrease in prices in the WESM on account of the reduction in the Luzon demand, lower fuel prices, peso appreciation and force majeure claims invoked by MERALCO against its power suppliers.

Salaries, wages and employee benefits expense is lower by 8% due to lower employee incentives and lesser overtime incurred with work from home arrangement of employees since March 2020.

Contracted services include information system/IT services, cloud subscriptions, and customer-related expenses such as billings and collections, meter reading, and messengerial services. The increase in contracted services is due to the convenience fees by third party payments shouldered by MERALCO and increase in call center seats to handle customer concerns during the pandemic. This

was offset by lower disconnection/reconnection services with the suspension of service disconnection through December 31, 2020.

Other expenses consist of business taxes and permits, provision for probable losses and expenses from claims, provision for expected credit losses, costs of materials, transportation, and other corporate expenses. The higher provision for expected credit losses were driven by uncollected receivables as *DUs* were directed to extend payment terms and suspend disconnection of services.

Other Services

Costs and expenses of other services business segment for the year ended December 31, 2020 amounted to ₱8,048 million, 13% lower compared with ₱9,233 million in 2019.

	2020		2019		Increase/Decrease	
	Amount	%	Amount	%	Amount	%
	<i>(Amounts in millions)</i>					
Salaries, wages and employee benefits	₱3,333	41	₱3,534	38	(₱201)	(6)
Contracted services	1,807	23	1,937	21	(130)	(7)
Depreciation and amortization	552	7	549	6	3	1
Others	2,356	29	3,213	35	(857)	(27)
Total	₱8,048	100	₱9,233	100	(₱1,185)	(13)

Salaries, wages and employee benefits expense is lower by 6% with the reduction of project-hired personnel of *MIESCOR Group* and *MRail* and non-incurrence of overtime pay for employees who were in work from home arrangement.

Decrease in contracted services by 7% is consistent with the lower revenues generated by and deferment of projects awarded to subsidiaries due to the pandemic.

Other expenses, which consist mainly of materials, transportation and travel, rental and utility expenses, were lower as business activities and volumes were negatively affected by the pandemic.

OTHER INCOME (EXPENSE)

The following shows the breakdown of other income, net of expenses, for the years ended December 31, 2020 and 2019 by business segment:

	2020	2019	Increase/Decrease	
			Amount	%
	<i>(Amounts in millions)</i>			
Power	₱2,004	₱1,074	₱930	87
Other services	(550)	(319)	(231)	72
Intersegment transaction	(30)	(79)	49	(62)
Total	₱1,424	₱676	₱748	111

Other income – net of expenses account for the year ended December 31, 2020 includes equity in net earnings of associates and joint ventures (versus equity in net losses in 2019), offset by lower yield from placements and foreign exchange losses.

Power

Breakdown of other income (expenses) of power segment is as follows:

	2020	2019	Increase/Decrease	
			Amount	%
<i>(Amounts in millions)</i>				
Interest and other financial income	₱2,281	₱3,213	(₱932)	(29)
Interest and other financial charges	(1,491)	(1,477)	(14)	1
Equity in net earnings (losses) of associates and joint ventures	1,276	(1,482)	2,758	(186)
Foreign exchange losses	(797)	(483)	(314)	65
Others	735	1,303	(568)	(44)
Total	₱2,004	₱1,074	₱930	87

In 2020, MERALCO recognized equity in net earnings from associates and joint ventures of ₱1,276 million compared with equity in net losses in 2019 amounting to ₱1,482 million. The equity earnings this year was mainly from SBPL and GBPC. SBPL started commercial operations in October 2019.

Interest and other financial income decreased by ₱932 million due to lower yield and volume of investments compared with last year.

The year ended December 31, 2020 resulted in higher foreign exchange losses due to depreciation of peso against the U.S. dollar. The exchange rate of U.S. dollar is ₱48.02 as at December 31, 2020 compared with ₱50.64 as at December 31, 2019.

NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The following shows the breakdown of net income attributable to equity holders of the parent for the years ended December 31, 2020 and 2019 by business segment:

	2020		2019		Increase/Decrease	
	Amount	%	Amount	%	Amount	%
<i>(Amounts in millions)</i>						
Power	₱15,059	92	₱22,314	96	(₱7,255)	(33)
Other services	1,090	7	1,058	5	32	3
Inter-segment transactions	167	1	(87)	(1)	254	(292)
Total	₱16,316	100	₱23,285	100	(₱6,969)	(30)

The lower net income attributable to equity holders of the parent was contributed by the Power segment with reduced energy sales from both electricity distribution and RES units, additional provision for expected credit losses and lower yield from investments. This was partially offset by the higher contribution of SBPL which began operations in October 2019.

LIQUIDITY AND CAPITAL RESOURCES

The following show the cash flows for the year ended December 31, 2022, 2021, and 2020 as well as the capitalization and other selected consolidated financial data as at December 31, 2022 and December 31, 2021:

	For the Years Ended December 31		
	2022	2021	2020
	<i>(Amounts in millions)</i>		
<u>Cash Flows</u>			
Net cash provided by operating activities	₱25,182	₱43,181	₱29,872
Net cash provided by (used in)			
investing activities	(22,081)	(49,467)	2,776
Net cash provided by (used in) financing activities	2,273	10,861	(20,291)
Net increase in cash and cash equivalents	825	4,575	12,357
<u>Capital Expenditures</u>	42,196	27,236	20,558
	2022	2021	
	<i>(Amounts in millions)</i>		
<u>Capitalization</u>			
Interest-bearing long-term financial liabilities			
Current	₱5,585	₱9,114	
Noncurrent	68,757	52,720	
Notes payable	29,491	28,834	
Equity attributable to equity holders of the parent	109,664	95,204	
<u>Other Selected Financial Data</u>			
Total assets	519,261	483,615	
Utility plant, generation plant and others	243,323	225,326	
Cash and cash equivalents	55,832	55,007	

Debt Financing

The ₱7,000 million 12-year Puttable Bond consists of the balance of the total ₱18,000 million Puttable Bonds issued in December 2013, puttable in 10 years. This 12-year Bond includes a call option, whereby *MERALCO* may redeem (in whole but not in part only) the outstanding bonds on the 7th year from issue date at the early redemption price of 101.0%. The call option was not exercised. The put and call options are clearly and closely related to the host instruments, and thus, were not recognized separately.

The net proceeds of the bonds were utilized for refinancing certain loans including principal payments, accrued interest, prepayment penalties and other financing costs.

The details of *MERALCO*'s interest bearing financial liabilities are discussed in Notes 17 and 21 to the consolidated financial statements.

Under their respective loan agreements, *MERALCO*'s subsidiaries are required to meet certain pre-agreed financial ratios at all times until full payment of the obligation. *GBPC* is prohibited from entering into merger or consolidation, unless *GBPC* is the surviving entity.

As at December 31, 2022, the *MERALCO Group* is in compliance with all of the covenants of its loan agreements.

Equity Financing

As at December 31, 2022 and 2021, *MERALCO*'s capital stock consists of: (Amounts in millions except par value and number of shares)

Common stock - ₱10 par value	
Authorized - 1,250,000,000 shares	₱12,500
Issued - 1,127,271,117 shares	11,273
Treasury - 172,412 shares	(11)

The balance of previously issued preferred shares which have been called for redemption amounted to ₱1,469 million and ₱1,470 million as at December 31, 2022 and 2021, respectively. Total unclaimed dividends amounted to ₱249 million as at December 31, 2022 and 2021. Interest is no longer accrued from the time such preferred shares were called for redemption.

Treasury shares represent subscribed shares and the related rights of employees who have opted to withdraw from the Employee Stock Purchase Plan ("*ESPP*") in accordance with the provisions of the *ESPP* and which *MERALCO* repurchased.

The following were the cash dividends declared on common shares for the years ended December 31, 2022, 2021 and 2020:

Declaration Date	Record Date	Payment Date	Dividend Per Share	Amount
July 25, 2022	August 23, 2022	September 14, 2022	₱5.81	₱6,544
February 28, 2022	March 30, 2022	April 26, 2022	10.23	11,526
July 26, 2021	August 23, 2021	September 15, 2021	5.06	5,700
March 1, 2021	March 30, 2021	April 26, 2021	7.82	8,818
July 27, 2020	August 20, 2020	September 15, 2020	4.70	5,294
February 24, 2020	March 20, 2020	April 15, 2020	10.40	11,716

On February 27, 2023, the *BOD* of *MERALCO* approved the declaration of cash dividends of ₱11.028 a share to all shareholders of record as at March 29, 2023, payable on April 26, 2023.

The *BOD*-approved dividend policy of *MERALCO* consists of (i) regular cash dividends equivalent to 50% of *CCNI* for the year, and (ii) special dividend determined on a “look-back” basis. Declaration and payment of special dividend are dependent on the availability of unrestricted retained earnings and availability of free cash. The declaration, record and payment dates shall be consistent with the guidelines and regulations of the Philippine *SEC*.

RISK FACTORS

The significant risk factors affecting *MERALCO*’s financial position and results of operations are:

- Regulated rates and cost recoveries
- Recovery of development investments and new businesses
- Sales volume and Philippine economic conditions
- Power supply and demand management
- Competition and market

Regulated Rates and Cost Recoveries

The major determinants of *MERALCO*’s and *Clark Electric*’s rate structure vis-à-vis operating results are determination and valuation of regulatory asset base (“*RAB*”), allowable return and permitted cost recoveries. Distribution rates billed by *MERALCO* and *Clark Electric* were approved by the *ERC* and were set at rates that allowed a reasonable rate of return on investments. *MERALCO* and *Clark Electric*’s rate structure also allows pass-through of certain purchased power costs, system loss (“*SL*”) charge up to an annual cap enforced by the *ERC*, taxes, among others.

MERALCO is among the Group A entrants to the Performance-Based Regulations (“*PBR*”), together with two (2) other private distribution utilities (“*DUs*”).

Rate-setting under *PBR* is governed by the Rules for the Setting of Distribution Wheeling Rates (“*RDWR*”). The *PBR* scheme sets tariffs once every Regulatory Period (“*RP*”) based on the *RAB* of each *DU*, and the required operating and capital expenditures to meet operational performance and service level requirements responsive to the need for adequate, reliable and quality power, efficient service, and growth of all customer classes in the franchise area as approved by the *ERC*. *PBR* also

employs a mechanism that penalizes or rewards a *DU* depending on its network and service performance.

Rate filings and settings are done on a *RP* basis. One (1) *RP* consists of four (4) Regulatory Years (“*RYs*”). A *RY* for *MERALCO* begins on July 1 and ends on June 30 of the following year.

After rate setting process for a *RP*, *MERALCO* goes through a rate verification process to set the *MAP* for each *RY* within the *RP*. In each of *RYs* 2012, 2013, 2014 and 2015, *MERALCO* filed for the respective *MAP* with the *ERC*. The *ERC* provisionally approved the *MAPs* for each of the *RYs*.

On July 10, 2015, the *ERC* provisionally approved an interim average rate of ₱1.3810 per *kWh* (excluding efficiency adjustment) and the rate translation per customer class, which was reflected in the customer bills starting July 2015.

On April 29, 2022, *MERALCO* received the Consolidated Order dated March 8, 2022. In said Order, the *ERC* resolved the true-up of the value of *MERALCO*’s regulatory asset base for the 3rd *RP*. On such basis, the *ERC* adjusted the *MAPs* for 2012, 2013, 2014 and 2015. The *ERC* then granted interim relief, which among other things, directed *MERALCO* to implement the refund of ₱7.755 million or equivalent to ₱0.2583 per *kWh*. *MERALCO* implemented the refund beginning its May 2022 billing. In a Decision dated June 10, 2022, the interim approval of the *ERC* was rendered permanent and *MERALCO* was directed to continue implementing the refund. As at December 31, 2022, the amount has been fully refunded.

In a letter dated July 4, 2019, the *ERC* authorized the continued implementation of the interim average rate but directed *MERALCO*, as well as other *DUs*, to refund any remaining amount pertaining to regulatory reset costs for the previous *RPs*.

On July 13, 2022, *MERALCO* received the June 16, 2022 Decision of the *ERC* which approved a revised and final *IAR* of ₱1.3522 per *kWh* as the final distribution rate for the period from July 1, 2015 to June 30, 2022. The *ERC* likewise approved the corresponding distribution rate structure based thereon. *MERALCO* was authorized to continue implementing the *ERC*-approved *IAR* of ₱1.3522 per *kWh* until otherwise directed. *MERALCO* implemented the Decision beginning its August 2022 billing.

Distribution Rate True-Up (“DRTU”) Applications

On January 27, 2021, the *ERC* approved *MERALCO*’s application to refund to its customers ₱13,886 million of over-recoveries (*DRTU* 1) representing the difference between the Actual Weighted Average Tariff (“*AWAT*”) for the period July 1, 2015 to November 2020 and the then *IAR* of ₱1.3810 per *kWh*, as provisionally approved by the *ERC* on July 10, 2015.

Thereafter, there were three (3) other *DRTU* refunds ordered: (a) *DRTU* 2 totaling ₱4,837 million representing the difference between the *AWAT* for the period December 2020 to December 2021 and the then *IAR* of ₱1.3810 per *kWh*; (b) *DRTU* 3 of ₱7,755 million related to 3*RP* asset true-up adjustments; and (c) *DRTU* 4 amounting to ₱21,769 million based on *ERC* approved revised and final *IAR* of ₱1.3522 per *kWh*.

MERALCO implemented the foregoing refunds. As at December 31, 2022, a total of ₱38.3 billion have been credited to the bills of customers.

Regulatory Reset Process Application

On March 16, 2022, *MERALCO* filed its application for the approval of its annual revenue requirement and performance incentive scheme for the 5th *RP* (July 1, 2022 to June 30, 2023) based on *ERC*-promulgated *RDWR*. As at February 27, 2023, hearings on the case are ongoing.

CAPEX for 4th RP, RY 2020 to RY 2022

Absent the release by the *ERC* of the final rules to govern the filing of the 4th *RP* and 5th *RP* rate reset, *MERALCO* filed its applications for approval of authority to implement its *CAPEX* program pursuant to Section 20(b) of Commonwealth Act No. 146, as amended, otherwise known as the Public Service Act, for each of the *RPs* beginning July 1, 2015.

Except with respect to partial approval by the *ERC* of the *RY* 2016 *CAPEX* amounting to ₱15,466 million and provisional authority granted by the *ERC* to implement certain projects for *RY* 2017 amounting to ₱8,758 million, all other applications remain pending with the *ERC*. As at February 27, 2023, *MERALCO* is awaiting the final resolution of the *ERC*.

Pending *ERC*'s approval, *MERALCO* manifested several projects as “urgent” or “emergency in nature” and proceeded with the implementation of said *CAPEX*.

3rd and 4th RP PBR Reset for Clark Electric

Clark Electric is among the four (4) Group D entrants to the *PBR*. Similar to *MERALCO*, it is subject to operational performance and service level requirements approved by the *ERC*. The *RY* for *Clark Electric* begins on October 1 and ends on September 30 of the following year.

Pending the issuance by the *ERC* of the final rules to govern 3rd and 4th *RP* of Group D entrants, *Clark Electric* continued to bill its customers using the last approved *MAP* for *RY* 2015. Similarly, *Clark Electric* filed and manifested as urgent its *CAPEX* requirements with the *ERC* to be able to implement such projects immediately. As at February 27, 2023, the applications remain pending with the *ERC*.

Recovery of Development Investments, New Businesses and Significant Capital Expenditures

MGen, through its subsidiaries and associates, has significant investments in the development and/construction of the following power plants:

- 4 x 600 MW (net) *LNG* power plant in Atimonan Quezon
- 110 *MWdc/90MWac* floating solar facility in Laguna de Bay
- 115 *MWdc* solar plant in Baras, Rizal
- Nuevo Solar Energy Corporation (“*NSEC*”) for the development of 68*MWac* solar energy project in Currimao, Ilocos Norte
- *Greenenergy* for the development of a 40 *MWac* solar power plant in Cordon, Isabela

On August 11, 2022, *MIDC* entered into a Sale and Leaseback Agreement with Globe Telecom, Inc. (“*Globe*”) to acquire 2,180 telecommunication towers and the related passive infrastructure for a total consideration of ₱26,160 million. Under the Master Lease Agreement, *Globe* shall be the anchor tenant of the towers for an initial period of 15 years. In addition, *Globe* has commissioned *MIDC* to

construct 900 additional build-to-suit towers over the next four (4) years on which *Globe* will be the anchor tenant.

As of December 31, 2022, *MIDC* completed the acquisition of 860 towers from *Globe* for a total price of ₱10,320 million and recognized the following identifiable assets:

	Amounts in millions
Telecommunication towers and passive equipment	₱2,601
Acquired network location intangibles	5,661
Build-to-suit contract intangibles	2,058
Total assets acquired	₱10,320

Acquired network location intangibles represent the value to *MIDC* of the incremental revenue growth that could potentially be obtained from leasing the excess capacity on acquired towers to other mobile network operators. The build-to-suit contract intangibles pertain to the contractual commitment of *Globe* to engage *MIDC* in building additional towers to be leased by *Globe*.

MERALCO's consolidated CAPEX amounted to ₱42.6 billion, of which ₱19.0 billion was related to new connections, asset renewals, and load growth projects of Networks, among others. A total of ₱10.6 billion was invested for the towers business, ₱6.1 billion for power generation, and ₱2.8 billion was mainly for expansion of *Radius* communication network.

If any of these ongoing developments and constructions are not executed as planned due to reasons or factors beyond *MERALCO*'s control, *MERALCO*'s results of operations and financial position could be adversely affected.

Sales Volume and Philippine Economic Conditions

In terms of the sales mix, residential sales accounted for 37%, while commercial and industrial sales accounted for 33% and 30%, respectively.

Continued work-from-home and remote learning set-ups amid granular lockdowns pushed residential sales volume to grow 3% to 16,913 *GWh* from 16,488 *GWh* year-on-year, despite the slowdown in the second half of 2021 due to the coolest temperatures recorded in the last five (5) years, as well as increased mobility of vaccinated individuals.

Commercial sales volumes grew by 3% to 15,234 *GWh* in 2021 from 14,766 *GWh*, owing to the ramp-up of vaccination activities which resulted in easing of quarantine restrictions and relaxation of rules on mobility of minors. The increased foot traffic drove demand in the retail, restaurants, public transport, and hospitality sectors.

Industrial sales volumes returned to near pre-pandemic level, registering the highest increase of 13% to 13,782 *GWh* from 12,176 *GWh*, backed by the strong performance of the semiconductor industry with the growing demand for microchips, electronic parts, and devices, as well as higher operational output in the construction-related (cement and steel), food and beverage, and plastics industries.

Consolidated customer count increased 4% to 7.4 million at end-December from 7.1 million in 2020, as energization of new customers for both ordinary service and project-covered applications hit an all-time high, exceeding 2019 and 2020 levels.

MERALCO's sales volumes are dependent on the general economic conditions, business environment, weather and natural disasters in the Philippines.

Power Supply and Demand Management

The electricity distributed by MERALCO and Clark Electric are contracted through PSAs with generators and long-term PPAs with IPPs. Any unsourced volume through the PSAs and PPAs is purchased from the WESM. WESM is a venue where suppliers and buyers trade electricity as a commodity.

Below is the summary of MERALCO and Clark Electric's electricity suppliers and the respective amounts of power purchased for the years ended December 31, 2022, 2021 and 2020. The details of the relevant IPPs and PSAs are disclosed and discussed in Note 30 to the consolidated financial statements:

Total purchased power costs including transmission and ancillary charges for the years ended December 31, 2022, 2021 and 2020, follow:

	2022	2021	2020
	<i>(Amounts in millions)</i>		
FGPC and FGP Corp. ("FGP")	P76,145	₱51,164	₱43,659
NGCP	43,356	34,539	37,230
IEMOP	40,655	21,721	14,523
QPPL	28,793	16,289	13,990
SBPL	26,795	15,973	12,902
South Premiere Power Corporation ("SPPC")	25,679	25,643	24,166
San Miguel Energy Corporation ("SMEC")	21,625	15,535	16,639
Masinloc Power Partners Co. Ltd. ("MPPCL")	18,712	8,522	8,056
First NatGas Power Corp. ("FNPC")	14,971	9,309	8,456
AC Energy Philippines, Inc. ("AC Energy")	10,562	10,790	9,023
Therma Luzon, Inc. ("TLI")	4,161	2,219	7,033
Southwest Luzon Power Generation Corporation	2,672	1,982	34
First Gen Hydro Power Corporation ("FGHPC")	1,378	2,507	723
Energy Development Corporation ("EDC")	1,015	—	—
PEDC	969	2,264	1,812
Sem-Calaca Power Corporation ("Sem-Calaca")	644	4,933	3,650

	2022	2021	2020
	(Amounts in millions)		
Solar Philippines Tarlac Corporation ("Solar Philippines Tarlac")	370	425	338
Therma Mobile, Inc. ("TMO")	–	–	516
Millenium Energy, Inc. ("MEI")	–	–	307
Others	4,143	1,100	1,363
	₱322,645	₱224,915	₱204,420

The continuing Malampaya gas restriction, increasing fuel indices in light of the ongoing Ukraine-Russia conflict, plant outages due to delayed preventive maintenance, forced outages, delays in commissioning of new projects are expected to result in overall tightening of the power supply situation in the country.

On April 18, 2022, SMEC and SPPC issued Notices of Change in Circumstances to MERALCO, claiming that the worsening conflict between Russia and Ukraine and other geopolitical and economic factors related and/or emanating therefrom have impacted SMEC and SPPC's capability to perform their obligations under the respective PSAs in terms of unexpected increase in fuel cost. Thus, on May 12, 2022, SMEC and SPPC (joined by MERALCO) filed Joint Motions for Price Adjustment with the ERC. On June 27, 2022 and July 22, 2022, SMEC, SPPC and MERALCO filed motions for urgent resolution of the Joint Motion. On August 30, 2022, the ERC conducted a clarificatory hearing with SMEC, SPPC and MERALCO to address several issues in connection with the Joint Motions for Price Adjustment. On October 3, 2022, the ERC, voting 3-2, promulgated its Orders dated September 29, 2022, denying the Joint Motions for Price Adjustment. On October 5, 2022, SMEC and SPPC notified MERALCO that it will continue with its obligations under their respective baseload PSAs with MERALCO under protest and without prejudice to their rights and remedies under pertinent laws and contract. On November 4, 2022, SMEC and SPPC filed Petitions for Certiorari with prayer for issuance of TRO and Writ of Preliminary Injunction ("WPI") with the CA, assailing the ERC Orders dated September 29, 2022. On November 25, 2022, the CA issued a TRO for the SPPC case, hence, after the TRO bond was posted by SPPC, on December 7, 2022, SPPC stopped accepting MERALCO nominations. On January 25, 2023, the CA issued a WPI for the SPPC case, which shall remain in effect until the main case is finally decided. Meanwhile, for the SMEC case, on January 13, 2023, the CA denied SMEC's prayer for TRO and WPI. As at February 27, 2023, SPPC has suspended its obligations under its baseload PSA with MERALCO, while SMEC has continued with its obligations under its baseload PSA with MERALCO.

MERALCO and Clark Electric's operations as DUs and the RES business may be disrupted if the electricity suppliers are not able to generate and deliver the power needed. The power generation business is likewise affected by the increasing fuel prices particularly for supply contracts which have fixed fuel rate arrangement vis-à-vis pass-through fuel arrangement.

Competition

With the effectivity of the DOE circulars on Competitive Selection Process ("CSP") and its amendments and revisions since it was published in 2018, the execution of PSA by MERALCO's power generation business has become increasingly competitive. While the objective of the CSP is to promote competition and greater private sector participation in the provision of adequate

generation capacity to meet the demand of the captive market, the power generation business of *MERALCO* may not be able to provide the most competitive bid which may adversely affect its financial condition and results of operations.

ELECTRIC POWER INDUSTRY DEVELOPMENTS AND UPDATES

The detailed discussions of the rate-making regulations and regulatory policies of the *ERC* which affect both *MERALCO* and *Clark Electric* and other significant matters affecting the power industry players can be found in Notes 2 and 32 to the consolidated financial statements.

OTHER QUANTITATIVE AND QUALITATIVE DISCLOSURES

- (i) Any known trends or any known demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in *MERALCO*'s liquidity increasing or decreasing in any material way.**

Not Applicable

- (ii) Any events that will trigger direct or indirect contingent financial obligation that is material to *MERALCO*, including any default or acceleration of an obligation.**

1. Mediation with National Power Corporation ("*NPC*")

NPC embarked on a Power Development Program ("*PDP*"), which consisted of contracting generating capacities and the construction of its own, as well as private sector, generating plants, following a crippling power supply crisis. To address the concerns of the creditors of *NPC*, namely, Asian Development Bank and the World Bank, the *DOE* required that *MERALCO* enter into a long-term supply contract with *NPC*.

Accordingly, on November 21, 1994, *MERALCO* entered into a 10-year Contract for Sale of Electricity ("*CSE*") with *NPC* which commenced on January 1, 1995. The *CSE*, the rates and amounts charged to *MERALCO* therein, were approved by the *BOD* of *NPC* and the then Energy Regulatory Board, respectively.

Separately, the *DOE* further asked *MERALCO* to provide a market for half of the output of the Camago-Malampaya gas field to enable its development and production of natural gas, which was to generate significant revenues for the Philippine Government and equally significant foreign exchange savings for the country to the extent of the fuel imports, which the domestic volume of natural gas will displace.

MERALCO's actual purchases from *NPC* exceeded the contract level in the first seven (7) years of the *CSE*. However, the 1997 Asian crisis resulted in a significant curtailment of energy demand.

While the events were beyond the control of *MERALCO*, *NPC* did not honor *MERALCO*'s good faith notification of its off-take volumes. A dispute ensued and both parties agreed to enter into mediation.

The mediation resulted in the signing of a Settlement Agreement ("*SA*") between the parties on July 15, 2003. The *SA* was approved by the respective *BODs* of *NPC* and *MERALCO*. The net settlement amount of ₱14,320 million was agreed upon by *NPC* and *MERALCO* and manifested

before the *ERC* through a Joint Compliance dated January 19, 2006. The implementation of the SA is subject to the approval of the *ERC*.

Subsequently, the OSG filed a “Motion for Leave to Intervene with Motion to Admit Attached Opposition to the Joint Application and Settlement Agreement between *NPC* and *MERALCO*”. As a result, *MERALCO* sought judicial clarification with the Regional Trial Court (“*RTC-Pasig*”). Pre-trials were set, which *MERALCO* complied with and attended. However, the OSG refused to participate in the pre-trial and opted to seek a Temporary Restraining Order (“*TRO*”) from the *CA*.

In a Resolution dated December 1, 2010, the *CA* issued a *TRO* against the *RTC-Pasig*, *MERALCO* and *NPC* restraining the respondents from further proceeding with the case. Subsequently, in a Resolution dated February 3, 2011, the *CA* issued a writ of preliminary injunction enjoining the *RTC-Pasig* from conducting further proceedings pending resolution of the Petition. In a Decision dated October 14, 2011, the *CA* resolved to deny the Petition filed by the OSG and lifted the injunction previously issued. The said Decision likewise held that the *RTC-Pasig* committed no error in finding the OSG in default due to its failure to participate in the proceedings. The *RTC-Pasig* was thus ordered to proceed to hear the case *ex-parte*, as against the OSG, and with dispatch. The OSG filed a *MR* which was denied by the *CA* in its Resolution dated April 25, 2012. The OSG filed a Petition for Review on Certiorari with the *SC*. *MERALCO*’s Comment was filed on October 29, 2012. Subsequently, a Decision dated December 11, 2013 was rendered by the First Division of the *SC* denying the Petition for Review on Certiorari by the OSG and affirming the Decision promulgated by the *CA* on October 14, 2011.

With the dismissal of the petition filed by the Office of the Solicitor General (“*OSG*”) with the *CA*, *MERALCO* filed a motion for the reception of its evidence *ex-parte* with the *RTC-Pasig* pursuant to the ruling of the *CA*. In a Decision dated May 29, 2012, the *RTC-Pasig* declared the SA valid and binding, independent of the pass-through for the settlement amount which is reserved for the *ERC*. The OSG has filed a Notice of Appeal with the *RTC-Pasig* on June 19, 2012. After both parties filed their respective appeal briefs, the *CA* rendered a Decision dated April 15, 2014 denying the appeal and affirming the *RTC* Decision, which declared the SA as valid and binding. The OSG filed a Petition for Review with the *SC*. On November 10, 2014, *MERALCO* filed its comment to the Petition. Power Sector Assets and Liabilities Management Corporation (“*PSALM*”) likewise filed its comment to the Petition. In a Resolution dated July 8, 2015, the *SC* resolved to serve anew its Resolutions requiring *NPC* to comment on the Petition. In compliance, *NPC* submitted its Comment dated September 8, 2015. *MERALCO* submitted its Motion for Leave to File and to Admit Attached Reply on October 12, 2015. Pursuant to the *SC* Resolution dated November 11, 2015, the OSG filed a Consolidated Reply to the comments filed by *NPC*, *MERALCO* and *PSALM*. *MERALCO* then filed a Motion for Leave to File and to Admit the Attached Rejoinder. The parties have filed their respective memoranda. In a Resolution dated September 28, 2022, the *SC* denied the Petition filed by the OSG and affirmed the validity of the Settlement Agreement. The implementation of the SA is subject to the approval of the *ERC*.

2. Sucat-Araneta-Balintawak Transmission Line

The Sucat-Araneta-Balintawak transmission line is a two (2)-part transmission line, which completed the 230 kV line loop within Metro Manila. The two (2) main parts are the Araneta to Balintawak leg and the Sucat to Araneta leg, which cuts through Dasmariñas Village, Makati City.

On March 10, 2000, certain residents along Tamarind Road, Dasmariñas Village, Makati City “the *Plaintiffs*”, filed a case against *NPC* with the *RTC-Makati*, enjoining *NPC* from further installing high voltage cables near the *Plaintiffs*’ homes and from energizing and transmitting high voltage electric current through said cables because of the alleged health risks and danger posed by the same through the electromagnetic field emitted by said lines. Following its initial status quo Order issued on March 13, 2000, *RTC-Makati* granted on April 3, 2000 the preliminary injunction sought by the *Plaintiffs*. The decision was affirmed by the SC on March 23, 2006, which effectively reversed the decision of the *CA* to the contrary. The *RTC-Makati* subsequently issued a writ of execution based on the Order of the SC. *MERALCO*, in its capacity as an intervenor, was constrained to file an Omnibus Motion to maintain status quo because of the significant effect of a de-energization of the Sucat-Araneta line to the public and economy. Shutdown of the 230 kV line will result in widespread and rotating brownouts within *MERALCO*’s franchise area with certain power plants unable to run at their full capacities.

On September 8, 2009, the *RTC-Makati* granted the motions for intervention filed by intervenors, *MERALCO* and *NGCP* and dissolved the *WPI* issued, upon the posting of the respective counter bonds by defendant *NPC*, intervenors *MERALCO* and *NGCP*, subject to the condition that *NPC* and intervenors will pay for all damages, which the *Plaintiffs* may incur as a result of the *WPI*.

In its Order dated February 5, 2013, the *RTC-Makati* granted the *Plaintiffs*’ motion and directed the re-raffle of the case to another branch after the judicial dispute resolution failed.

This case remains pending and is still at the pre-trial stage. During the pre-trial stage, *Plaintiffs* filed a Manifestation stating that they are pursuing the deposition of a supposed expert in electromagnetic field through oral examination without leave of court in late January or early February 2016 or on such date as all the parties may agree amongst themselves at the Consulate Office of the Philippines in Vancouver, Canada. *NPC* and intervenors filed their Opposition and Counter-Manifestation. Intervenor *NGCP* filed a Motion to Prohibit the Taking of the Deposition of the said expert. Intervenor *MERALCO* intends to file its Comment/Opposition in due course. As at February 27, 2023, *MERALCO* is awaiting further action of the SC on the matter.

3. *RPT* Assessments

On October 22, 2015, the SC ruled on an appeal of *MERALCO* declaring, among others, that the transformers, electric posts, transmission lines, insulators and electric meters are not exempted from *RPT* under the *LGC*. Thereafter, *MERALCO* began the process of settlement with the affected *LGUs* and filed for the recovery of the resulting *RPT* payments with the *ERC*.

With the development, *PEPOA* and *PHILRECA* filed separate petitions for rule-making proposing the pass-through of *RPT*.

In 2021, acting on petitions filed by *PEPOA* and *PHILRECA*, which proposed the pass-through of *RPT*, *ERC* issued Resolution No. 2, Series of 2021, “Rules on Recovery of Pass-Through Taxes (Real Property, Local Franchise, and Business Taxes”. Under such resolution, the *ERC* approved the recovery of *RPT*, *LFT* and Business Taxes as pass-through charges and therefore excluded among the financial building blocks in the annual revenue requirement of *PBR*.

Accordingly, *MERALCO* filed for recovery of such *RPT* paid and intends to recover the same in the regulatory reset process.

Subsequently, *PEPOA* filed another petition for rule-making to amend certain provisions of Resolution No. 2, Series of 2021 to cover full recovery as pass-through costs of: (i) local taxes (*RPT*, *LFT* and business tax) levied by *LGUs* during the years prior to the Resolution to address tax arrearages; (ii) *RPT* assessed by *LGUs* on assets located outside the *DU*'s franchise area but are used to provide public service within the franchise area. *MERALCO* had submitted its comments and several public consultations were conducted. As at February 27, 2023, the Petition is pending with the *ERC*.

4. *LFT* Assessments of Municipalities

Certain municipalities have served assessment notices on *MERALCO* for *LFT*. As provided in the Local Government Code ("*LGC*"), only cities and provincial governments may impose taxes on establishments doing business in their localities. On the basis of the foregoing, *MERALCO* and its legal counsel believe that *MERALCO* is not subject or liable for such assessments.

5. SC Decision on Unbundling Rate Case

On May 30, 2003, the *ERC* issued an Order approving *MERALCO*'s unbundled tariffs that resulted in a total increase of ₱0.17 per *kWh* over the May 2003 tariff levels. However, on August 4, 2003, *MERALCO* received a Petition for Review of the *ERC*'s ruling filed by certain consumer and civil society groups before the Court of Appeals ("*CA*"). On July 22, 2004, the *CA* set aside the *ERC*'s ruling on *MERALCO*'s rate unbundling and remanded the case to the *ERC*. Further, the *CA* opined that the *ERC* should have asked the Commission on Audit ("*COA*") to audit the books of *MERALCO*. The *ERC* and *MERALCO* subsequently filed separate motions asking the *CA* to reconsider its decision. As a result of the denial by the *CA* of the motions on January 24, 2005, the *ERC* and *MERALCO* elevated the case to the *SC*.

In an En Banc decision promulgated on December 6, 2006, the *SC* set aside and reversed the *CA* ruling saying that a *COA* audit was not a prerequisite in the determination of a utility's rates. However, while the *SC* affirmed *ERC*'s authority in rate-fixing, the *SC* directed the *ERC* to request *COA*'s assistance to undertake a complete audit of the books, records and accounts of *MERALCO*. In compliance with the directive of the *SC*, the *ERC* requested *COA* to conduct an audit of the books, records and accounts of *MERALCO* using calendar years 2004 and 2007 as test years.

The *COA* audit, which began in September 2008, was completed with the submission to the *ERC* of its report on November 12, 2009.

On February 15, 2010, the *ERC* issued its Order directing *MERALCO* and all intervenors in the case to submit, within 15 days from receipt of the Order, their respective comments on the *COA* report.

On June 21, 2011, the *ERC* maintained and affirmed its findings and conclusions in its Decision dated March 20, 2003 and Order dated May 30, 2003. The *ERC* stated that the *COA* recommendation to apply disallowances under *PBR* to rate unbundling violates the principle against retroactive rate-making. An intervenor group filed a *MR* of the said Order. On September 5, 2011, *MERALCO* filed its comment on the intervenor's *MR*. On February 4, 2013, the *ERC* denied the intervenor's *MR*. The intervenor filed a Petition for Review before the *CA* and *MERALCO* filed its comment thereon on May 29, 2014. In compliance with the *CA*'s directive, *MERALCO* filed its Memorandum in August 2015. In a Resolution dated

September 29, 2015, the CA declared the case submitted for decision. In a Decision dated February 29, 2016, the CA dismissed the Petition for Review and affirmed the orders dated June 21, 2011 and February 4, 2013 of the ERC.

On March 22, 2016, the intervenors filed a *MR* on the CA Decision dated February 29, 2016. The same was denied by the CA through a Resolution dated August 8, 2016.

On October 11, 2016, *MERALCO* received a Petition for Review on Certiorari filed by the intervenors before the SC appealing the dismissal of its Petition. *MERALCO*, COA and the ERC have filed their respective comments to the Petition. On June 22, 2017, *MERALCO* received the Motion for Leave to Intervene and Admit Comment-in-Intervention filed by other *DUs* that sought to intervene in the case. In a Resolution dated October 3, 2017, the SC granted the Motion for Leave to Intervene and Comment-in-Intervention. On November 13, 2019, *MERALCO* received a Decision dated October 8, 2019 partially granting the Petition filed by the National Association of Electric Consumers for Reforms Inc. ("*NASECORE*"), which among other things, (i) voided the adoption by the ERC of the current or replacement cost in the valuation of *MERALCO*'s *RAB*; and (ii) remanded the case to ERC to determine, within 90 days from finality of the Decision, (1) the valuation of the *RAB* of *MERALCO*; and (2) the parameters whether expenses that are not directly and entirely related to the operation of a distribution utility shall be passed on wholly or partially to consumers.

MERALCO, the other *DUs* and the ERC filed their respective motions for reconsideration which are pending before the SC. Two (2) new *DUs* filed their respective motions for leave to intervene and to file their motions for reconsideration. As at February 27, 2023, the case is pending before the SC.

(iii) All material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of *MERALCO* with unconsolidated entities or other persons created during the reporting period.

2022 Capital Expenditure Requirements (in millions)

Power generation projects	₱24,208
Electric capital projects	20,111
Non-electric projects and other capitalized items	6,375
Total capital expenditures	₱57,105

MERALCO has a BOD-approved capital expenditure budget of ₱57,105 million for the year ended December 31, 2022, of which about 42% is for planned power generation projects and 35% represents planned expenditures for the electric capital projects of the power distribution business. Power generation projects consist of A1E's development of 4 x 600 MW (net) LNG power plant power plant in Atimonan, Quezon, and solar power plants including 45 MWac in Cordon, Isabela, 75 MWac in Baras, Rizal and 68 MWac in Ilocos Norte. The distribution utility capital expenditure budget shall address the requirements in areas with large concentration of core customers, correct normal deficiencies in the system, stretch loading limits of *MERALCO* facilities and initiate practical and cost-effective projects to correct system deficiencies. *MERALCO* subsidiaries' CAPEX budget for 2022 mainly covers the requirements of expansion of *Radius* to new areas and segments; and replacement and additional equipment of *MIESCOR Group* to support its growing business.

On August 11, 2022, *MIDC* entered into a Sale and Leaseback Agreement with *Globe* where *MIDC* shall acquire 2,180 telecom towers and related passive infrastructure for a total consideration of ₱26,160 million. Under the Master Lease Agreement, *Globe* will be the anchor tenant of the towers for an initial period of 15 years. In addition, *Globe* has commissioned *MIDC* to construct 900 additional build-to-suit towers over the next four years on which *Globe* will be the anchor tenant.

(iv) Any known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations should be described.

1. Retail Competition

The transition period for *RCOA* commenced on December 26, 2012 in accordance with the joint statement released by the *ERC* and the *DOE* on September 27, 2012 and the Transitory Rules for the Implementation of *RCOA* (*ERC* Resolution No. 16, Series of 2012). The commercial operations of *RCOA* started on June 26, 2013.

On May 12, 2016, the *ERC* issued Resolutions No. 10 and 11, Series of 2016, which:

1. Provided for mandatory contestability. Failure of a contestable customer to switch to *RES* upon date of mandatory contestability (December 26, 2016 for those with average demand of at least one (1) *MW* and June 26, 2017 for at least 750 *MW*) shall result in the physical disconnection from the *DU* system unless it is served by the supplier of last resort ("*SoLR*"), or, if applicable, procures power from the *WESM*;
2. Prohibits *DUs* from engaging in the supply of electricity to the contestable market except in its capacity as a *SoLR*;
3. Mandates Local *RESs* to wind down their supply businesses within a period of three (3) years;
4. Imposes upon all *RESs*, including *DU*-affiliate *RESs*, a market-share cap of 30% of the total average monthly peak demand of all contestable customers in the competitive retail electricity market; and,
5. Prohibits *RESs* from transacting more than 50% of the total energy transactions of its supply business, with its affiliate contestable customers.

On November 29, 2017, the *DOE* issued two (2) *DOE* Circulars, namely: DC 2017-12-0013, entitled, Providing Policies on the Implementation of *RCOA* for Contestable Customers in the Philippines Electric Power Industry and DC 2017-12-0014, entitled Providing Policies on the Implementation of *RCOA* for *RES* in the Philippine Electric Power Industry. The *DOE* Circulars became effective on December 24, 2017.

Under the *DOE* Circular No. DC 2017-12-0013, it is provided that voluntary participation for contestable customers under *RCOA*-Phase 2 shall now be allowed upon effectivity of said Circular, while voluntary participation of contestable customers with a monthly average peak demand of 500 *kW* to 749 *kW* for the preceding 12 months and demand aggregation for electricity end users

within a contiguous area with an aggregate average peak demand of not less than 500 kW for the preceding 12-month period, will also be allowed by June 26, 2018 and December 26, 2018, respectively.

On December 28, 2020, the *ERC* released Resolution No. 12, Series of 2020, entitled “A Resolution Prescribing the Timeline for the Implementation of Retail Competition and Open Access (“*RCOA*”)”. In said Resolution, the *ERC* expanded the coverage of *RCOA* for end-users with an average monthly peak demand of at least 500 KW in the preceding 12 months, on a voluntary basis.

On September 24, 2021, *MERALCO* received a copy of the SC Decision wherein, among other matters, the *ERC* was also directed to promulgate the supporting guidelines to *DOE* Circular No. DC 2017-12-0013 and DC 2017-12-0014.

2. Petition for Dispute Resolution against *PEMC*, *TransCo*, *NPC* and *PSALM*

On September 9, 2008, *MERALCO* filed a Petition for Dispute Resolution, against *PEMC*, *TransCo*, *NPC* and *PSALM* with the *ERC* as a result of the congestion in the transmission system of *TransCo* arising from the outages of the San Jose-Tayabas 500 kV Line 2 on June 22, 2008, and the 500 kV 600 Mega Volt-Ampere Transformer Bank No. 2 of *TransCo*'s San Jose, Bulacan substation on July 11, 2008. The Petition seeks to, among others, direct *PEMC* to adopt the *NPC*- Time-of-Use (“*TOU*”) rate or the new price determined through the price substitution methodology of *PEMC* as approved by the *ERC*, as basis for its billing during the period of the congestion and direct *NPC* and *PSALM* to refund the transmission line loss components of the line rentals associated with *NPC/PSALM* bilateral transactions from the start of *WESM* operation on June 26, 2006.

In a Decision dated March 10, 2010, the *ERC* granted *MERALCO*'s petition and ruled that there is double charging of the transmission line costs billed to *MERALCO* by *NPC* for the Transition Supply Contract (“*TSC*”) quantities to the extent of 2.98% loss factor, since the effectivity of the *TSC* in November 2006. Thus, *NPC* was directed to refund line rental adjustment to *MERALCO*. In the meantime, the *ERC* issued an Order on May 4, 2011 allowing *PEMC* to submit an alternative methodology for the segregation of line rental into congestion cost and line losses from the start of the *WESM*. *PEMC* has filed its compliance submitting its alternative methodology.

On September 8, 2011, *MERALCO* received a copy of *PEMC*'s compliance to the *ERC*'s directive and on November 11, 2011, *MERALCO* filed a counter-proposal which effectively simplifies *PEMC*'s proposal.

In an Order of the *ERC* dated June 21, 2012, *MERALCO* was directed to submit its computation of the amount of the double charging of line loss on a per month basis from June 26, 2006 up to June 2012. On July 4, 2012, *MERALCO* filed its Compliance to the said Order. Thereafter, the *ERC* issued an Order directing the parties to comment on *MERALCO*'s submissions. Hearings were conducted on October 2, 2012 and October 16, 2012 to discuss the parties' proposal and comments.

In an Order dated March 4, 2013, the *ERC* approved the methodology proposed by *MERALCO* and *PEMC* in computing the double charged amount on line losses by deducting 2.98% from the *NPC-TOU* amount. Accordingly, the *ERC* determined that the computed double charge amount to be collected from *NPC* is ₱5.2 billion, covering the period November 2006 to August 2012 until actual cessation of the collection of the 2.98% line loss charge in the *NPC-TOU* rates imposed on *MERALCO*. In this regard, *NPC* was directed by the *ERC* to refund said amount by remitting to

MERALCO the equivalent amount of ₱73.9 million per month until the over-recoveries are fully refunded. In the said Order, the *ERC* likewise determined that the amount to be collected from the successor generating companies (“*SGCs*”) is ₱4.7 billion. Additionally, *MERALCO* was directed to file a petition against the following *SGCs*: *MPPCL*, Aboitiz Power Renewables, Inc. (“*APRI*”), *TLI*, *SMEC* and *Sem-Calaca*, within 30 days from receipt thereof, to recover the line loss collected by them. On April 19, 2013, *MERALCO* filed a Motion for Clarification with the *ERC* regarding the directives contained in the March 4, 2013 Order. On April 30, 2013 and May 8, 2013, *PSALM* and *NPC*, respectively, filed motions seeking reconsideration of the March 4, 2013 Order. *MERALCO* filed a motion seeking for an additional 15 days from its receipt of the *ERC*’s Order resolving its Motion for Clarification, within which to file its Petition against the *SGCs*.

In an Order dated July 1, 2013, the *ERC* issued the following clarifications/resolutions: (i) *SPPC* should be included as one of the *SGCs* against whom a petition for dispute resolution should be filed by *MERALCO*; (ii) amount to be refunded by *NPC* is not only ₱5.2 billion but also the subsequent payments it received from *MERALCO* beyond August 2012 until the actual cessation of the collection of the 2.98% line loss charge in its *TOU* rates; (iii) petition to be filed by *MERALCO* against the *SGCs* should not only be for the recovery of the amount of ₱4.7 billion but also the subsequent payments beyond August 2012 until the actual cessation of the collection of the 2.98% line loss charge in its *TOU* rates; (iv) “*SCPC Ilijan*” pertains to *SPPC* instead. Thus, the refundable amount of ₱706 million pertaining to “*SCPC Ilijan*” should be added to *SPPC*’s refundable amount of ₱1.1 billion; (v) grant the Motion for Extension filed by *MERALCO* within which to file a petition against the following *SGCs*: *MPPCL*, *APRI*, *TLI*, *SMEC*, *Sem-Calaca* and *SPPC*; and (vi) deny the respective *MRs* filed by *NPC* and *PSALM*.

On September 12, 2013, *MERALCO* filed a Manifestation with Motion with the *ERC* seeking approval of its proposal to offset the amount of ₱73.9 million per month against its monthly remittances to *PSALM*. *PSALM* and *NPC* filed their comments *Ad Cautelam* and Comment and Opposition *Ad Cautelam*, respectively, on *MERALCO*’s Manifestation with Motion. On November 4, 2013, *MERALCO* filed its reply. As at February 27, 2023, *MERALCO*’s Manifestation with Motion is pending resolution by the *ERC*.

On October 24, 2013, *MERALCO* received *PSALM*’s Petition for Review on Certiorari with the *CA* (With Urgent *TRO* and/or Writ of Preliminary Mandatory Injunction Applications) questioning the March 4, 2013 and July 1, 2013 Orders of the *ERC*.

On February 3, 2014, *MERALCO* filed a Comment with Opposition to the Application for *TRO* or Writ of Preliminary Injunction dated January 30, 2014. *PEMC* filed a Comment and Opposition Re: Petition for Certiorari with Urgent *TRO* and/or Writ of Preliminary Mandatory Injunction dated January 6, 2014. On June 4, 2014, the *CA* issued a Resolution declaring that *PSALM* is deemed to have waived the filing of a Reply to the comment and opposition of *MERALCO* and *PEMC* and directing the parties to submit their simultaneous memoranda within 15 days from notice. On December 1, 2014, the *CA* issued a decision dismissing the Petition for Certiorari filed by *PSALM* against the *ERC*, *MERALCO* and *PEMC* and affirming the *ERC*’s ruling on the refund of the ₱5.2 billion of transmission line losses double charged by *PSALM* and *NPC*. On January 30, 2015, *PSALM* filed its *MR* on the December 1, 2014 Decision of the *CA*. *MERALCO* has filed its Opposition to the *MR*. In a Resolution dated August 11, 2015, the *CA* denied *PSALM*’s *MR*. On October 27, 2015, *MERALCO* received *PSALM*’s Petition for Review with the *SC*. The Petition has been given due course and the parties have filed their respective memoranda. As at February 27, 2023, *MERALCO* is still awaiting further action of the *SC* on the Petition.

3. Petition for Dispute Resolution Against *SPPC, MPPCL, APRI, TLI, SMEC* and *Sem-Calaca*

On August 29, 2013, *MERALCO* filed a Petition for Dispute Resolution against *SPPC, MPPCL, APRI, TLI, SMEC* and *Sem-Calaca*. Said Petition seeks the following: 1) refund of the 2.98% transmission line losses in the amount of ₱5.4 billion, inclusive of the ₱758 million line loss for the period September 2012 to June 25, 2013, from said *SGCs*; and 2) approval of *MERALCO*'s proposal to correspondingly refund to its customers the aforementioned line loss amounts, as and when the same are received from the *SGCs*, until such time that the said over-recoveries are fully refunded, by way of automatic deduction of the amount of refund from the computed monthly generation rate. On September 20, 2013, *MERALCO* received the *SGCs*' Joint Motion to Dismiss. On October 7, 2013, *MERALCO* filed its Comment on the said Joint Motion.

On October 8, 2013, *MERALCO* received the *SGCs* Manifestation and Motion, which sought, among other things, the cancellation of the scheduled initial hearing of the case, including the submission of the parties respective Pre-trial Briefs, until the final resolution of the *SGC*'s Joint Motion to Dismiss. On October 11, 2013, *MERALCO* filed its pre-trial brief. On October 14, 2013, *MERALCO* filed its Opposition to the *SGC*'s Manifestation and Motion. On October 24, 2013, *MERALCO* received the *SGC*'s Reply to its Comment on the Joint Motion to Dismiss. On October 29, 2013, *MERALCO* filed its Rejoinder. Thereafter, the *SGC*'s filed their Sur-Rejoinder dated November 4, 2013. As at February 27, 2023, the Joint Motion to Dismiss is pending resolution by the *ERC*.

4. Petition for Dispute Resolution with *NPC* on Premium Charges

On June 2, 2009, *MERALCO* filed a Petition for Dispute Resolution against *NPC* and *PSALM* with respect to *NPC*'s imposition of premium charges for the alleged excess energy it supplied to *MERALCO* covering the billing periods May 2005 to June 2006. The premium charges amounting to ₱315 million during the May-June 2005 billing periods have been paid but are the subject of a protest by *MERALCO*, and premium charges of ₱318 million during the November 2005, February 2006 and April to June 2006 billing periods are being disputed and withheld by *MERALCO*. *MERALCO* believes that there is no basis for the imposition of the premium charges. The hearings on this case have been completed. As at February 27, 2023, the Petition is pending resolution by the *ERC*.

5. SC TRO on *MERALCO*'s December 2013 Billing Rate Increase

On December 9, 2013, the *ERC* gave clearance to the request of *MERALCO* to implement a staggered collection over three (3) months covering the December 2013 billing month for the increase in generation charge and other bill components such as *VAT, LFT, transmission charge, and SL charge*. The generation costs for the November 2013 supply month increased significantly because of the aberrant spike in the *WESM* charges on account of the non-compliance with *WESM* Rules by certain plants resulting in significant power generation capacities not being offered and dispatched, and the scheduled and extended shutdowns, and the forced outages, of several base load power plants, and the use of the more expensive liquid fuel or bio-diesel by the natural gas-fired power plants that were affected by the Malampaya Gas Field shutdown from November 11 to December 10, 2013.

On December 19, 2013, several party-list representatives of the House of Representatives filed a Petition against *MERALCO, ERC* and *DOE* before the *SC*, questioning the *ERC* clearance granted to *MERALCO* to charge the resulting price increase, alleging the lack of hearing and due process. It

also sought for the declaration of the unconstitutionality of the *EPIRA*, which essentially declared the generation and supply sectors competitive and open, and not considered public utilities. A similar petition was filed by a consumer group and several private homeowners' associations challenging also the legality of the *AGRA* that the *ERC* had promulgated. Both petitions prayed for the issuance of *TRO*, and a Writ of Preliminary Injunction.

On December 23, 2013, the *SC* consolidated the two (2) Petitions and granted the application for *TRO* effective immediately and for a period of 60 days, which effectively enjoined the *ERC* and *MERALCO* from implementing the price increase. The *SC* also ordered *MERALCO*, *ERC* and *DOE* to file their respective comments to the Petitions. Oral Arguments were conducted on January 21, 2014, February 4, 2014 and February 11, 2014. Thereafter, the *SC* ordered all the Parties to the consolidated Petitions to file their respective Memorandum on or before February 26, 2014 after which the Petitions will be deemed submitted for resolution of the *SC*. *MERALCO* complied with said directive and filed its Memorandum on said date.

On February 18, 2014, acting on the motion filed by the Petitioners, the *SC* extended for another 60 days or until April 22, 2014, the *TRO* that it originally issued against *MERALCO* and *ERC* on December 23, 2013. The *TRO* was also similarly applied to the generating companies, specifically *MPPCL*, *SMEC*, *SPPC*, *FGPC*, and the *NGCP*, and the *PEMC* (the administrator of *WESM* and market operator at that time) who were all enjoined from collecting from *MERALCO* the deferred amounts representing the ₱4.15 per *kWh* price increase for the November 2013 supply month.

In the meantime, on January 30, 2014, *MERALCO* filed an Omnibus Motion with Manifestation with the *ERC* for the latter to direct *PEMC* to conduct a re-run or re-calculation of the *WESM* prices for the supply months of November to December 2013. Subsequently, on February 17, 2014, *MERALCO* filed with the *ERC* an Application for the recovery of deferred generation costs for the December 2013 supply month praying that it be allowed to recover the same over a six (6)-month period.

On March 3, 2014, the *ERC* issued an Order voiding the Luzon *WESM* prices during the November and December 2013 supply months on the basis of the preliminary findings of its Investigating Unit ("*IU*") that these are not reasonable, rational and competitive, and imposing the use of regulated rates for the said period. *PEMC* was given seven (7) days upon receipt of the Order to calculate these regulated prices and implement the same in the revised *WESM* bills of the concerned *DUs* in Luzon. *PEMC*'s recalculated power bills for the supply month of December 2013 resulted in a net reduction of the December 2013 supply month bill of the *WESM* by ₱9.3 billion. Due to the pendency of the *TRO*, no adjustment was made to the *WESM* bill of *MERALCO* for the November 2013 supply month. The timing of amounts to be credited to *MERALCO* is dependent on the reimbursement of *PEMC* from associated generator companies. However, several generating companies, including *MPPCL*, *SN Aboitiz Power, Inc.*, *Team (Philippines) Energy Corporation*, *PanAsia Energy, Inc.* ("*PanAsia*"), and *SMEC*, have filed *MRs* questioning the Order dated March 3, 2014. *MERALCO* has filed a consolidated comment to these *MRs*. In an Order dated October 15, 2014, the *ERC* denied the *MRs*. The generating companies have appealed the Orders with the *CA*. *MERALCO* has filed a motion to intervene and a comment in intervention. The *CA* consolidated the cases filed by the generation companies. In a Decision dated November 7, 2017, the *CA* set aside *ERC* Orders dated March 3, 2014, March 27, 2014, May 9, 2014 and October 15, 2014 and declared the orders null and void. The Decision then reinstated and declared valid *WESM* prices for the November and December 2013 supply months. *MERALCO* and the *ERC* have filed their respective motions for

reconsideration. Several consumers also intervened in the case and filed their respective motions for reconsideration. In a Resolution dated March 29, 2019, the CA denied the motions for reconsideration and upheld its Decision dated November 7, 2017.

MERALCO and several consumers have elevated the CA Decision and Order to the SC where the case is pending. In a Resolution dated November 4, 2020, the SC consolidated *ERC*'s and *MERALCO*'s petitions and transferred *MERALCO*'s petition to the member-in-charge of *ERC*'s petition which was the lower-numbered case. The petitions filed by the consumers were denied by the SC.

In view of the pendency of the various submissions before the *ERC* and mindful of the complexities in the implementation of the *ERC*'s Order dated March 3, 2014, the *ERC* directed *PEMC* to provide the market participants additional 45 days to comply with the settlement of their respective adjusted *WESM* bills. In an Order dated May 9, 2014, the parties were then given an additional non-extendible period of 30 days from receipt of the Order within which to settle their *WESM* bills. However, in an Order dated June 6, 2014 and acting on an intervention filed by Angeles Electric Corporation, the *ERC* deemed it appropriate to hold in abeyance the settlement of *PEMC*'s adjusted *WESM* bills by the market participants.

On April 22, 2014, the SC extended indefinitely the *TRO* issued on December 23, 2013 and February 18, 2014 and directed generating companies, *NGCP* and *PEMC* not to collect from *MERALCO*. In a Decision promulgated on August 3, 2021, the SC affirmed the December 9, 2013 *ERC* letter approving *MERALCO*'s proposal to implement a staggered collection over three (3) months covering the December 2013 billing month. However, it voided the *ERC* March 3, 2014 Order which voided the Luzon *WESM* prices during the November and December 2013 supply months and imposed the use of regulated rates for said period. The *ERC* and the petitioners filed motions for reconsideration which were denied with finality in the SC Resolution dated October 11, 2022. The implementation of any staggered collection is subject to the approval of *ERC*.

6. *ERC* Investigating Unit ("*IU*") Complaint

On December 26, 2013, the *ERC* constituted the *IU* under its Competition Rules to investigate possible anti-competitive behavior by the industry players and possible collusion that transpired in the *WESM* during the supply months of November 2013 and December 2013. *MERALCO* participated in the proceedings and submitted a Memorandum.

An investigating officer of the *IU* filed a Complaint dated May 9, 2015 against *MERALCO* and *TMO* for alleged anti-competitive behavior constituting economic withholding in violation of Section 45 of the *EPIRA* and Rule 11, Section 1 and 8(e) of the *EPIRA IRR*. In an Order dated June 15, 2015, the *ERC* directed *MERALCO* to file its comment on the Complaint. *MERALCO* and *TMO* have filed their respective answers to the Complaint.

In an Order dated September 1, 2015, the *ERC* directed the investigating officer to file his reply to *MERALCO*. In a Manifestation and Motion to Set the Case for Hearing dated November 9, 2015, the investigating officer manifested that he would no longer file a reply and that the case be set for hearing.

On May 24, 2016, the *ERC* promulgated Resolution No. 14, Series of 2016, which resolved to divide the Commission into two (2) core groups for the conduct of hearings and to designate the

commissioners to act as presiding officers in anti-competition cases. The raffle pursuant to said Resolution was conducted on June 15, 2016.

In a Notice of Pre-Trial Conference dated June 16, 2016, the *ERC* set the pre-trial conference on August 18, 2016 and required *MERALCO* and *TMO* to submit their respective pre-trial briefs. However, on July 27, 2016, the complainant filed two (2) omnibus motions for the consolidation and deferment of the pre-trial conferences. Hence, in an Order dated August 1, 2016, the respondents were given 10 days to submit their comments on the Motion for Consolidation, with the complainant given five (5) days to file his reply. As such, the pre-trial conferences as scheduled were deferred until further notice and all parties were granted 20 days to submit their respective pre-trial briefs.

In the meantime, *MERALCO* likewise filed an Urgent Motion to Dismiss with Motion to Suspend Proceedings which was adopted by *TMO* in its Manifestation and Motion filed on July 28, 2016. *MERALCO* maintained that the Complaint should be dismissed due to the absence of subject matter jurisdiction as it is now the Philippine Competition Commission ("*PCC*") which has original and primary jurisdiction over competition-related cases in the energy sector. On August 23, 2016, *MERALCO* filed an Urgent Motion Ad Cautelam for suspension of proceeding including period to file pre-trial brief and judicial affidavit.

In a Motion dated August 25, 2016, complainant filed a Motion to defer the submission of the complainant's pre-trial brief and judicial affidavit. In an Order dated June 13, 2017, the *ERC* denied the motion to consolidate but upheld the authority of private counsel to represent the complainants. *MERALCO* filed a Motion for Partial Reconsideration to question such authority.

In an Order dated February 2, 2017, the *ERC* denied the motion to dismiss and asserted jurisdiction over the Complaint. *MERALCO* filed its *MR* to the Order on February 23, 2017. In an Order dated June 20, 2017, the *ERC* denied the *MR*. On September 19, 2017, *MERALCO* filed a Petition for Certiorari with the *CA*. In a Resolution dated October 2, 2017, the *CA* required respondents to file their Comment on the Petition within 10 days and held in abeyance its resolution on the prayer for injunctive relief until the comments have been filed. *MERALCO* was likewise given five (5) days to file its reply. In a Manifestation dated October 23, 2017, the *ERC* stated that it is a nominal party in the case as the quasi-judicial tribunal that issued the assailed ordinances. The *IU* filed its own Comment dated December 19, 2017. In a Manifestation and Motion dated December 22, 2017, the *OSG* informed the *CA* that it will no longer represent the *IU* and will instead participate as "tribune of the people". In the meantime, *TMO* also filed a separate Petition for Review on Certiorari with the *CA*. In a Resolution dated January 10, 2018, the *CA* ordered the consolidation of the petitions of *TMO* and *MERALCO*. In a Decision dated May 23, 2018, the *CA* denied the consolidated Petitions filed by *MERALCO*, *TMO*, and *APRI*, and ruled that the jurisdiction to resolve the *IU* cases remains with the *ERC* because the Philippine Competition Act ("*PCA*") does not apply retroactively.

On June 20, 2018, *MERALCO* filed an *MR* with the *CA*. The *ERC* likewise filed its Motion for Partial Reconsideration on the ground that it retained concurrent jurisdiction together with the *PCC* over cases involving alleged anti-competitive conduct supposedly because the *PCA* did not repeal Section 45 of the *EPIRA*.

In Resolution dated January 28, 2019, the *CA* denied the motions for reconsideration filed by all of the parties. While it sustained its finding that the *PCC* now holds original, exclusive, and primary jurisdiction over all competition-related cases, the *CA* reiterated its view that the *PCA* has no retroactive effect.

The *ERC* has elevated the matter to the SC. *MERALCO*, *TMO* and *APRI* have all filed their respective manifestations before the SC. In a Resolution dated September 29, 2021, the SC affirmed the *CA* in that the *ERC* had jurisdiction over these cases as they were filed before the enactment of the *PCA*. However, the SC did not rule on whether the *PCC* and the *ERC* now have concurrent jurisdiction as these issues were not fully litigated.

In the meantime, the *ERC* called for a conference on March 26, 2021 in order to discuss updates and developments regarding the case. On April 14, 2021, *MERALCO* filed an Urgent Motion Ad Cautelam to Suspend Proceedings in view of the pendency of the case before the SC. The *ERC* then issued an Order dated August 13, 2021, setting the pre-trial conference on August 27, 2021. *MERALCO* filed a Manifestation and Urgent Omnibus Motion Ad Cautelam to (A) Resolve the Urgent Motion Ad Cautelam to Suspend Proceedings dated April 14, 2021 and (B) Cancel the August 27, 2021 Pre-Trial Conference dated August 20, 2021. The pre-trial conference proceeded on August 27, 2021. However, the *ERC* stated that, after the pre-trial conference and before the case can proceed with trial on the merits, the *ERC* will first resolve *MERALCO*'s motions. The *ERC* also issued an open court order denying the motion of the *ERC IU* that the case be resolved through the submission of the position papers and other supporting documents. The *ERC IU* filed a Motion for Reconsideration to which *MERALCO* filed an opposition. As at February 27, 2023, *MERALCO* is awaiting further action by the *ERC* on the matter.

7. Ombudsman Case Against Directors

On January 30, 2018, *MERALCO* received an Order dated January 22, 2018 from the Office of the Ombudsman directing *MERALCO*'s directors to comment on a complaint-affidavit for syndicated estafa filed by certain consumer group which charged that there was conspiracy between *MERALCO* directors and the *ERC* regarding the alleged misappropriation of the bill deposits received from *MERALCO* consumers. On February 9, 2018, *MERALCO*'s directors filed their Counter-Affidavits where they refuted the arguments of the consumer group. In a Resolution dated May 18, 2018, the criminal complaint for syndicated estafa was dismissed for insufficiency of evidence. The case was referred to the COA for the conduct of audit on the bill deposits collected by *MERALCO* from the public consumers and to inform the Ombudsman of the compliance therewith. The consumer group filed a Motion for Partial Reconsideration dated June 16, 2018 to which *MERALCO* filed its Comment. The consumer group's Motion for Partial Reconsideration was denied through an Order dated July 30, 2018. *NASECORE* filed an *Urgent Motion for Immediate Execution* dated September 21, 2018 praying that the Ombudsman issue a writ of execution to implement the *Resolution* dated May 18, 2018.

On February 28, 2018, *MERALCO* received an Order dated February 20, 2018 from the Office of the Ombudsman directing *MERALCO*'s directors to comment on a complaint-affidavit for syndicated estafa filed by certain consumer group which charged that there was conspiracy between *MERALCO* directors and the *ERC* regarding the *MERALCO*'s investment activities in other businesses for being violative of its legislative franchise and the *EPIRA*. On March 12, 2018, *MERALCO*'s directors filed their Counter-Affidavits where they refuted the arguments of the consumer group. On May 4, 2018, *MERALCO* filed a Manifestation with Motion for Early Resolution of even date. Another Motion to Resolve and Dismiss was also filed by *MERALCO* on June 2, 2021. In a Joint Resolution dated February 22, 2022, the Ombudsman dismissed the cases.

8. SC Decision on the ₱0.167 per kWh Refund

Following the SC's final ruling that directed *MERALCO* to refund affected customers ₱0.167 per kWh for billings made from February 1994 to April 2003, the *ERC* approved the release of the refund in four (4) phases. On December 18, 2015, *MERALCO* filed a Motion seeking the *ERC*'s approval for the continuation of the implementation of the refund to eligible accounts or customers under Phases I to IV, three (3) years from January 1, 2016 or until December 31, 2018. In said Motion, *MERALCO* likewise manifested to the *ERC* that, in order to give eligible customers, the opportunity to claim their refund, and, so as not to disrupt the SC Refund process, *MERALCO* shall continue implementing the refund even after the December 2015 deadline, until and unless the *ERC* directs otherwise. In its Order dated December 18, 2019, the *ERC* granted *MERALCO*'s Motion and authorized *MERALCO* to continue with the implementation of the SC Refund to eligible accounts or customers under Phases I to IV until June 30, 2019 and submit a proposed scheme on how the unclaimed refund will be utilized for purposes of reducing the distribution rates of customers. On February 18, 2019, *MERALCO* filed a Partial Compliance with Manifestation and Motion. On March 8, 2019, *MERALCO* filed a Compliance with Manifestation and Motion. On July 12, 2019, *MERALCO* filed its Compliance with Manifestation informing the *ERC* that on July 1, 2019, *MERALCO* deposited all the unclaimed amounts of the SC Refund as of June 30, 2019 in a separate bank account. *MERALCO* further manifested in said Compliance that it shall continue with the processing of the refund claims of eligible customers and should the refund claims of these customers be evaluated to be valid, *MERALCO* shall, for the benefit of the customers, withdraw the refund amount from the bank account, release the same to the concerned customers and accordingly inform the *ERC* of the refunds paid. On September 10, 2019, *MERALCO* filed an Urgent Manifestation and Motion with respect to the Order dated December 19, 2018 of the *ERC*. The *ERC* has yet to rule on the Urgent Manifestation and Motion by *MERALCO*. In its letter dated July 23, 2020, *MERALCO* informed the *ERC* of the updated balance of the SC Refund. As at February 27, 2023, *MERALCO* continues to process the refund claims of eligible customers.

In the meantime, in a letter dated February 3, 2021, the *ERC* informed *MERALCO* that it will be undertaking an audit and verification of *MERALCO*'s refunds, which included *MERALCO*'s SC refund. The audit has been completed and as at February 27, 2023, *MERALCO* is awaiting further action of the *ERC* on the matter.

9. Overpayment of Income Tax related to SC Refund

With the decision of the SC for *MERALCO* to refund ₱0.167 per kWh to customers during the billing period February 1994 to May 2003, *MERALCO* overpaid income tax in the amount of ₱7,107 million for taxable years 1994 to 1998 and 2000 to 2001. Accordingly, on November 27, 2003, *MERALCO* filed a claim for the recovery of such excess income taxes paid. After examination of the books of *MERALCO* for the covered periods, the *BIR* determined that *MERALCO* had in fact overpaid income taxes in the amount of ₱6,690 million. However, the *BIR* also maintained that *MERALCO* is entitled to a refund amount of only ₱894 million, which pertains to taxable year 2001, claiming that the period for filing a claim had prescribed in respect to the difference between *MERALCO*'s overpayment and the refund amount *MERALCO* is entitled to.

The *BIR* then approved the refund of ₱894 million for issuance of tax credit certificates ("TCCs"), proportionate to the actual refund of claims to utility customers. The *BIR* initially issued TCCs amounting to ₱317 million corresponding to actual refund to customers as at August 31, 2005. In

May 2014, the *BIR* issued additional *TCCs* amounting to ₱396 million corresponding to actual refund to customers as at December 31, 2012.

MERALCO filed a Petition with the Court of Tax Appeals (“*CTA*”) assailing the denial by the *BIR* of its income tax refund claim of ₱5,796 million for the years 1994 - 1998 and 2000, arising from the *SC* decision (net of ₱894 million as approved by the *BIR* for taxable year 2001 “Overpayment of Income Tax related to *SC* Refund”). In a Decision dated December 6, 2010, the *CTA*’s Second Division granted *MERALCO*’s claim and ordered the *BIR* to refund or to issue *TCC* in favor of *MERALCO* in the amount of ₱5,796 million in proportion to the tax withheld on the total amount that has been actually given or credited to its customers.

On appeal by the *BIR* to the *CTA* En Banc, *MERALCO*’s petition was dismissed on the ground of prescription in the Decision of the *CTA* En Banc dated May 8, 2012. On a *MR* by *MERALCO* of the said dismissal, the *CTA* En Banc partly granted *MERALCO*’s motion and issued an Amended Decision dated November 13, 2012, ruling that *MERALCO*’s claim was not yet barred by prescription and remanding the case back to the *CTA* Second Division for further reception of evidence.

The *BIR* filed a *MR* of the above Amended Decision, while *MERALCO* filed its Motion for Partial Reconsideration or Clarification of Amended Decision. Both parties filed their respective Comments to the said motions, and these were submitted for resolution at the *CTA* En Banc.

In a Resolution promulgated on May 22, 2013, the *CTA* denied the said motions of the *BIR* and *MERALCO*, and the *CTA* Second Division was ordered to receive evidence and rebuttal evidence relating to *MERALCO*’s level of refund to customers, pertaining to the excess charges it made in taxable years 1994-1998 and 2000, but corresponding to the amount of ₱5,796 million, as already determined by the said court.

On July 12, 2013, the *BIR* appealed the *CTA* En Banc’s Amended Decision dated November 13, 2012 and Resolution dated May 22, 2013 via Petition for Review with the *SC*. As at February 27, 2023, the case is pending resolution by the *SC*.

(v) Any significant elements of income or loss that did not arise from the registrant’s continuing operations.

The reconciliation of Consolidated Core Net Income (“*CCNI*”) and Net income as disclosed in Note 6 to the consolidated financial statements shows the amounts of foreign exchange gains or losses, mark-to-market adjustments, impairment or reversal of impairment of noncurrent assets and other one-time, exceptional transactions, net of tax effect of the foregoing adjustments.

(vi) Any seasonal aspects that had a material effect on the financial condition or results of operations.

Seasonality of Operations and Growth Drivers

Approximately 97% of *MERALCO Group*’s operating revenues pertain to sale of electricity distributed by *MERALCO* and *Clark Electric*.

The electricity sales of *MERALCO* and *Clark Electric* exhibit a degree of quarterly seasonality. The *kWh* sales in the first quarter is lower than the average of the year as this period is characterized by cooler temperature and softer consumer demand following heightened consumer spending in the

last quarter of the year. The second quarter is marked by higher than average *kWh* sales. This is due to a number of factors, including: increased consumption of households and commercial establishments due to the summer season; increased production of industries to replenish stocks and in preparation for the opening of classes; and, heightened construction activity to take advantage of the sunny weather. In the third quarter of the year, manufacturing industries that cater to the export market have their peak production schedule at this time as they rush to meet shipping deadlines to foreign markets. Industries catering to the domestic market are also now starting production in preparation for the Christmas season. Lastly, the fourth quarter performance is about the average of the year. Industrial production winds down while households and commercial establishments also cut down on their cooling loads. Given this perspective on the seasonality of *kWh* sales, a higher proportion of the *MERALCO's* and *Clark Electric's* revenues are earned on the second half of the year. Aside from the quarterly seasonal pattern, *kWh* sales on a year-on-year basis adjust as a result of a number of factors. Sales of electricity normally increase in periods of economic growth, low inflation and electricity rates, and in periods of high temperatures over extended period of time, e.g. the “*El Niño*” episodes.

The following table sets forth *MERALCO Group* quarterly sales in *GWh* for the year ended December 31, 2022 and 2021.

Period	2022	2021
First Quarter	11,069	10,473
Second Quarter	12,899	12,190
Third Quarter	12,585	11,735
Fourth Quarter	12,363	11,675
Total	48,916	46,073

The power generation business generally follows the seasonality of the distribution utility business. The businesses of all other subsidiaries are not highly seasonal.

(vii) Any known trends, demands, commitments, events or uncertainties that will have a material impact of the issuer’s liquidity.

Management is not aware of any known trends, demands, commitments, events or uncertainties that may deem potentially have a material impact on *MERALCO Group's* liquidity as at December 31, 2022, other than those already disclosed in this report and in the consolidated financial statements.

(viii) Discussion of *MERALCO's* and its majority-owned subsidiaries top five (5) key performance indicators. It shall include a discussion of the manner by which *MERALCO* calculates or identifies the indicators presented on a comparable basis.

Listed hereunder are *MERALCO's* five (5) major subsidiaries namely *Clark Electric*, *MGen*, *MIESCOR*, *e-MVI* and *CIS*. The following table summarizes their key financial performance and indicators as at and for the years ended December 31, 2022 and 2021.

Financial Highlights and Ratios¹ of Major Subsidiaries
As at and for the Year Ended December 31, 2022 and 2021
(Amounts in million pesos except for financial ratios and % change)

	Clark Electric			MGen			MIESCOR			e-MVI			CIS		
	2022	2021	% change	2022	2021	% change	2022	2021	% change	2022	2021	% change	2022	2021	% change
Percentage of ownership	65%	65%		100%	100%		99%	99%		100%	100%		100%	100%	
Condensed Statements of Financial Position															
Total assets	₱3,916	₱3,278	16	₱128,553	₱119,124	8	₱22,592	₱7,176	215	₱6,575	₱4,271	54	₱5,640	₱3,199	85
Current assets	1,631	1,433	14	24,535	20,227	21	9,347	6,385	46	967	1,155	(16)	5,682	3,089	84
Cash and cash	1,102	1,017	8	8,748	9,194	(5)	2,074	840	147	265	679	(61)	2,160	1,389	56
Equity	2,343	2,145	9	55,080	39,253	40	6,492	1,657	292	2,902	2,704	7	986	932	6
Total debt ²	—	—	—	47,370	48,578	(2)	4,904	683	618	808	—	—	—	—	—
Current liabilities	674	408	65	13,296	21,471	(38)	5,815	4,797	21	2,819	1,449	95	4,848	2,172	123
Financial Ratios															
Debt-to-equity ratio	—	—	—	0.86	1.24	(31)	0.76	0.41	83	0.28	—	—	—	—	—
Current ratio	2.42	3.51	(31)	1.85	0.94	96	1.61	1.33	21	0.34	0.80	(57)	1.17	1.42	(18)
Condensed Statements of Income															
Revenues	3,235	2,537	28	32,777	18,486	77	7,768	5,074	53	2,010	1,506	33	1,964	1,880	4
Costs and expenses	2,977	2,295	30	33,609	17,977	87	7,467	4,713	58	1,758	1,197	47	1,868	1,747	7
Net income	268	231	16	6,141	2,001	207	64	110	(42)	180	255	(29)	60	37	62
Financial Ratios															
Profit margin	8.3%	9.1%	(9)	18.7%	10.8%	73	0.8%	2.2%	(62)	9.0%	16.9%	(47)	3.1%	2.0%	55
Return on equity	11.4%	10.8%	6		5.1%	119	1.0%	6.6%	(85)	6.2%	9.4%	(34)	6.1%	4.0%	53
Asset turnover	0.89	0.77	15	0.26	0.25	6	0.52	0.80	(35)	0.37	0.39	(5)	0.43	0.52	(17)

¹ The manner of computing the financial ratios for subsidiaries is the same with that of MERALCO's as presented in *Financial Highlights and Key Performance Indicators*.

² Total Debt is composed of notes payable and interest-bearing long-term financial liabilities, current and non-current portions.

ANNEX – Aging of Trade and Other Receivables

As at December 31, 2022

(Amounts in millions)

	T o t a l	1 - 30 days	31 - 60 days	61 - 90 days	Over 90 days
Trade receivables	₱49,289	₱30,112	₱1,065	₱478	₱17,634
Other trade receivables	6,301	3,027	448	345	2,481
Gross trade receivables	55,590	33,139	1,513	823	20,115
Non-trade receivables	6,208	5,252	54	14	888
Total receivables	61,798	38,391	1,567	837	21,003
Allowance for doubtful accounts	(7,115)	(111)	(328)	(711)	(5,965)
Net receivables	₱54,683	₱38,280	₱1,239	₱126	₱15,038

Item 7. Financial Statements

Refer to Index to Financial Statements

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures

There are no changes in and disagreements with accountants on accounting and financial disclosures.

External Audit Fees

The External Auditors

The shareholders of *MERALCO* has reappointed *SGV* as its external auditors for the year ended December 31, 2022 during the annual stockholders' meeting on May 31, 2022. The signing partner of *SGV* for *MERALCO* is Mr. Narciso T. Torres Jr.

(a) Audit and Audit-Related Fees

SGV was engaged to audit the annual financial statements of *MERALCO* and subsidiaries and perform related reviews. The following consolidated fees, exclusive of value added tax were incurred.

	2022	2021
	(Amounts in millions)	
Financial statements audit	₱19.0	₱18.1
Audit of financial statements in accordance with the requirements of the Business Separation and Unbundling Plan of the <i>ERC</i> and Audit of universal charge reports as required by <i>PSALM</i>	0.7	0.7

(b) Tax Fees

Not applicable.

(c) The Audit Committee's approval of policies and procedures for the above services

The Audit Committee approves the terms of engagement and scope of services of the independent auditors as endorsed by Management. For non-audit services, Management is required to obtain pre-approval from the Audit Committee prior to engagement.

(d) Describe disagreements, if there were any, with the former accountant on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure which, if not resolved to the satisfaction of the former accountant, would have caused it to make reference to the subject matter of the disagreement(s) in connection with this report.

Not applicable.

(e) If there were any disagreements as described in subparagraph (2), the registrant shall request the former accountant to furnish the registrant with a letter addressed to the Commission stating whether it agrees with the statements made by the registrant and, if not,

stating the respects in which it does not agree. The registrant shall file the former accountant's letter as an exhibit to the report or registration statement containing this disclosure.

Not applicable.

PART III – CONTROL AND COMPENSATION INFORMATION

Item 9. Directors and Executive Officers

As of March 31, 2023, the names of the incumbent Directors, nominees for election as directors and Executive Officers of *MERALCO* and their respective ages, citizenship, current positions, periods of service and business experiences during the past five (5) years are as follows:

MANUEL V. PANGILINAN

Filipino, 76 years old

Chairman, Board of Directors

Chairman, Executive Committee

Chairman, Remuneration and Leadership Development Committee

Chairman, Sustainability Committee

Director of Manila Electric Company since May 26, 2009

Education and Training:

- BA Economics Degree, Ateneo De Manila University
- Masters in Business Administration, Wharton School of Finance and Commerce University of Pennsylvania
- Honorary Doctorate in Humanities, San Beda College/Xavier University/Holy Angel University/Far Eastern University

Membership in Board of Listed Companies:

- PLDT Inc.
- Metro Pacific Investments Corporation
- Philex Mining Corporation
- PXP Energy Corporation
- Roxas Holdings, Inc.

Membership in Board of Non-Listed Companies:

- Beacon Electric Asset Holdings, Inc.
- Smart Communications, Inc.
- PLDT Communications and Energy Ventures Inc.
- Landco Pacific Corporation
- Medical Doctors, Inc.
- Colinas Verdes Corporation
- Davao Doctors Hospital
- Riverside Medical Center, Inc.
- Our Lady of Lourdes Hospital
- Asian Hospital Inc.
- Maynilad Water Services, Inc.
- Mediaquest, Inc.

- Associated Broadcasting Corporation (TV5)
- NLEX Corporation
- MERALCO PowerGen Corporation
- Philex Petroleum Corporation
- Metro Pacific Hospital Holdings, Inc.
- Makati Medical Center
- Cardinal Santos Medical Center
- Digital Telecommunications Phils. Inc.
- Digitel Mobile Philippines, Inc.

Position and Membership in Other Organizations and Corporations:

Chairman of PLDT Inc., Smart Communications, Inc., Metro Pacific Investments Corporation, PLDT Communications and Energy Ventures Inc., Landco Pacific Corporation; Metro Pacific Hospital Holdings, Inc., Maynilad Water Services, Inc., Mediaquest, Inc., Associated Broadcasting Corporation (TV5), Makati Medical Center, Cardinal Santos Medical Center, Our Lady of Lourdes Hospital, Philex Mining Corporation, PXP Energy Corporation, NLEX Corporation, Digital Telecommunications Phils. Inc., Digitel Mobile Philippines, Inc. and MERALCO PowerGen Corporation

- Chief Executive Officer and Managing Director of First Pacific Company Limited
- Co-chairman of US-Philippines Society
- Chairman of the Board of Trustees of San Beda College, Hongkong Bayanihan Trust, Philippine Disaster Resilience Foundation, Disaster Recovery Foundation, Inc. and Philippine Business for Social Progress
- Vice Chairman of the Foundation for Crime Prevention
- Member of the Board of Overseers of The Wharton School, University of Pennsylvania
- Former Governor of the Philippine Stock Exchange

LANCE Y. GOKONGWEI

Filipino, 56 years old

Vice-Chairman, Board of Directors

Member, Executive Committee

Member, Finance Committee

Member, Remuneration and Leadership Development Committee

Member, Sustainability Committee

Director of Manila Electric Company since December 16, 2013

Education and Training:

- BS Finance, Wharton School of Finance and Commerce University of Pennsylvania
- BS Applied Science, Penn Engineering School University of Pennsylvania

Membership in Board of Listed Companies:

- Altus Property Ventures, Inc.
- JG Summit Holdings, Inc.
- Universal Robina Corporation
- Cebu Air, Inc.
- Robinsons Land Corporation
- Robinsons Retail Holdings, Inc.
- RL Commercial REIT, Inc
- Shakey's Asia Pizza Ventures, Inc.

- Oriental Petroleum and Minerals Corporation
- United Industrial Corporation Limited

Membership in Board of Non-listed Companies:

- Robinsons Bank Corporation
- Gokongwei Brothers Foundation, Inc.
- JG Summit Olefins Corporation
- Endeavor Acquisition Corporation
- JE Holdings, Inc.
- AB Capital and Investment Corporation
- JG Digital Equity Ventures, Inc.
- Data Analytics Ventures, Inc.

Position and Membership in Other Organizations and Corporations:

- Chairman of Universal Robina Corporation, Robinsons Land Corporation, Robinsons Retail Holdings, Inc., Robinsons Bank Corporation, and JG Summit Olefins Corporation
- President and Chief Executive Officer of Cebu Air, Inc. and JG Summit Holdings, Inc.
- Chairman and Trustee of Gokongwei Brothers Foundation, Inc.

RAY C. ESPINOSA

Filipino, 66 years old

President and CEO since May 28, 2019

Director of Manila Electric Company since May 26, 2009

Education and Training:

- BS General Studies, University of Santo Tomas
- Bachelor of Laws, Ateneo De Manila University
- Master of Laws, University of Michigan Law School

Membership in Board of Publicly Listed Companies:

- PLDT Inc.
- Metro Pacific Investments Corporation
- Lepanto Consolidated Mining Company
- Roxas Holdings, Inc.

Membership in Board of Non-Listed Companies:

- AGN Philippines, Inc. – Co-Chairman of the Board
- Atimonan Land Ventures Development Corporation – Chairman of the Board
- Atimonan One Energy, Inc. – Chairman of the Board
- Aurora Managed Power Services Inc. – Chairman of the Board
- BTF Holdings, Inc – Director
- Beacon Electric Asset Holdings, Inc – Director
- Beacon PowerGen Holdings, Inc. – Director
- Bell Telecommunication Philippines, Inc. – Co-Chairman of the Board
- Bonifacio Communications Corp. – Director
- Bow Arken Holding Company, Inc. – Co-Chairman of the Board
- Brightshare Holdings Corporation – Co-Chairman of the Board
- Business World Publishing Corporation – Chairman of the Board

- Calamba Aero Power Corporation – Chairman of the Board
- Signal Cable Corporation (formerly Dakila Cable TV Corporation) – Director
- Signal TV, Inc. – Director
- Cinegear, Inc. – Chairman of the Board
- CIS Bayad Center, Inc. – Chairman of the Board
- Clark Electric Distribution Corporation – Chairman of the Board
- Cobaltpoint Telecom, Inc. – Co-Chairman of the Board
- Comstech Integration Alliance, Inc. – Chairman of the Board
- Connectivity Unlimited Resource Enterprise Inc. – Director
- Corporate Information Solutions, Inc. – Chairman of the Board
- Dominer Pointe, Inc. – Co-Chairman of the Board
- Eastern Telecommunications Philippines, Inc. – Co-President
- Enterprise Investments Holdings, Inc. – Director
- Epik Studios, Inc. – Vice Chairman of the Board
- e-Meralco Ventures, Inc. – Chairman of the Board
- eSakay, Inc. – Chairman of the Board
- eTelco, Inc. – Co-Chairman of the Board
- ESPI Real Estate Ventures Inc. – President
- Federation of Philippine, Industries, Inc. - Director
- First Agri Holdings Corporation – President and Director
- First Coconut Manufacturing Inc. – Vice Chairman of the Board
- First Delta Group Security Services, Inc. – Director
- First Pacific Leadership Academy, Inc.- Trustee
- FPM Power Holdings Inc. (BVI Company) – Director
- Francom Holdings Inc. – Director
- Global Business Power Corporation – Director
- Hastings Holdings, Inc. – Chairman and Director
- Hi Frequency Telecommunications, Inc. – Co-Chairman of the Board
- JS' Publications (THE FREEMAN) Company, Inc. – Director
- Laguna Sol Corporation – Chairman of the Board
- Landco Pacific Corporation – Director
- Laro Technology, Inc. – Chairman of the Board
- Liberty Telecom Holdings, Inc. – Co-Chairman of the Board
- Maybank Philippines, Inc. – Independent Director
- Manila Overseas Press Club – Director
- Med Vision Resources, Inc. – Chairman of the Board
- Mediaquest Holdings, Inc. – Director
- Media5 Marketing Corporation – Director
- MGen Renewable Energy, Inc. – Chairman of the Board
- MGreen International Limited (BVI Company) – Director
- Meralco Energy, Inc. – Chairman of the Board
- Meralco Industrial Engineering Services Corporation (MIESCOR) – Chairman of the Board
- Meralco Power Academy – Director
- Meralco PowerGen Corporation – Vice Chairman of the Board
- Meralco Power Foundation, Inc. – Vice Chairman and Trustee
- Meridian Power Ventures Limited - Director
- Metro Pacific Assets Holdings, Inc. – Director

- Metro Pacific Holdings, Inc. – Director
- Metro Pacific Resources, Inc. – Director
- Miescor Infrastructure Development Corporation – Chairman of the Board
- MPG Asia Limited (BVI Company) – Director
- MPG Holdings Philippines, Inc. – Chairman of the Board
- MPG Mauban LP Corporation – Chairman of the Board
- M Pioneer Insurance, Inc. – Chairman of the Board
- MRail Inc. – Chairman of the Board
- MSpectrum, Inc. – Chairman of the Board
- Multi Technology Investments Holdings, Inc. – Co-Chairman of the Board
- MVP Rewards and Loyalty Solutions Inc. – Director
- Nation Broadcasting Corp. – Chairman of the Board
- New Century Telecoms, Inc. –Co-Chairman of the Board
- Nuevo Solar Energy Corp. – Chairman of the Board
- One Meralco Foundation, Inc. –Vice Chairman and Trustee
- Pacific Aurora Plantation Corp. – Vice Chairman of the Board
- Pacific Global One Aviation Company, Inc. – Director
- Pacific Light Power PTE LTD (Singapore Company) – Director
- Pacific Light Renewables Pte. Ltd. (Singapore Company) – Director
- Paragon Vertical Corporation – Chairman of the Board
- Perchpoint Holdings, Inc. – Co-Chairman of the Board
- Perihelion, Inc. – Director
- PH Broadband Networks Holdings, Inc.– Co-Chairman of the Board
- PH Communications Holdings Corporation – Director
- Philippine Disaster Resilience Foundation, Inc. – Director
- Philippine Online Sportsleague, Inc. – Director
- Philippine Telecommunications Investment Corp. – Director and Corporate Secretary
- Philstar Daily, Inc. – Chairman of the Board
- Philstar Global Corporation – Chairman of the Board
- Pilipinas Global Network Limited (TV5 International)– Director
- Pilipinas Natural Resources Holdings, Inc. – President and Director
- Pilipinas Pacific Enterprise Holdings, Inc. – President and Director
- Pilipina Pacific Natural Resources Holdings Inc. – President and Director
- Pilipinas Pacific Telecom Holdings, Inc. – Asst. Corporate Secretary
- Pilipino Star Ngayon, Inc. – Chairman of the Board
- Pilipino Star Printing Company, Inc. – Chairman of the Board
- PLDT - Beneficial Trust Fund - Vice Chairman and Trustee
- PLDT Capital PTE Ltd. – Director
- PLDT Digital Investments PTE Ltd – Director
- PLDT Global Corporation – Director
- PLDT Global Investments Corporation – Director
- PLDT Global Investments Holdings Inc. – Director
- PLDT Online Investments PTE Ltd - Director
- PLDT - Smart Foundation – Trustee
- Radius Telecoms, Inc. – Chairman of the Board
- Redondo Peninsula Energy, Inc. – Chairman of the Board
- Roxas Power Corporation – Director

- Sari Sari Network Inc. – Co-Chairman of the Board
- SatVentures, Inc. – Director
- Shin Clark Power Holdings, Inc. – Director
- Shin Clark Power Corporation - Director
- Skyphone Logistics, Inc. – Co-Chairman of the Board
- Somete Logistics & Development Corporation – Co-Chairman of the Board
- Smart Communications, Inc. - Director
- Stargate Media Corporation (People Asia) – Chairman of the Board
- Straight Shooters Media, Inc. – Vice Chairman of the Board
- Studio5, Inc. – Chairman of the Board
- Talas Data Intelligence Inc. – Director
- Telecommunications Service Providers, Inc. – Director
- Telecommunication Technologies Philippines, Inc. –Co-President and Co-Chairman of the Board
- Telemedia Business Ventures, Inc. – Chairman of the Board
- Tori Spectrum Telecom, Inc. – Co-Chairman of the Board
- TV5 Network Inc. – Director
- Two Cassandra - CCI Conglomerate, Inc. – Co-Chairman of the Board
- Two Rivers Pacific Holdings Corporation – Director
- UxS Inc. (formerly Unitel Production, Inc.) – Vice Chairman of the Board
- Upbeam Investments, Inc. – Chairman of the Board
- Vega Telecom, Inc. – Co-Chairman
- WREIT, Inc. – Independent Director

Position and Membership in Other Organizations and Corporations:

- Audit Committee Chairman of Lepanto Consolidated Mining Company
- Risk Management Committee Chairman, Trust Committee Member of Maybank Philippines
- Member of the Integrated Bar of the Philippines, Philippine Bar Association, and Inter-Pacific Bar Association
- Nomination, Election and Governance Committee Member of Roxas Holdings. Inc.
- Executive Committee Member of LAWASIA Energy Section
- President of Mediaquest Holdings, Inc.
- Chairman of Business World Publishing, Inc. and Philstar Daily, Inc.

ANABELLE L. CHUA

Filipino, 62 years old

Member, Finance Committee

Member, Audit Committee

Member, Risk Management Committee

Member, Nomination and Governance Committee

Member, Related Party Transactions Committee

Director of Manila Electric Company since May 31, 2016

Education and Training:

- BS Business Administration and Accountancy, University of the Philippines

Membership in Board of Listed Companies:

- Philippine Stock Exchange

Membership in Board of Non-Listed Companies:

- Beacon Electric Asset Holdings, Inc.
- PLDT Communications and Energy Ventures, Inc.
- Smart Communications, Inc.
- Digital Telecommunications Phils. Inc.
- ePLDT, Inc.
- Philippine Telecommunications Investment Corporation
- Voyager Innovations, Inc.
- Maya Philippines, Inc.
- Mediaquest Holdings Inc.
- Signal TV, Inc.
- TV5 Network, Inc.
- Philstar Daily, Inc.
- Securities Clearing Corporation of the Philippines

Position and Membership in Other Organizations and Companies

- Chief Finance Officer, Chief Risk Management Officer and Senior Vice President, PLDT Inc.
- Chief Finance Officer, Smart Communications, Inc.
- Member of the Board of Trustees of PLDT Beneficial Trust Fund and PLDT Foundation, Inc.

FREDERICK D. GO

Filipino, 53 years old

Member, Audit Committee

Member, Nomination and Governance Committee

Member, Related Party Transactions Committee

Member, Risk Management Committee

Member, Sustainability Committee

Director of Manila Electric Company since November 25, 2019

Education and Training:

- BS Management Engineering, Ateneo de Manila University

Membership in Board of Listed Companies:

- Robinsons Land Corporation
- RL Commercial REIT, Inc.
- Altus Property Ventures, Inc.
- Cebu Air, Inc.

Membership in Board of Non-Listed Companies:

- Universal Hotels and Resorts Incorporated
- Robinsons Bank Corporation
- Luzon International Premier Airport Development Corporation
- Cebu Light Industrial Park

Position and Membership in Other Organizations and Companies:

- President and Chief Executive Officer, Robinsons Land Corporation Group of Companies
- Chairman, RL Commercial REIT, Inc.
- President and Chief Executive Officer, Altus Property Ventures, Inc.

- President and Chief Executive Officer, Universal Hotels and Resorts Incorporated
- Presidential Adviser on Investment and Economic Affairs – Office of the President of the Republic of the Philippines
- Vice-Chairman, Luzon International Premier Airport Development Corporation
- Group General Manager, Shanghai Ding Feng Real Estate Development Company Limited
- Group General Manager, Xiamen Pacific Estate Investment Company Limited
- Group General Manager, Chengdu Ding Feng Real Estate Investment Company Limited
- Group General Manager, Taicang Ding Feng Real Estate Development Company Limited
- Vice Chairman, Robinsons Bank Corporation
- Director, Cebu Air, Inc.
- Director, Cebu Light Industrial Park
- Vice Chairman, Philippine Retailers Association

JAMES L. GO

Filipino, 83 years old

Member, Executive Committee

Member, Audit Committee

Member, Risk Management Committee

Member, Finance Committee

Member, Nomination and Governance Committee

Member, Related Party Transactions Committee

Director of Manila Electric Company since December 16, 2013

Education and Training:

- BS Chemical Engineering, Massachusetts Institute of Technology
- Masters in Chemical Engineering, Massachusetts Institute of Technology

Membership in Board of Listed Companies:

- JG Summit Holdings, Inc.
- Oriental Petroleum and Minerals Corporation
- Robinsons Land Corporation
- Universal Robina Corporation
- Robinsons Retail Holdings, Inc.
- Cebu Air, Inc.
- PLDT Inc.
- United Industrial Corporation Limited

Membership in Board of Non-Listed Companies:

- JG Summit Petrochemical Corporation
- JG Summit Olefins Corporation
- Marina Center Holdings, Inc.
- Hotel Marina City Private Limited
- Gokongwei Brothers Foundation, Inc.

Position and Membership in Other Organizations and Corporations:

- Chairman of JG Summit Holdings, Inc. and Cebu Air, Inc. and Chairman and Chief Executive Officer of Oriental Petroleum and Minerals Corporation
- Chairman Emeritus of Robinsons Land Corporation, Universal Robina Corporation, JG Summit, Petrochemical Corporation and JG Summit Olefins Corporation Vice-Chairman of Robinsons Retail Holdings, Inc.
- President and Trustee of Gokongwei Brothers Foundation, Inc.

JOSE MA. K. LIM

Filipino, 70 years old

Chairman, Finance Committee

Chairman, Risk Management Committee

Member, Executive Committee

Member, Audit Committee

Member, Related Party Transactions Committee

Member, Nomination and Governance Committee

Member, Sustainability Committee

Director of Manila Electric Company since May 29, 2012

Education and Training:

- BA Philosophy Degree, Ateneo De Manila University
- MBA Degree, Asian Institute of Management

Membership in Boards of Listed Companies:

- Metro Pacific Investments Corporation

Membership in Boards of Non-Listed Companies:

- Beacon Electric Asset Holdings, Inc.
- Metro Pacific Holdings, Inc.
- Metro Pacific Tollways Corporation
- Colinas Verdes Hospital Managers Corporation
- Maynilad Water Services, Inc.
- Maynilad Water Holding Company, Inc.
- MetroPac Logistics Company, Inc.
- MetroPac Movers, Inc.
- PremierLogistics, Inc.
- MetroPac Water Investments Corporation
- Metro Pacific Light Rail Corporation
- Metro Pacific Investments Foundation Inc.
- Meralco PowerGen Corporation
- Light Rail Manila Corporation
- AF Payments Inc.
- AHI Hospital Holdings Corporation
- Light Rail Manila Holdings, Inc.
- Asian Institute of Management
- Ateneo Graduate School of Business
- Global Business Power Corporation
- NLEX Corporation
- Metro Pacific Tollways North Corporation

- Pacific Global One Aviation Company Inc.
- Philippine Disaster Risk Foundation, Inc.
- Philippine Telecommunications Investment Corp.
- Landco Pacific Corporation
- Metro Vantage Properties, Inc.
- MetroPac Property Holdings, Inc.
- Surallah Biogas Ventures Corp.
- MetPower Venture Partners Holdings, Inc.
- Egis Investment Partners Philippines, Inc.
- KM Infrastructure Holdings, Inc.
- Razor Crest Infrastructure Holdings Corporation
- Hyperion Storage Holdings Corporation
- Metro Pacific Health Tech Corporation
- Philippine Coastal Storage and Pipeline Corporation
- Philippine Tank Storage International (Holdings), Inc.
- Signal TV, Inc.
- Metro Strategic Infrastructure Holdings
- MPIC-JGS Airports Holdings, Inc.

Position and Membership in Other Organizations and Corporations:

- President and Chief Executive Officer of Metro Pacific Investments Corporation
- Trustee of Metro Pacific Investments Foundation Inc.
- President and Director of Beacon Electric Asset Holdings, Inc., Metro Strategic Infrastructure Holdings, MPIC-JGS Airports Holdings, Inc.
- Chairman of MetPower Ventures Partners Holdings, Inc.
- President and Chairman of Neo Oracle Holdings Inc.
- Trustee of Philippine Disaster Recovery Foundation
- Founding Member of the Shareholders Association of the Philippines

LYDIA B. ECHAUZ

Filipino, 75 years old

Member, Finance Committee

Member, Nomination and Governance Committee

Member, Audit Committee

Director of Manila Electric Company since May 25, 2021

Education and Training:

- Doctor of Business Administration, De La Salle University
- Master in Business Administration, Ateneo de Manila University
- Bachelor of Arts, Major in Economics and Mathematics, St. Theresa's College

Membership in Board of Listed Companies:

- Metro Pacific Investments Corporation
- D&L Industries, Inc.
- Pilipinas Shell Petroleum Corp.

Membership in Board of Non-Listed Companies:

- PLDT Beneficial Trust Fund
- MediaQuest Holdings, Inc.

- Tahanan Mutual Building and Liam Association, Inc.
- Superior Parañaque Homes, Inc.
- Bancholders, Inc.
- Philstar Group
- FERN Realty Corporation
- Riverside College Inc.
- NBS College
- De La Salle College of St. Benilde
- Mano Amiga Academy
- Henry Sy Foundation, Inc.
- Felicidad Sy Foundation, Inc.
- SM Foundation, Inc.
- Akademyang Filipino Asso. Inc.
- Museo de Galeon Foundation, Inc.

ARTEMIO V. PANGANIBAN

Filipino, 86 years old

Lead Independent Director

Chairman, Audit Committee

Member, Executive Committee

Member, Risk Management Committee

Member, Related Party Transactions Committee

Independent Director of Manila Electric Company since May 27, 2008

Education and Training:

- Associate in Arts Degree ("With Highest Honors"), Far Eastern University
- Bachelor of Laws ("Cum Laude"), Far Eastern University
- Doctor of Laws (Honoris Causa), University of Iloilo/ Far Eastern University/ University of Cebu/Angelos University/ Bulacan State University

Membership in Boards of Listed Companies:

- Petron Corporation
- PLDT Inc.
- Metro Pacific Investments Corporation
- JG Summit Holdings, Inc.
- GMA Network, Inc.
- GMA Holdings, Inc.
- Asian Terminals, Inc.
- RL Commercial REIT, Inc.
- Jollibee Foods Corporation

Adviser to the Boards of Listed Companies:

- Bank of the Philippine Islands
- Metropolitan Bank and Trust Co.
- Double Dragon Properties Corp.
- Merry Mart Consumer Corp.

Membership in Boards of Non-Listed Large Companies:

- Metro Pacific Tollways Corporation

- TeaM Energy Corporation
- Asian Hospital Inc.

Position and Membership in Other Organizations, Foundation and Corporations:

- Chairman, Board of Advisers of Metrobank Foundation; President, Manila Metropolitan Cathedral-Basilica Foundation, Inc.; Chairman, Board of Trustees, Foundation for Liberty and Prosperity and of the Philippine Judges Foundation; Chairman, Philippine National Committee of the Asean Law Association; Trustee, Tan Yan Kee Foundation; Claudio Teehankee Foundation; and Member (and Chairman of the Philippine National Group) of the Permanent Court of Arbitration (The Hague, Netherlands)
- Columnist, Philippine Daily Inquirer
- Senior Legal Advisor, Department of Energy (Law and Energy Advisory Panel)
- Retired Chief Justice of the Supreme Court of the Philippines

PEDRO EMILIO O. ROXAS

Filipino, 67 years old
 Chairman, Nomination and Governance Committee
 Chairman, Related Party Transactions Committee
 Member, Finance Committee
 Member, Audit Committee
 Member, Risk Management Committee
 Member, Remuneration and Leadership Development Committee
 Member, Sustainability Committee
 Independent Director of Manila Electric Company since May 25, 2010

Education and Training:

- BS Business Administration, University of Notre Dame Indiana, USA

Membership in Board of Listed Companies:

- Roxas and Company, Inc.
- Roxas Holdings, Inc.
- Cemex Holdings Inc.
- Metro Pacific Investment Corporation

Membership in Board of Non-listed Companies:

- Roxaco Land Corporation
- Club Punta Fuego, Inc.
- Brightnote Assets Corporation
- Fundacion Santiago, Inc.
- MAPFRE Insular Insurance Corporation

Position and Membership in Other Organizations and Corporations:

- Chairman of Roxas and Company, Inc., Roxaco Land Corporation, Roxas Holdings, Inc. and Club Punta Fuego, Inc.
- Trustee of Philippine Business for Social Progress
- Trustee of Roxas Foundation, Inc.

VICTORICO P. VARGAS

Filipino, 71 years old

Member, Finance Committee

Member, Remuneration and Leadership Development Committee

Director of Manila Electric Company since May 28, 2019

Education and Training:

- BS Psychology, University of Santo Tomas

Membership in Board of Non-Listed Companies:

- Smart Communications, Inc.
- PLDT Global, Inc.
- PLDT Subic Telecom, Inc.
- PLDT Clark Telecom, Inc.

Position and Membership in Other Organizations and Companies

- Associate Director of First Pacific Company Limited
- Head of Leadership Transition Office of the PLDT Group
- President of the Board of Trustees of First Pacific Leadership Academy
- Trustee of the MVP Sports Foundation and Ideaspac Foundation
- Trustee of the PLDT-Smart Foundation.
- President of PhilPop Music Fest Foundation
- Chairman of the Association of Boxing Alliances in the Philippines
- Chairman of the Philippines Basketball Association for Season 2017-Present
- Immediate Past President of the Philippine Olympic Committee and currently a member of the Board of Directors
- Former President and Chief Executive Officer of Maynilad Water Services, Inc.
- Former Member of the Executive Committee of the Asian Boxing Confederation
- Former Vice Chairman of the Samahang Basketbol ng Pilipinas

Nominee for Election to the Board of Directors

Except for Ms. Chua, all of the above incumbent directors have been nominated for re-election at the annual stockholders' meeting. In addition, Ms. June Cheryl A. Cabal-Revilla has been nominated as director.

Below is the qualification of Ms. Cabal-Revilla:

JUNE CHERYL A. CABAL-REVILLA

Filipino, 49 years old

Education and Training:

- Bachelor of Science Degree in Accountancy, De La Salle University
- Master's Degree in Business Management Major in Finance, Asian Institute of Management

Membership in Boards of Listed Companies:

- Metro Pacific Investments Corporation

Membership in Boards of Non-Listed Companies:

- AF Payments, Inc.
- Metro Pacific Tollways Corporation
- KM Infrastructure Holdings, Inc.
- Razor Crest Storage Infrastructure Holdings Corporation
- Hyperion Storage Holdings Corporation
- Philippine Tank Storage International (Holdings), Inc.
- Philippine Coastal Storage & Pipeline Corporation
- MetroPac Water Investments Corporation
- Metro Pacific Health Tech Corporation
- Metro Pacific Agro Ventures, Inc.
- Light Rail Manila Corporation
- Landco Pacific Corporation

Other Information:

- Ms. June Cheryl A. Cabal-Revilla was the former Senior Vice President and Group Controller, Chief Sustainability Officer (CSO) of the PLDT Group and the Chief Financial Officer (CFO) of Smart, PLDT-Smart Foundation, Philippine Disaster Resilience Foundation (PDRF) and in a number of subsidiaries and affiliates of PLDT, Smart and ePLDT. She is also the Founding Chairman of Gabay Guro, President of The Outstanding Young Men (TOYM) Foundation, and an Appointed Member of the Financial Reporting Standards Council (FRSC) of the Philippines. Prior to joining PLDT in June 2000 as a Certified Public Accountant and an Executive Trainee in the Finance Group, she was a Senior Associate in the Business Audit and Advisory Group of SGV & Co. She received her Bachelor of Science Degree in Accountancy from De La Salle University and Master's Degree in Business Management Major in Finance from Asian Institute of Management (AIM) where she is an outstanding alumni and a Triple A awardee by the Federation of AIM Alumni Associations, Inc. (FAIM). She also finished her Executive Program in the Stanford Graduate School of Business. She took the Swedish Institute Management Program and the Innovative Dynamic Education and Action for Sustainability (IDEAS ASIA PACIFIC), a transformational leadership program of the MIT Management Sloan School. With her sterling achievements and advocacies, she received global recognitions here and abroad, including The Asset ESG Corporate Awards 2022 Best Sustainability Officer, 12th Asian Excellence Awards Asia's Best CFO, 2021 People Asia's People of the Year Award. As a thought leader, she is frequently invited as speaker by several international organizations.

Executive Officers**SIMEON KEN R. FERRER, 66, Filipino****Corporate Secretary (since May 26, 2009)**

Atty. Ferrer is the Corporate Secretary of two other public companies: Century Peak Metals Holdings Corporation and Commonwealth Foods, Inc. and an Independent Director of Grand Plaza Hotel Corporation, a company listed on the Philippine Stock Exchange. He is also the Corporate Secretary or Board member of various non-public companies. He is Of Counsel at SyCip Salazar Hernandez & Gatmaitan, having recently retired as Senior Partner and head of the Corporate Services Department. He is a member of the Integrated Bar of the Philippines and the Philippine Bar Association, and a Fellow of the Institute of Corporate Directors. Atty. Ferrer is an SEC-accredited lecturer on corporate

governance and is a member of the faculty of the School of Law of the Ateneo de Manila University. He is also the International Alumni Contact for the Philippines of the University of Michigan Alumni Association. Atty. Ferrer completed his Bachelor of Science degree in Business Economics and Bachelor of Laws degree at the University of the Philippines and obtained his Master of Laws degree from the University of Michigan as a DeWitt Fellow.

RAY C. ESPINOSA, 66, Filipino
President and CEO (since May 28, 2019)
(Refer to his profile on page 109)

ROBERTO R. ALMAZORA, 62, Filipino
Senior Vice President (since March 2009)
Head, MPower

Mr. Almazora heads MPower, the Local Retail Electricity Supply business segment of *MERALCO*. He holds a Bachelor of Science degree in Electrical Engineering from the University of the Philippines, and completed his Masters in Business Management at the Asian Institute of Management. Previously, he held various executive positions during his 35 years with *MERALCO* and served as Board of Director in various subsidiaries/affiliates of *MERALCO*, among which include Indra Philippines, Inc., Meralco Energy Inc., Meralco Industrial Engineering Services Corporation, Miescor Builders Inc. ("*MBI*"), Miescor Logistics Inc., Aclara Meters Philippines, Inc., Clark Electric Distribution Corporation and Bauang Private Power Corporation. He served as President of *MBI* in 2011. He currently serves as Director in Comstech Integration Alliance, Incorporated. He has also been a recipient of various awards and distinctions. In 2004, he was awarded Outstanding Alumnus for Management by the Epsilon Chi Fraternity of University of the Philippines. In 2011, he was granted the Professional Degree Award from Electrical Engineering by the University of the Philippines Alumni Engineers, where he served as Trustee. He has also been tapped as a resource speaker in various energy conferences and has served as an energy adviser to business groups and associations.

RONNIE L. APEROCHO, 54, Filipino
Senior Vice President (since January 1, 2017)
Head, Networks

Mr. Aperocho also serves as the President and CEO of Meralco Energy, Inc., MRAIL, Inc. and Meralco Industrial Engineering Services Corporation, and the Chairman of the Board of Directors of its two (2) subsidiaries, namely, Miescor Logistics Inc. and Miescor Builders Inc. He is also a member of the Board of Directors of Aclara Meters Philippines, Inc., Clark Electric Distribution Corporation, MGen Renewable Energy Inc., Miescor Infrastructure Development Corporation, Radius Telecoms, Inc. and MSpectrum, Inc. He sits in the Board of Trustees of the Meralco Power Academy and One Meralco Foundation. He holds a Bachelor of Science degree in Electrical Engineering from Mindanao State University and topped the October 1991 Electrical Engineering Board Exams. A registered Professional Electrical Engineer and ASEAN Chartered Professional Engineer, he holds a Masters Degree in Business Administration from J.L. Kellogg School of Management of Northwestern University/The Hong Kong University of Science and Technology.

WILLIAM S. PAMINTUAN, 61, Filipino
Senior Vice President and Chief Legal Counsel
Assistant Corporate Secretary (since January 2012)
Compliance Officer and Head, Legal and Corporate Governance Office
Data Protection Officer

Atty. Pamintuan is is the Corporate Secretary of MERALCO PowerGen Corporation, Atimonan One Energy, Inc., Calamba Aero Power Corporation, Greentech Solar Energy, Inc., Kalilayan Power, Inc., MPG Holdings Phils., Inc., MPG Mauban LP Corporation, MPG Asia Ltd. (a Hong Kong Company), Redondo Peninsula Energy, Inc., First Pacific Leadership Academy, Inc., MRAIL, Inc., Meralco Industrial Engineering Services Corporation, Miescor Infrastructure Development Corporation, MGEN Renewable Energy, Inc., NortesoIII Inc., LagunaSol Corporation, Powersource First Bulacan Solar Inc., MGREEN International Limited (BVI company), ARB Power Ventures Inc., CACI Power Corporation, GBP Power Resources Inc., Global Energy Supply Corporation, Global Formosa Power Holdings, Inc., Greenergy for Global Inc., Global Hydro Power Corporation, Global Luzon Energy Development Corporation, Global Renewable Power Holdings Corporation, Global Trade Energy Resources Corp., Lunar Power Core Inc., Mindanao Energy Development Corporation, Panay Energy Development Corporation, PH Renewables Inc., Panay Power Corporation, Panay Power Holdings Corporation, Toledo Holdings Corporation, and Global Business Power Corporation.

He also serves as Director of Atimonan One Energy, Inc., Atimonan Land Ventures Development Corporation, Calamba Aero Power Corporation, MGEN Renewable Energy, Inc, MPG Holdings Phils., Inc., MPG Mauban LP Corporation, Miescor Infrastructure Development Corporation, Radius Telecoms, Inc., MSpectrum, Inc., Pure Meridian Hydropower Corporation, Comstech Integration Alliance, Inc., Meridian Atlantic Light Company Ltd., PMHC Pulanai Inc., PMHC Lalawinan Inc., Meridian Power Ventures, Ltd., Aurora Managed Power Services, Inc., eSakay, Inc., MPioneer Insurance, Inc., Aclara Meters Philippines, Inc., Lighthouse Overseas Insurance Limited, E-Meralco Ventures, Inc., Paragon Vertical Corporation, Indra Philippines, Inc. and Meralco Energy, Inc. He is a trustee of Meralco Pension Fund and Meralco Power Foundation, Inc. He is also a member of the Board of Governor of the Philippine Basketball Association.

He served as Vice Chair of MAP Energy Committee. He was a former Trustee of Shareholders' Association of the Philippines, Inc. He served as Officer-in-Charge and Acting President of Meralco Energy, Inc. He was a former Corporate Secretary and Senior Vice President of Digital Telecommunications Phils., Inc. and Digitel Mobile Phils., Inc. He was a General Manager of Digitel Crossing, Inc. He was a former Assistant Corporate Secretary of Cebu Pacific Inc.

He is a member of the board of directors of the University of the Philippines Alumni Association (UPAA) and Board Governor of the UP Vanguard, Inc.. He is a member of the Management Association of the Philippines (MAP), Integrated Bar of the Philippines (IBP) and Philippine Bar Association (PBA). Atty. Pamintuan holds a Bachelor of Arts degree in Political Science and a Bachelor of Laws degree from the University of the Philippines.

BETTY C. SIY-YAP, 61, Filipino

Senior Vice President and Chief Finance Officer (since July 2009)

Chief Risk Officer

Ms. Siy-Yap is a Director of Clark Electric Distribution Corporation, CIS Bayad Center, Inc., Meralco Industrial Engineering Services Corporation, Aclara Meters Philippines, Inc., Radius Telecoms, Inc., MPioneer Insurance Inc., Indra Philippines, Inc., Redondo Peninsula Energy, Inc., Atimonan One Energy Inc., MERALCO PowerGen Corporation, MRAIL, Inc.; among others. She is the President of Lighthouse Overseas Insurance Limited. She is a Trustee of the Meralco Pension Fund, One Meralco Foundation, Inc., and Treasurer of First Pacific Leadership Academy, Inc. and MVP Sports Foundation, Inc. She was previously a Director of Rockwell Land Corporation, a member of the Market Governance Board of the Philippine Dealing Exchange Corp., Vice Chairman and member of the Board of Accountancy of the Professional Regulation Commission. She was a Partner of SyCip

Gorres Velayo & Co. (a Member Firm of Ernst & Young Global) from 1995 to 2009. Ms. Siy-Yap holds a Bachelor of Science in Business Administration and Accountancy degree from the University of the Philippines and a Master's in Business Administration from J.L. Kellogg School of Management at Northwestern University/The Hong Kong University of Science and Technology.

MARIA LUISA V. ALVENDIA, 60, Filipino
First Vice President (since March 2019)
Chief of Staff and Supply Chain Advisor

Ms. Alvendia is the Chief of Staff of *MERALCO*'s President and Chief Executive Officer. Concurrently, she performs the role of Supply Chain Advisor. Prior to joining *MERALCO*, she was the Chief of Staff to the Chief Corporate Services Officer of PLDT, Inc. ("*PLDT*") and Smart Communications, Inc. ("*SMART*") and Group Head of *PLDT* and *SMART* Supply Chain Planning and Procurement. With her industry-recognized supply chain expertise, she became Director of Philippine Institute of Supply Management. She also led various Supply Chain process improvements and system implementation for different companies and held global procurement roles. Ms. Alvendia is a certified Purchasing Manager and holds a Bachelor of Science degree in Psychology from the University of the Philippines.

ROQUE D. BACANI, 47, Filipino
First Vice President (since January 1, 2022)
Head, Information, Communication, Technology and Transformation

Mr. Bacani is the First Vice President and Head of *MERALCO*'s Information, Communication, Technology and Transformation since October 2019 and Acting Group Chief Information Security Officer (CISO) since November 2022. He also serves as the Chief Information Officer of CIS Bayad Center, Inc., Chief Technology Advisor of Radius Telecoms, Inc. and MIESCOR Infrastructure Development Corporation, Acting Head of Information, Communication and Technology in MSERV and member of the MGEN-GBP ICT Steering Committee. Prior to joining *MERALCO*, he took on concurrent roles as Vice President and Head of Group IT Corporate Technology and Head of Data Management Office of Smart Communications, Inc. and PLDT, Inc. He was also a former Chief Technology Officer of Talas Data Intelligence Inc. (a wholly owned subsidiary of PLDT). He holds a Bachelor of Science degree in Industrial Engineering from Polytechnic University of the Philippines.

EDGARDO V. CARASIG, 58, Filipino
First Vice President (since January 1, 2020)
Head, HR and Corporate Services

Mr. Carasig is the Chairman of Customer Frontline Solutions, Inc. and a Director of Meralco Industrial Engineering Services Corporation, Miescor Builders, Inc., Miescor Logistics, Inc., MRAIL, Inc., and CIS Bayad Center, Inc. He is also a trustee of Meralco Pension Fund and Meralco Power Academy. He holds a Bachelor of Science degree in Industrial Management Engineering from the De La Salle University.

FERDINAND O. GELUZ, 58, Filipino
First Vice President (since January 1, 2020)
Chief Commercial Officer of Customer Retail Services

Mr. Geluz is the Chief Commercial Officer of Customer Retail Services since August 2020. He was also appointed Director, President, and Chief Executive Officer of MSpectrum, Inc., Chairman of Shin Clark Power Holdings, Inc., and President of Shin Clark Power Corporation. He is also a director of Miescor Logistics Inc., Miescor Builders Inc., Radius Telecoms Inc., CIS Bayad Center, Inc., eSakay, Inc., Meralco Energy Inc., Aclara Meters Philippines, Inc., Corporate Information Solutions, Inc.,

Customer Frontline Solutions, Inc., Aurora Managed Power Services, Inc., Paragon Vertical Corporation, Pure Meridian Hydropower Corporation, PMHC Lalawinan Inc., PMHC Pulanai Inc., One Meralco Foundation, Meralco Power Academy, and Clark Electric Distribution Corporation. He previously occupied the position of First Vice President and Head of *MERALCO's* Supply Chain and Logistics Management from July 2018 to July 2020, managing the supply chain (strategic sourcing, vendor management, procurement, and materials management) and facilities engineering and security services. He holds a Bachelor of Science in Electrical Engineering from the University of the Philippines. He was the 6th placer in the Board Examination for a Registered Electrical Engineer in 1998 and was the recipient of the 2019 Professional Degree Award in Electrical Engineering from the UP Alumni Engineers/UP College of Engineering.

MELANIE T. OTEYZA, 52, Filipino

First Vice President (since October 1, 2018)

Chief Audit Executive

Ms. Oteyza was a former Director of Rajawali Corpora in Indonesia handling Corporate Governance and Internal Audit. She was also previously the Ethics Committee Chairman, Audit and Risk Committee Deputy Chairman and a Member of the HR and IT Board Committees for RC Holding. In Singapore, she was appointed as the Audit Director of Singapore Telecommunications Limited Inc. ("SingTel") handling the international investments, joint ventures and regional mobile associates in Africa and Asia Pacific of the SingTel group. She was also the Assistant Vice President for Internal Audit of San Miguel Corporation and the Country Audit Head for National Foods Limited handling internal audit across Australia as well as other international entities in the Asia Pacific region. She was also the Audit Center Head of PLDT Inc. and an Internal Audit Executive at Digital Telecommunications Philippines Inc. She worked in various assurance and consulting companies such as Protiviti Singapore and SyCip, Gorres and Velayo (a Member Firm of Ernst & Young Global). She also served as a member of the Board of Governor for the Singapore Institute of Internal Auditors ("IIA") and Board of Director for the Philippine Institute of Internal Auditors ("IIA"). She was also a CIA Reviewer and Trainer in IIAP.

Ms. Oteyza holds a Bachelor of Science Degree in Commerce Major in Accounting, Magna Cum Laude and a PICPA Awardee for Academic Excellence. She was also given a full scholarship of SGV given here academic achievements. She earned her Master's Degree in Business Administration at University of Santo Tomas with Summa Cum Laude as the highest academic distinction. She also completed her Executive Management Leadership Program from the Asian Institute of Management with Superior Performance Award.

Ms. Oteyza is a Certified Public Accountant with international certifications from IIA USA such as Certified Internal Auditor ("CIA") and a William S. Smith Awardee, Certification in Risk Management Assurance ("CRMA"), Certification in Control Self-Assessment ("CCSA") and a Qualified Validator in Quality Assurance for Internal Audit. She recently passed and obtained a certification in Qualification in Internal Audit Leadership (QIAL) issued by IIA USA last December 2022 as the only Filipino recipient joining the circle of Chief Audit Executives globally with that premier designation. She successfully passed the Professional Directors Program ("PDP") examination and completed the PDP program of the Institute of Corporate Directors ("ICD") on September 2019 where she is currently a Graduate Member and a Teaching Faculty. She is actively involved in the Corporate Governance Standards and Thought Leadership Committees of ICD.

RAYMOND B. RAVELO, 45, Filipino

First Vice President (since January 1, 2022)

Chief Sustainability Officer

Concurrent to his role as Chief Sustainability Officer, Mr. Ravelo is also the Head of Strategic Business Development Office and the President and Chief Executive Officer (“CEO”) of eSakay, Inc. He is a Director on the Boards of eSakay, Inc., MSpectrum, Inc., MGEN Renewable Energy, Inc. (“MGreen”) and Powersource First Bulacan, Solar Inc. He also previously served as the President and CEO and a member of the Board of Directors of Radius Telecoms, Inc. from 2011 to 2016. Prior to joining *MERALCO*, he was part of McKinsey and Company’s Washington DC office where he led strategy development efforts and operations performance transformations for top companies in North America, Latin America, Europe, Southeast Asia, and across a wide range of industries. Mr. Ravelo holds a Bachelor of Science degree, magna cum laude, in Management Engineering from the Ateneo de Manila University. He earned his Masters in Business Administration at The Wharton School of the University of Pennsylvania where he was a Joseph Wharton Fellow and an Omnicom Communication Fellow. Mr. Ravelo is also a former Trustee of the Wharton-Penn Alumni Association, Inc.

JOSE RONALD V. VALLES, 52, Filipino

First Vice President (since January 1, 2020)

Head, Regulatory Management Office (since July 2018)

Atty. Valles is a member of the Board of Directors of Clark Electric Distribution Corporation and Philippine Electricity Market Corporation. He holds a Bachelor of Science degree in Commerce Major in Management of Financial Institutions from the De La Salle University, a Bachelor of Laws degree from San Beda College, and a Master’s degree in Business Economics from University of Asia and the Pacific (“UA&P”). He attended the Public Utility Research Center – World Bank International Training Program on Utility Regulation and Strategy at the University of Florida and the Global Strategic Leadership Program by Wharton University of Pennsylvania and First Pacific Leadership Academy.

ANTONIO M. ABUEL, JR., 54, Filipino

Vice President (since January 1, 2014)

Head, Facilities, Safety & Security Management (since December 1, 2022)

Mr. Abuel has been employed in *MERALCO* for 32 years. Prior to his new assignment, he has been leading *MERALCO*’s Environment, Health and Safety (“ESH”) and Business Continuity Programs for 6 years. He had extensive work experience in Networks for 26 years which included headships of Network Planning and Project Management, North and Central Distribution Services and Subtransmission Services. Mr. Abuel has also been serving as Board of Trustee and President of *MERALCO* Savings and Loan Association (“MESALA”) since May 1, 2021. He is one of the *MERALCO* representatives to the Department of Energy (“DOE”) Task Force on Energy Resiliency (“TFER”) and was active contributor to the recently released DOE National Energy Contingency Plan (“NECP”). He was also recently appointed Chairman of the *MERALCO* Fund for Charity Inc. (“MEFCI”). Some of his external affiliations are Chairman of the Institute of Integrated Electrical Engineers Electrical Safety Committee from 2019 to present, member of the IEEE Specialty Committee, elected and serves as member of the Board of Director of Safety Organization of the Philippines from 2018 to present, as well as member of the Board of Trustee and President of the (“DOE”)-supported Safety and Health Association for the Philippine Energy Sector (“SHAPES”) from 2019 to present. Mr. Abuel is a Professional Electrical Engineer, ASEAN Certified Professional Engineer, Department of Labor and Employment (“DOLE”) Accredited Occupational Safety and

Health Consultant, Bureau of Fire Accredited Fire Safety Practitioner and Fire Brigade Member Practitioner, Department of Environment and Natural Resources and Laguna Lake Development Authority accredited Pollution Control Officer. Recently achieved the Certified Security Professional (“CSP”) accreditation. He achieved a Pass with Merit in the Certificate of the Business Continuity Institute Examination in December 2016. He completed his academic requirements for Executive Masters in Business Administration at the Asian Institute of Management in 2009, studied MBA at the University of Santo Tomas from 2006 to 2008 (36 units). He holds a Bachelor of Science degree in Electrical Engineering from the University of Santo Tomas.

FRANCIS EUSTON R. ACERO, 45, Filipino

Vice President (Since January 1, 2022)

Data Protection Officer (since December 13, 2021)

Atty. Acero joined *MERALCO* in November 2019, where he was assigned as the Deputy Data Protection Officer and thereafter as Data Protection Officer. Prior to joining *MERALCO*, he was the Division Chief of the Data Security and Technical Standards Division of the National Privacy Commission from March to October 2019, and the Complaints and Investigation Division of the National Privacy Commission from August 2016, where he was an active contributor to the Implementing Rules and Regulations of the Data Privacy Act and for other issuances of the National Privacy Commission. Atty. Acero is also a faculty member of the Far Eastern University, where he has taught since 2016. Atty. Acero is a Certified Information Privacy Professional (Europe) from the International Association of Privacy Professionals. Atty. Acero is also a Certified Data Protection Trainer from the National Association of Data Protection Officers of the Philippines. Atty. Acero completed his Bachelor of Arts degree in Journalism at the University of the Philippines and his Juris Doctor from the Ateneo de Manila University.

IRENEO B. ACUÑA, 56, Filipino

Vice President (since January 1, 2013)

Head, Electric Distribution Development Group

Mr. Acuña heads the Electricity and Distribution Development Group which is responsible for the development of business opportunities in electricity distribution and the operations for Cavite Ecozone and Pampanga Electric Cooperative II. Mr. Acuña is a Director of Comstech Integration Alliance Inc. He graduated with a Bachelor of Science degree in Electrical Engineering from Far Eastern University – Institute of Engineering. He completed his Executive Master in Business Administration from the Asian Institute of Management (with Distinction).

JOSEPH L. AMOSCO, 54, FILIPINO

Vice President (since January 1, 2022)

Head, Energy Management, MPower

Mr. Amosco heads the Energy Management organization of the Retail Electricity Supply unit of *MERALCO*. He previously held headship positions in Energy Sourcing Office of *MERALCO* and was part of the Management Team who established Meralco Energy, Inc. He holds a Bachelor of Science degree in Mechanical Engineering from De La Salle University, a Bachelor of Science degree in Electrical Engineering and ranked 6th in the 1991 Mechanical Engineering Board Examinations. He completed his Masters in Management at the Asian Institute of Management.

PATRICK DAVE B. BACANI, 52, Filipino

Vice President (since January 1, 2017)

Head, Sustainability Programs, Reporting & Partnerships

Mr. Bacani has been with *MERALCO* since August 2012. He joined the Corporate Sustainability Office in September 2021. Prior to his current role, he performed various roles under Human Resources & Corporate Services. As an HR practitioner for over 25 years, Mr. Bacani served companies across various industries – 24/7, Convergys, Chevron, Change Management International, and SyCip Gorres Velayo & Co. He holds a degree in Management major in Human Resources Management from De La Salle University - College of St. Benilde and Masters in Business Administration from De La Salle University.

BENNETTE D. BACHOCO, 54, Filipino

Vice President (since July 7, 2011)

Head, Financial Planning and Reporting

Ms. Bachoco is a Director of Miescor Builders Inc., Customer Frontline Solutions, Inc. and Meralco Financial Services Corporation. She is also an agent of Meralco Pension Fund. Prior to joining *MERALCO*, she was a Partner of SyCip Gorres Velayo & Co. (a Member Firm of Ernst & Young Global) and was a former Senior Vice President for Finance of Trans-Asia Oil and Energy Development Corporation. Ms. Bachoco holds a Bachelor of Science degree in Business Administration and Accountancy from the University of the Philippines and a Master in Business Management from the Asian Institute of Management.

JOSEPH ALLAN C. BALTAZAR, 56, Filipino

Vice President (since January 1, 2016)

Head, South Distribution Services

Mr. Baltazar was a former Trustee of Meralco Employees Fund for Charity, Inc. He was a former Director and Corporate Secretary of the Grid Management Committee and was a member of the WESM Technical Committee under the Independent Electricity Market Operator of the Philippines. Mr. Baltazar is a Professional Electrical Engineer and a graduate of Bachelor of Science in Electrical Engineering at Mapua Institute of Technology.

RITA D. BANTIGUE, 59, Filipino

Vice President (since January 1, 2020)

Corporate Human Resource and Transformation Office Head, Miescor and Head, HR Business Partner for Subsidiaries.

Ms. Bantigue has had 32 years of experience as a Human Resource Practitioner. She holds a Bachelor of Arts degree major in Psychology, Guidance and Counseling from St. Scholastica's College. She received her Masters of Arts major in Guidance and Counseling and Doctor of Philosophy major in Counseling Psychology from the De La Salle University.

SANTE C. BUELLA, 56, Filipino

Vice President (since January 1, 2022)

Head, Central Distribution Services

Mr. Buella has been with *MERALCO* since September 1990. He held various key positions under Networks organization prior to his assignment as Head of Revenue Assurance and Metering Services in July 2019, and as Head of Central Distribution Services in February 2023. He holds a Bachelor of Science in Electrical Engineering degree ("BSEE") from the Technological Institute of the Philippines ("TIP") Manila.

RICARDO CARMELO D. BUENAFE, 54, Filipino

Vice President (since January 1, 2022)

Head, Regulatory Risk and Compliance

Mr. Buenafe has been the Head of Regulatory Compliance Office of *MERALCO* since 2008. Prior to this, he was part of the Executive Staff of the President and Chief Operating Officer, a member of the Interruption Frequency Rate/Cumulative Interruption Time (IFR/CIT) Task Force Secretariat, Power Quality Office and Technical Quality Assurance Staff. He holds a Bachelor of Science degree in Management Engineering from the Ateneo de Manila University and a Master of Business Administration degree from the University of the Philippines. He has been with *MERALCO* for 32 years.

ALBERTO N. CASTILLO, 56, Filipino

Vice President (since January 1, 2022)

Head, Sub-Transmission Services

Mr. Castillo has been employed in *MERALCO* for 34 years. Prior to his assignment as Head of Sub-transmission Services (“STS”) in 2021, he led the Substation Department for five (5) years with his expertise in substation construction, operation and maintenance works. He is a graduate of Bachelor Science in Electrical Engineering at Mapua Institute of Technology and a holder Professional Electrical Engineering (PEE) license.

RICARDO L. CONCEPCION, 58, Filipino

Vice President (since January 1, 2022)

Head, MERALCO Employee and Labor Relations (since 2001)

General Manager, MIESCOR BUILDERS INC. (since 2017)

Head, MIESCOR GROUP Corporate Labor Relations (since 2019)

Mr. Concepcion has been an HR practitioner for 38 years. He joined *MERALCO* in 1989 and he was assigned as Head of *MERALCO*’s Employee and Labor Relations office from 2001 to present. In 2017, he was also assigned the role of General Manager for Miescor Builders, Inc. or MBI – a subsidiary of MIESCOR. In 2019, he also headed, in concurrent capacity, MIESCOR Group’s Corporate Labor Relations, including its Security office. Mr. Concepcion was also the former head of MIESCOR Group’s Human Resources from 2015 to 2019. He is currently a member of the People Management Association of the Philippines (“PMAP”) - Labor and Industrial Relations Committee and *MERALCO*’s representative to the Employers Confederation of the Philippines (“ECOP”). Mr. Concepcion graduated from the University of Santo Tomas with a degree in AB-Behavioral Science, achieved his Certificate Course on Human Resources Management in Ateneo de Manila University and he also holds a Bachelor of Laws degree from Jose Rizal University.

MA. CECILIA M. DOMINGO, 54, Filipino

Vice President (since January 1, 2019)

Head, Enterprise and National Government

Ms. Domingo is the head of *MERALCO* Enterprise and National Government since July 2019, the segment that caters to the needs of *MERALCO*’s top 2000 Enterprises, conglomerates and multinationals. She started in *MERALCO* as a cadet engineer in 1990 and has been assigned in different offices and positions within the Company. She is a registered electrical engineer who graduated Magna Cum Laude from Nueva Ecija University of Science and Technology in Cabanatuan City. She holds an Executive Masters in Business Administration from the Asian Institute of Management. She serves as Council Leader of Capitol City Foursquare Church, a Born-Again Christian church where she and her family actively worship and serve.

LAWRENCE S. FERNANDEZ, 54, Filipino

Vice President (since January 1, 2015)

Head, Utility Economics

Mr. Fernandez received a Bachelor of Science degree in Mechanical Engineering from the University of the Philippines and is a licensed mechanical engineer. He is member of the Renewable Energy Market Governance Committee, representing private distribution utilities. Mr. Fernandez was a Director of the Philippine Economics Society and had served as a Director of the Energy Efficiency Practitioners of the Philippines (“ENPAP”) (formerly Energy Management Association of the Philippines).

PAUL RYAN C. GREGORIO, 50, Filipino

Vice President (since January 1, 2023)

Head, Talent Management

Mr. Gregorio has been with *MERALCO* for 13 years. He started as Head of *MERALCO* Sports and Youth Advocacy. He was head coach of the *MERALCO* Bolts in the Philippine Basketball Association from 2010 to 2014. He completed his Bachelor of Arts in Communication Major in Film and Audio-Visual Communication in University of the Philippines Diliman.

MARVIN G. GONSALVES, 55, Filipino

Vice President (January 1, 2023)

Head, Revenue Assurance and Metering Services - RAMS (since February 2023)

Mr. Gonsalves has been with *MERALCO* for 33 years. He is *MERALCO*'s subject matter expert in electrical metering having taken various positions in Networks Metering group for 27 years. Prior to head of RAMS, he headed Networks Technology Asset Management (*NTAM*) and Networks Project Portfolio Management (*NPPM*) until January 2023. Since 2021, He is *MERALCO*'s official representative to the Economic and Environment Development Sector and Infrastructure Committee of the Regional Development Council - National Capital Region under the Metro Manila Council. He is the author of technical book references used by Networks group for metering (*i.e., kWh Meter Measurement Uncertainty and Timely Identification and Prediction of the Potential Impact of Increasing VRES to the Distribution System of a DU Using AMI Technology*). Mr. Gonsalves completed his Master of Science in Electrical Engineering (*MSEE*) in UP Diliman in 2006 and a Professional Electrical Engineer (*PEE*) by profession. He is also the 2023 Chairman of Meralco Employees Mutual Aid and Benefits Association, Inc.

JERRY B. LAO, 52, Filipino

Vice President (since January 1, 2022)

Head, Networks Project Portfolio Management

Mr. Lao has been employed in *MERALCO* for 29 years and for the last 9 years he has been the Sector Head of San Pablo, Balintawak, Manila and Pasig. This eventually led him to become the present head of Central Distribution Services. He previously served as Chairman of Meralco Employees Mutual Aid and Benefits Association, Inc. (2018-2019). He has also been serving as Member of the *MERALCO* Kuryenteng Ligtas (*KLigtas*) Awards Program from 2017 to present. He is a Professional Electrical Engineer and holds a Bachelor of Science degree in Electrical Engineering from Holy Angel University.

ERVILLE D. MAGTUBO, 48, Filipino
Vice President (since January 1, 2022)
Head, Customer Care Group

Mr. Magtubo joined *MERALCO* in August 2020 to head the newly formed Customer Care Group of *MERALCO*. With a Bachelor of Computer Science degree from the University of the Philippines, he has a combined experience of 28 years in the areas of IT services and outsourcing services. Mr. Magtubo was part of the ePLDT group for 12 years. He was Assistant Vice-President and Head of the Systems Integration Group that provided various IT integration services for the customers of ePLDT. He was later appointed as Vice President and General Manager of iPlus Intelligent Networks, Inc, an ePLDT subsidiary that provided managed IT services and outsourcing services. Concurrently, he was the Sales Director of Infocom Technologies, Inc, another subsidiary that provided connectivity services and contact center services. Prior to joining ePLDT, he was the Channels Manager for Southeast Asia and India of Internet Security Systems, a U.S. based data security company.

RODERICK DENNISON N. NACU, 50, Filipino
Vice President (since January 1, 2023)
Head, Tariff Management

Mr. Nacu is the Head of Tariff Management since 2018. He joined *MERALCO* in 1994 and was part of the *MERALCO* Mechanical Engineering Program, Non-Technical System Loss Reduction Program and Utility Economics. He holds Bachelor of Science in Mechanical Engineering and Master of Business Administration degrees from the University of the Philippines. Mr. Nacu is a licensed mechanical engineer.

CHARINA P. PADUA, 54, Filipino
Vice President (since January 1, 2018)
Head, Home and Micro Business - North Business Area

Ms. Padua has been the Head of Home and Micro Business for North Business Area since February 1, 2019. She served as Head of Commercial Operations of *MERALCO* since October 2012 until January 31, 2019. She holds a Bachelor of Science degree in Business Economics from the University of the Philippines and an Executive Masters in Business Administration from the Asian Institute of Management. She served as a Trustee in the Board of Meralco Savings and Loans Association from 2013 to 2016.

GLEN N. SAN PEDRO, 58, Filipino
Vice President (since December 1, 2020)
Head of Supply Chain Management

Mr. San Pedro was the Head of Procurement of PLDT, Inc. and then as Group Head of Procurement and Logistics for eight (8) years at ePLDT, Inc. He continued to specialize in Supply Chain Management and procurement when he migrated to Alberta, Canada. He was the purchaser for food processing specialist of Newly Weds Foods Inc. that further exposed him to international standards and best practice. He holds a Bachelor of Science degree in Management Engineering from Manuel L. Quezon University. He completed "Supply Management Training in Procurement" as well as "Principles of Buying" from The Purchasing Management Association of Canada (in Edmonton, Alberta, Canada).

JOSE S. REYES JR., 53, Filipino

Vice President (since January 1, 2018)

Head, Networks Technology and Asset Management

Mr. Reyes is a Professional Electrical Engineer. His areas of expertise include electric distribution construction, operation, repair and maintenance, power system analysis, power quality, electric distribution process, technology and technical standards, and asset performance management. He serves *MERALCO* in various capacities in electric power distribution and power quality since 1991, later as Head of North Distribution Services in January 2016, until his current appointment as Head of Networks Technology and Asset Management in July 2021. He joined *MERALCO* in 1991 as a Cadet Engineer and completed the course with Academic Excellence and Exemplary Leadership awards. He was also recognized as one of *MERALCO*'s outstanding employees for supervisory category in 2008 and 2009, and his office was awarded with the *MERALCO* Presidential Awards for Technical Services category in 2005 and 2008. Mr. Reyes holds a Bachelor of Science degree in Electrical Engineering from the Mapúa Institute of Technology, and a Master of Science degree in Electrical Engineering from the University of the Philippines. He also completed his Management Development Program from the Asian Institute of Management with Academic Excellence award and the New Frontiers Middle Management Program with Outstanding Action Learning Project award. He was a former President and current Trustee of the Meralco Employees Fund for Charity, Inc., and a Life Member of the Institute of Integrated Electrical Engineers of the Philippines, Inc.

FROILAN J. SAVET, 55, Filipino

Vice President (since January 1, 2017)

Head, Network Planning and Design

Mr. Savet is a registered ASEAN Chartered Professional Engineer since November 2018 and a Professional Electrical Engineer since March 2015. He is a Senior Institute of Integrated Electrical Engineers (IIEE) Member who served as the 2019 Chairman of the IIEE Professional Training and Development Committee. He earned his Master of Science in Electrical Engineering – Major in Power Systems from the University of the Philippines in October 2003 and a Bachelor of Science degree in Electrical Engineering from Mapua University in May 1990 graduating as a silver medalist, and he ranked second in the April 1992 Electrical Engineering Licensure Examinations. He is a Director of the Distribution Management Committee, Inc. from 2014 to 2019. He is the incumbent Vice Chairman and Committee member of the Third-Party Bids and Awards Committee (TPBAC) administering *MERALCO*'s Competitive Selection Process for its Power Supply Agreements. He is a member of the PRC's Career Progression and Specialization Program-Credit Accumulation and Transfer System (CPSP-CATS) Committee – Board of Electrical Engineering. Most recently, he was elected to Mesala, Inc.'s Board of Trustees as an independent trustee with tenure until May 2023.

JEFFREY O. TARAYAO, 43, Filipino

Vice President (since January 1, 2022)

Chief Corporate Social Responsibility Officer

President, One Meralco Foundation (since June 2011)

Mr. Tarayao has led and managed corporate social responsibility ("CSR"), community relations, sustainability and communications programs in the last 20 years. He is a Global Reporting Initiative-certified sustainability reporting specialist. When he joined *MERALCO* in 2011, he led the transformation of its CSR and community relations initiatives into a more strategic and business-aligned program. He is currently the private sector representative in the Philippine National Volunteer Services Coordinating Agency, Trustee of the Archdiocese of Manila's Caritas Margins program and a member of the Management Association of the Philippines. He also served in the inaugural board of trustees of the Humanitarian Leadership Academy based in London, United Kingdom from 2016 to

2019 and previously Chaired the League of Corporate Foundations, President of the Coalition for Better Education and Trustee of the International Association of Business Communicators Philippines. In 2011, he was chosen as one of the Asia 21 Fellows of Asia Society, a group of emerging leaders of Asia below 40 and in 2012, one of the 40 under 40 International Development Leaders by the Washington DC-based Development Exchange. Prior to joining *MERALCO*, he served as Head of Community Relations and CSR of Globe Telecom. Tarayao obtained his Master of Sustainable Development degree from Macquarie University in Sydney, Australia in 2018 as an Australia Awards Scholar and completed his undergraduate studies from the University of Santo Tomas, Manila, Philippines where he is also a lecturer on Corporate Social Responsibility and Good Governance in the College of Commerce and Business Administration.

MARIA ZARAH R. VILLANUEVA-CASTRO, 52, Filipino

Vice President (since January 1, 2019)

Head, Corporate Legal Services

Atty. Villanueva-Castro holds a Bachelor of Arts degree major in Political Science from the University of the Philippines and a Bachelor of Laws degree from San Beda University. She is also the Corporate Secretary of One Meralco Foundation, Inc., Comstech Integration Alliance, Inc., Meralco Pension Fund, Meralco Employees Fund for Charity, Inc., Pure Meridian Hydropower Corporation, Inc. and Meralco Employees Savings and Loan Association. She is also a professor of law and bar review lecturer for Commercial Laws.

AGAPITO R. ZALDARRIAGA, 53, Filipino

Vice President (since December 1, 2020)

Head, Corporate Communications

Mr. Zaldarriaga is the Head of Corporate Communications since December 1, 2020. He served as the Head of Public Information Office under Corporate Communications group of *MERALCO* from 2016 to 2020. He is currently the Chairman of the International Association of Business and Communications of the Philippines since 2018 and served as its president from 2016 to 2018. He earned his Bachelor's Degree in Asian Studies in 1985 from the De La Salle University.

MA. CYNTHIA C. SOLUREN, 58, Filipino

Senior Assistant Vice President (since January 1, 2018)

Head, Treasury for Distribution Utility

Ms. Soluren is the Treasurer of Meralco Financial Services Corporation and Comstech Integration Alliance Inc. She has been a Trustee of the Meralco Savings and Loan Association Inc. ("*MESALA*") since 2013 and a former President of *MESALA*. Ms. Soluren holds a Bachelor of Science degree in Statistics and a Masters degree in Business Administration from the University of the Philippines.

Term of Office

The Directors are elected at the annual meeting of stockholders for a term of one (1) year, until their successors are duly elected and qualified.

Attendance of Directors in Board and Committee Meetings

Below is the record of attendance of the directors in 2022:

2022 ASM and Board Meeting Attendance			
Director	Designation	31-May-22	Board Meetings / Organizational Meeting
		Annual Stockholders' Meeting	
Manuel V. Pangilinan	Chairman / Non-Executive Director	Present	13/13
Ray C. Espinosa ¹	Executive Director	Present	13/13
Anabelle L. Chua	Non-Executive Director	Present	13/13
James L. Go	Non-Executive Director	Present	11/13
Frederick D. Go	Non-Executive Director	Present	13/13
Lance Y. Gokongwei	Vice Chairman / Non-Executive	Present	13/13
Victorico P. Vargas	Non-Executive Director	Present	13/13
Lydia B. Echaz	Independent Director	Present	13/13
Jose Ma. K. Lim	Non-Executive Director	Present	13/13
Artemio V. Panganiban	Lead Independent Director	Present	13/13
Pedro Emilio O. Roxas	Independent Director	Present	13/13

¹ President and Chief Executive Officer

2022 Board Committee Meeting Attendance								
	Finance	Audit	Risk Management	Related Party Transactions	Nomination and Governance	Remuneration and Leadership Development	Executive Committee	Sustainability
Manuel V. Pangilinan ¹	N/A	N/A	N/A	N/A	N/A	3/3	4/5	-
Ray C. Espinosa	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Anabelle L. Chua ²	12/12	7/7	2/2	2/2	4/4	N/A	N/A	N/A
James L. Go	11/12	6/7	2/2	2/2	4/4	N/A	5/5	N/A
Frederick D. Go	N/A	7/7	2/2	2/2	4/4	N/A	N/A	-
Lance Y. Gokongwei	9/12	N/A	N/A	N/A	N/A	3/3	5/5	-
Lydia B. Echaz ³	12/12	7/7	N/A	N/A	4/4	N/A	N/A	N/A
Jose Ma. K. Lim ⁴	1/1	7/7	2/2	2/2	4/4	N/A	5/5	-
Artemio V. Panganiban ⁵	N/A	7/7	2/2	2/2	N/A	N/A	5/5	N/A
Pedro Emilio O. Roxas ⁶	12/12	7/7	2/2	2/2	4/4	3/3	N/A	-
Victorico P. Vargas	12/12	N/A	N/A	N/A	N/A	3/3	N/A	N/A

¹ Chairman, Executive Committee, Remuneration and Leadership Development Committee, and Sustainability Committee

² Chairman, Finance Committee – until November 27, 2022.

³ Independent Director

⁴ Mr. Jose Ma. K. Lim was appointed as new member and Chairman of the Finance Committee in the November 28, 2022 Board meeting; Chairman, Risk Management Committee

⁵ Chairman, Audit Committee; Lead Independent Director

⁶ Chairman, Nomination and Governance Committee, and Related Party Transaction Committee; Independent Director

The Board recognizes the importance of a regular performance assessment, individually and collectively as part of their accountability. Assessments are conducted annually to evaluate their specific and overall performance for the past calendar year. The Board evaluated their individual and collective performances regarding the Board and its committees' structures, processes and responsibilities. The assessment likewise identified the training and skills development program needed by the Board. The Board also reviewed the performance of the President and CEO based on his leadership, working relations with the Board, Management, and communication. Four (4) assessment instruments with corresponding evaluation criteria were accomplished by the directors, namely the Board Self-Assessment, General Board Committee Assessment, Board Committee Self-

Assessment, and the President and CEO Performance Assessment. The assessment criteria or metrics include board structure and qualification, board duties and responsibilities, duties and responsibilities as an individual director, and board committee functions and over-all performance vis-à-vis the respective charters. The aggregated results are presented to the Board during meeting immediately following the end of the assessment process. Every three years, the assessments are supported by an external facilitator. In 2023, the Company engaged the services of the Good Governance Advocates and Practitioners of the Philippines (“GGAPP”) as external facilitator in the evaluation of the 2022 performance of the board, board committees, the Chairman, the CEO, and other key officers.

Significant Employees

The Company considers its whole manpower complement working as a team as imperative in the attainment of its goals. The Company has no employee who is not an executive officer and who is expected to make individually on his own a significant contribution to the business.

Family Relationships

Mr. James L. Go is the uncle of Mr. Lance Y. Gokongwei and Mr. Frederick D. Go, all of whom are Directors of *MERALCO*.

Other than the above, there are no family relationships up to the fourth civil degree, either by consanguinity or affinity, among directors, executive officers, or nominees.

Involvement in Certain Legal Proceedings

No director, nominee for election as director, or executive officer of the Company has been involved in or the subject of, during the past five (5) years up to the latest date, any of the following events that is material to an evaluation of his ability or integrity to serve *MERALCO*: (a) bankruptcy petition; (b) conviction by final judgment in a criminal proceeding; (c) order, judgment, or decree barring, suspending, or limiting involvement in any type of business, securities, commodities, or banking activities; (d) judgment for violation of a securities or commodities law or regulation.

Certain Relationships and Related Transactions

Except with respect to the Related Party Transactions as discussed in Note 23 to the consolidated financial statements as at December 31, 2022 and 2021 and for each of the three (3) years ended December 31, 2022, there was no transaction during the last three (3) years involving *MERALCO* in which any of its directors or executive officers, any nominee for election as director, or security holder owning 10% or more of *MERALCO*’s total outstanding shares and members of their immediate family had a material interest.

Resignation of Directors

To date, no director has resigned or declined to stand for re-election for the Board due to any disagreement with the Company relative to the Company’s operations, policies and practices.

Item 10. Executive Compensation

The aggregate annual compensation for the last two fiscal years and projected compensation for the ensuing year of MERALCO's Chief Executive Officer ("CEO") and four most highly compensated executive officers, as a group, and all other key officers, other officers and directors, as a group, are as follows:

NAME	YEAR	SALARIES ¹	BONUS ²	OTHER ANNUAL COMPENSATION ³
		Amounts in Millions		
Chief Executive Officer (CEO) and four (4) most highly compensated executive officers ⁴	Projected 2023	₱137	₱428	₱18
	2022	135	84	19
	2021	132	75	16
All other key officers, other officers and directors as a group (excluding the CEO and four most highly compensated executive officers)	Projected 2023	277	554	37
	2022	247	130	35
	2021	216	107	27

¹ Basic salaries and allowances.

² Includes government-mandated payout and variable pay

³ Commutation of unused leave benefits.

⁴ Comprised of the following: Ray C. Espinosa, President and CEO; Betty C. Siy-Yap, Senior Vice President and Chief Finance Officer; William S. Pamintuan, Senior Vice President, Chief Legal Counsel, Assistant Corporate Secretary, Compliance Officer and Head, Legal and Head, Corporate Governance and Chief Data Protection Officer; Ronnie L. Aperocho, Senior Vice President and Head, Networks and President and Chief Executive Officer, MIESCOR; Edgardo V. Carasig, First Vice President and Head, Human Resources and Corporate Services.

All directors are entitled to a reasonable per diem for their attendance in meetings of the BOD and Board Committees plus an additional compensation, provided that the total value of such additional compensation, in whatever form so given, shall not exceed one (1) percent of the income before income tax of MERALCO during the preceding year.

Each of the Directors is entitled to a per diem of ₱140,000 for every BOD meeting attended. Each member of the Audit, Risk Management, Remuneration and Leadership Development, Finance, Governance, Related Party Transactions, Sustainability and Nomination Committees is entitled to a fee of ₱24,000 for every committee meeting attended. Also, the members of the BOD are entitled to a stock grant based on a pre-approved number of shares for each Director which was implemented beginning May 2013 as approved by the Stockholders. The Directors have the option to receive the number of shares granted of the equivalent cash value.

MERALCO does not have standard arrangement on the remuneration of its existing directors and officers aside from the compensation herein stated.

Below are the details of the remuneration paid to the directors in 2022:

	Remuneration for Board Meetings Attended in 2022	Remuneration for Committee Meetings Attended in 2022	TOTAL
EXECUTIVE DIRECTOR			
Ray C. Espinosa	₱1,680,000	₱–	₱1,680,000
NON-EXECUTIVE DIRECTOR			
Manuel V. Pangilinan	1,680,000	168,000	1,848,000
Lance Y. Gokongwei	1,680,000	408,000	2,088,000
Anabelle L. Chua	1,680,000	648,000	2,328,000
James L. Go	1,400,000	720,000	2,120,000
Frederick D. Go	1,680,000	360,000	2,040,000
Jose Ma. K. Lim	1,680,000	504,000	2,184,000
Victorico P. Vargas	1,680,000	360,000	2,040,000
INDEPENDENT DIRECTORS			
Lydia B. Echauz	1,680,000	552,000	2,232,000
Artemio V. Panganiban	1,680,000	384,000	2,064,000
Pedro Emilio O. Roxas	1,680,000	720,000	2,400,000
TOTAL INDEPENDENT DIRECTORS	5,040,000	1,656,000	6,696,000
GRAND TOTAL	₱18,200,000	₱4,824,000	₱23,024,000

The Directors and Officers are covered by a Casualty Line Insurance Policy effective until June 27, 2023. The policy covers Company Securities, Company Employment Practices Breach, Regulatory Crisis Event Costs, Investigation Costs, Public Relations Expenses, Investigation Costs for Derivative Demands, Tax Liability and other additional limits such as Bodily Injury and Property Damage Defence Costs, Health and Safety Costs, Gross Negligence Manslaughter Defence Costs and Environmental Violation (Defence Costs Including Civil and admin Fines).

Item 11. Security Ownership of Certain Beneficial Owners and Management

(1) Security Ownership of Certain Record and Beneficial Owners

Based on *MERALCO*'s stock and transfer book, the security ownership as of March 31, 2023 of certain record and beneficial owners of more than 5% of any class of its voting securities is as follows:

Title of Class	Name, address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percent
Common	Beacon Electric Asset Holdings, Inc. 10/F MGO Building, Legaspi corner Dela Rosa Streets, Legaspi Village Makati City Stockholder	Same as the record owner	Filipino	394,059,235	34.96%
Common	JG Summit Holdings, Inc. 42/F Robinsons Equitable Tower, ADB Avenue corner Poveda Road, Ortigas Center Pasig City Stockholder	Same as the record owner	Filipino	297,189,397	26.37%
Common	Philippine Central Depository ("PCD") Nominee Corporation 29th Floor, BDO Equitable Tower 8751 Paseo de Roxas Makati City 1226 No relationship with Issuer	PCD Participants	Filipino and Foreign	211,348,779	18.75%
Common	Metro Pacific Investments Corporation 10/F MGO Building, Legaspi corner Dela Rosa Streets, Legaspi Village Makati City Stockholder	Same as the record owner	Filipino	140,906,807	12.50%

Beacon Electric Asset Holdings, Inc. ("*Beacon Electric*") is a special purpose entity wholly-owned by Metro Pacific Investments Corporation ("*MPIC*"), organized to hold *MPIC*'s shares in *MERALCO*. Mr. Manuel V. Pangilinan, Mr. Jose Ma. K. Lim, Atty. Ray C. Espinosa, or the Chairman of the Stockholders' Meeting of *MERALCO*, is duly authorized as proxy to vote its *MERALCO* shares as he or she may deem proper or beneficial to *Beacon Electric*.

JG Summit Holdings, Inc. ("*JG Summit*") was incorporated in November 1990 as the holding company for a group with substantial business interests in branded consumer foods, agro-industrial and commodity food products, property development and hotel management, air transportation, petrochemicals, and international capital and financial services. In addition, *JG Summit* has business interests in other sectors, including power generation and insurance. *JG Summit* conducts its businesses throughout the Philippines, but primarily in and around Metro Manila and in the regions of Visayas and Mindanao. *JG Summit*, through its subsidiaries, also has branded foods businesses in the People's Republic of China and the ASEAN region, including an interest in a property development company in Singapore. Each of Mr. James L. Go and Mr. Lance Y. Gokongwei are duly authorized as proxies to vote its *MERALCO* shares as they may deem proper or beneficial to *JG Summit*.

PCD Nominee Corporation is a wholly-owned subsidiary of the Philippine Depository and Trust Corporation (“PDTC”). Originally, stock certificates were issued to investors every time they acquired shares of the Company. However, with the Philippine Central Depository’s (“PCD”) computerized Book Entry System that took effect in November 1997, investors of *MERALCO* shares now have an option whether they will be issued certificates or not. Their shares may be lodged at the *PCD* and further trading will be scripless (computerized with no certificates) until they request for the issuance of certificates. The *PCD* Nominee Corporation holds the shares as the registered owner thereof in *MERALCO*’s books on behalf of *PCD* Participants and their clients. The participants of *PCD* are the beneficial owners of such shares and may be nominated as proxy to vote the same. Stockholders with *PCD*-lodged shares have no record of their shareholdings with *MERALCO* or its transfer agent, Rizal Commercial Banking Corporation (“RCBC”). Only shares with stockholders certificates are recorded in *MERALCO*’s books, which may be voted by the registered owners or their proxies.

MPIC was founded in 1986. It is an investment holding company, with interest in water utilities, toll roads, electricity distribution, and healthcare service businesses in the Philippines. It operates six (6) business segments: Water Utilities, Toll Operations, Power Distribution, Power Generation, Healthcare, and Others. The Water Utilities segment provides water and sewerage services through a network of pipelines, pumping stations, and mini-boosters. The Toll Operations segment is involved in the operation and maintenance of toll road facilities. The Power Distribution segment distributes and supplies electricity. The Power Generation segment includes operating power plants in the Philippines and Singapore and power projects which are under development through *MERALCO* PowerGen Corporation. The Healthcare segment operates and manages hospitals, nursing and medical schools, and other related enterprises. The other segment is involved in the operation of real estate properties; and provision of property development, investment holding, and management services. Mr. Manuel V. Pangilinan, Mr. Jose Ma. K. Lim, Atty. Ray C. Espinosa, or the Chairman of the Stockholders’ Meeting of *MERALCO*, is duly authorized as proxy to vote its *MERALCO* shares as he or she may deem proper or beneficial to *MPIC*.

(2) Security Ownership of Management

As of March 31, 2023, the securities owned beneficially, directly or indirectly, by directors and executive officers of *MERALCO* are as follows:

No.	Title of Class	Name of Beneficial Owner	Number of Shares and nature of Beneficial Ownership	Citizenship	Percent of Class
1.	Common	Manuel V. Pangilinan	55,000 (Direct)	Filipino	0.00%
2.	Common	Lance Y. Gokongwei	19,313 (Direct)	Filipino	0.00%
3.	Common	Ray C. Espinosa	56,000 (Direct)	Filipino	0.00%
4.	Common	Anabelle L. Chua	21,060 (Direct)	Filipino	0.00%
5.	Common	Lydia B. Echauz	6,100 (Direct)	Filipino	0.00%
6.	Common	Frederick D. Go	10,030 (Direct)	Filipino	0.00%
7.	Common	Victorico P. Vargas	13,917 (Direct)	Filipino	0.00%
8.	Common	Jose Ma. K. Lim	75,010 (Direct)	Filipino	0.01%
9.	Common	James L. Go	199,450 (Direct)	Filipino	0.02%
10.	Common	Pedro Emilio O. Roxas	1,000 (Direct)	Filipino	0.00%
11.	Common	Artemio V. Panganiban	14,001 (Direct)	Filipino	0.00%
12.	Common	Simeon Ken R. Ferrer	767 (Direct)	Filipino	0.00%
13.	Common	Roberto R. Almazora	93,082 (Direct)	Filipino	0.01%
14.	Common	Ronnie L. Aperocho	14 (Direct)	Filipino	0.00%
15.	Common	William S. Pamintuan	–	Filipino	0.00%
16.	Common	Betty C. Siy-Yap	–	Filipino	0.00%
17.	Common	Maria Luisa V. Alvendia	–	Filipino	0.00%
18.	Common	Roque D. Bacani	–	Filipino	0.00%
19.	Common	Edgardo V. Carasig	–	Filipino	0.00%
20.	Common	Ferdinand O. Geluz	15,877 (Direct)	Filipino	0.00%
21.	Common	Melanie T. Oteyza	–	Filipino	0.00%
22.	Common	Raymond B. Ravelo	–	Filipino	0.00%
23.	Common	Jose Ronald V. Valles	–	Filipino	0.00%
24.	Common	Antonio M. Abuel, Jr.	7,927 (Direct)	Filipino	0.00%
25.	Common	Francis Euston R. Acero	500 (Direct)	Filipino	0.00%
26.	Common	Ireneo B. Acuña	18,355 (Direct)	Filipino	0.00%
27.	Common	Joseph L. Amosco	5,198 (Direct)	Filipino	0.00%
28.	Common	Patrick Dave B. Bacani	–	Filipino	0.00%
29.	Common	Bennette D. Bachoco	–	Filipino	0.00%
30.	Common	Joseph Allan C. Baltazar	–	Filipino	0.00%
31.	Common	Rita D. Bantigue	–	Filipino	0.00%
32.	Common	Sante C. Buella	–	Filipino	0.00%
33.	Common	Ricardo Carmelo D. Buenafe	6,070 (Direct)	Filipino	0.00%
34.	Common	Alberto N. Castillo	600 (Direct)	Filipino	0.00%
35.	Common	Ricardo L. Concepcion	–	Filipino	0.00%
36.	Common	Ma. Cecilia M. Domingo	1,495 (Direct)	Filipino	0.00%
37.	Common	Lawrence S. Fernandez	4,500 (Direct)	Filipino	0.00%
38.	Common	Paul Ryan C. Gregorio	–	Filipino	0.00%
39.	Common	Marvin G. Gonsalves	11,780 (Direct)	Filipino	0.00%
40.	Common	Jerry B. Lao	–	Filipino	0.00%
41.	Common	Erville D. Magtubo	–	Filipino	0.00%
42.	Common	Roderick Dennison N. Nacu	31 (Direct)	Filipino	0.00%
43.	Common	Charina P. Padua	42,609 (Direct)	Filipino	0.00%
44.	Common	Glen N. San Pedro	–	Filipino	0.00%
45.	Common	Jose S. Reyes, Jr.	8,827 (Direct)	Filipino	0.00%
46.	Common	Froilan J. Savet	8,435 (Direct)	Filipino	0.00%

No.	Title of Class	Name of Beneficial Owner	Number of Shares and nature of Beneficial Ownership	Citizenship	Percent of Class
47.	Common	Jeffrey O. Tarayao	–	Filipino	0.00%
48.	Common	Maria Zarah R. Villanueva-Castro	–	Filipino	0.00%
49.	Common	Agapito R. Zaldarriaga	10,369 (Direct)	Filipino	0.00%
50.	Common	Ma. Cynthia C. Soluren	11,575 (Direct)	Filipino	0.00%

As of March 31, 2023, the securities owned beneficially by the nominees for election to the Board of Directors (“BOD”) are as follows:

No.	Title of Class	Name of Beneficial Owner	Number of Shares and nature of Beneficial Ownership	Citizenship	Percent of Class
1.	Common	Manuel V. Pangilinan	55,000 (Direct)	Filipino	0.00%
2.	Common	Lance Y. Gokongwei	19,313 (Direct)	Filipino	0.00%
3.	Common	Ray C. Espinosa	56,000 (Direct)	Filipino	0.00%
4.	Common	June Cheryl A. Cabal-Revilla	1 (Direct)	Filipino	0.00%
5.	Common	Lydia B. Echauz	6,100 (Direct)	Filipino	0.00%
6.	Common	Frederick D. Go	10,030 (Direct)	Filipino	0.00%
7.	Common	James L. Go	199,450 (Direct)	Filipino	0.00%
8.	Common	Jose Ma. K. Lim	75,010 (Direct)	Filipino	0.00%
9.	Common	Artemio V. Panganiban	14,001 (Direct)	Filipino	0.00%
10.	Common	Pedro Emilio O. Roxas	1,000 (Direct)	Filipino	0.00%
11.	Common	Victorico P. Vargas	13,917 (Direct)	Filipino	0.00%

The aggregate number of shares owned on record by the Chief Executive Officer, Executive Officers, Directors and Nominees as of March 31, 2023 is 718,892 shares or 0.06% of *MERALCO*’s total outstanding shares.

(3) Voting Trust Holders

MERALCO is not aware of any person holding more than 5% of common shares under a voting trust or similar agreement.

(4) Changes in Control

Based on *MERALCO*’s stock and transfer book, there is no change in the control of *MERALCO* since the beginning of the last fiscal year.

Item 12. Certain Relationships and Related Transactions

Except with respect to the Related Party Transactions as discussed in Note 23 to the consolidated financial statements as at December 31, 2022 and 2021 and for each of the three (3) years ended December 31, 2022, there was no transaction during the last three (3) years involving *MERALCO* in which any of its directors or executive officers, any nominee for election as director, or security holder owning 10% or more of *MERALCO*’s total outstanding shares and members of their immediate family had a material interest.

PART IV – CORPORATE GOVERNANCE

Item 13. Corporate Governance

Compliance with Leading Practices on Corporate Governance

MERALCO (“Company”), as a Philippine publicly listed company (“PLC”), is in full compliance with the rules and regulations of the Securities and Exchange Commission (“SEC”), including the Code of Corporate Governance, the Philippine Stock Exchange (“PSE”), the Philippine Dealing and Exchange Corporation (“PDEX”) and all other rules and regulations for the development of the Philippine capital market.

As a testament to the Company’s good corporate governance practices, *MERALCO* was awarded with Asset Class Award and Three Golden Arrows respectively by ASEAN Capital Markets Forum (“ACMF”) and the Institute of Corporate Directors (“ICD”), acting as the domestic ranking body of the ACMF for the ASEAN Corporate Governance Scorecard (“ACGS”), for the Company’s remarkable governance structure, programs, and practices in the 2021 ACGS assessment wherein *MERALCO* attained a score of 100.99.

Pursuant to the governance principle of transparency, *MERALCO* fully complied with the SEC and PSE’s reportorial requirements on corporate governance, including:

1. The 2022 Certification by the Compliance Officer of *MERALCO*’s full compliance with the Revised Manual of Corporate Governance. No deviations from the Manual transpired.
2. Certification of Board attendance, reports involving financial statements, disclosure of material information and events, clarifications on specific news articles concerning *MERALCO*, and trainings attended by Board members and key officers on corporate governance.
3. Disclosure requirements on direct and indirect ownership of securities under the Securities Regulation Code, and the reporting of trading transactions of directors and concerned officers of *MERALCO* by the Compliance Officer not later than the following day after the required event or transaction. There has been no case of insider trading involving directors and management of *MERALCO*.

The Company continues to strengthen its governance structure, policies, programs and practices, and stakeholder engagement, in accordance with best corporate governance practices aligned with the recommendations under the SEC’s 2017 Code of Corporate Governance for Publicly-Listed Companies, the Integrated Annual Corporate Governance Scorecard (I-ACGR) and the ASEAN Corporate Governance Scorecard (“ACGS”).

A. Governance Structure

The Board of Directors (“Board”) is the highest governance body of the Company. The Board is composed of directors with collective working knowledge, experience and expertise relevant to power, energy and electric distribution industry/sector. It represents an appropriate mix of competence and expertise in the area of business, finance, operations, regulatory and legal disciplines relevant to the Company’s industry, with each director capable of adding value and exercising independent judgment, ensuring that the directors remain qualified for their positions individually and collectively to enable them to fulfill their roles and responsibilities and respond to the needs of the organization.

1. Composition

The *Board* consists of eleven (11) directors, three (3) of whom are independent directors (including 1 female independent director), seven (7) are non-executive directors, and one (1) is an executive director:

Director	Designation
Manuel V. Pangilinan	Chairman Non-Executive Director
Lance Y. Gokongwei	Non-Executive Director
Ray C. Espinosa ¹	Executive Director
James L. Go	Non-Executive Director
Victorico P. Vargas	Non-Executive Director
Jose Ma. K. Lim	Non-Executive Director
Anabelle L. Chua	Non-Executive Director
Frederick D. Go	Non-Executive Director
Artemio V. Panganiban	Lead Independent Director
Pedro Emilio O. Roxas	Independent Director
Lydia B. Echauz	Independent Director
¹ President and CEO	

2. Board Diversity

In line with its commitment to the principles of good corporate governance, the Company adopted a Board Diversity Policy to ensure that the *Board* has an appropriate mix of expertise, experience, independence, and skills that would encourage critical discussion and promote a balanced decision in the attainment of the Company's strategic objectives and sustainable development.

The Board Diversity Policy, in particular, recognizes the important role of women with appropriate and relevant expertise and experience that can contribute to the diversity of perspectives in the *Board*. Under the Policy, the *Board* shall aim to have at least one (1) female director as its member. Currently, the *Board* has two (2) female directors.

Directors shall be selected from a broad pool of qualified nominees. In order to achieve a diverse board, varied aspects are to be considered as measurable objectives, including, but not limited to: academic, professional and business background, age, gender, and other regulatory requirements. The final composition of the Board shall be grounded on merit and potential contribution of the selected directors to the Company.

Measurable Objectives	2022 Board	Description	2021 Board	Description
Gender Diversity	√	Mix of Male and Female Directors 9 male and 2 female directors	√	Mix of Male and Female Directors 9 male and 2 female directors
Racial Diversity	√	Mix of Racial or Ethnic Backgrounds	√	Mix of Racial or Ethnic Backgrounds

Age Diversity	√	Age ranges from 53 to 86 years old	√	Age ranges from 52 to 85 years old
Board Tenure	√	Tenure ranges from 1 to 13 years	√	Tenure ranges from 1 to 12 years
Expertise				
E.1. Industry Expertise	√	Mix of directors siting as members of the BOD in Energy, Electric Retail and Power Generation companies	√	Mix of directors siting as members of the BOD in Energy, Electric Retail and Power Generation companies
E.2. Management or Operations	√	Mix of directors sitting as members of BOD or officers of electric supply, energy, power generation, retail, banking, telecommunications, realty, media, medical, insurance and other companies	√	Mix of directors sitting as members of BOD or officers of electric supply, energy, power generation, retail, banking, telecommunications, realty, media, medical, insurance and other companies
E.3. Financial, Audit, or Risk Management Expertise	√	Mix of directors acting as Chief Risk Management Officer, Member of Philippine Disaster and Risk Foundation, or members of Financial, Audit, or Risk Management committees of other companies	√	Mix of directors acting as Chief Risk Management Officer, Member of Philippine Disaster and Risk Foundation, or members of Financial, Audit, or Risk Management committees of other companies
E.4. Legal or Regulatory Expertise	√	Mix of directors who are lawyers, or with Regulatory Management background, a Former Chief Justice of the Supreme Court of the Philippines, Former Chairperson of the Presidential Electoral Tribunal, Judicial and Bar Council and Philippine Judicial Academy	√	Mix of directors who are lawyers, or with Regulatory Management background, a Former Chief Justice of the Supreme Court of the Philippines, Former Chairperson of the Presidential Electoral Tribunal, Judicial and Bar Council and Philippine Judicial Academy
E.5. Corporate Governance	√	Director with membership in Shareholders Association of the Philippines, Fellowship in ICD, Former Governor of Philippine Stock Exchange,	√	Director with membership in Shareholders Association of the Philippines, Fellowship in ICD, Former Governor of Philippine Stock Exchange,
E.6. Technology or Digital Media Expertise	√	Mix of directors who are likewise directors, advisors or consultants of media, technology or telecommunications companies	√	Mix of directors who are likewise directors, advisors, or consultants of media, technology, or telecommunications companies

E.7. Retail, Sales or Marketing Expertise	√	Mix of directors who are likewise directors, advisors or consultants of media, telecommunications, banking, telecommunications, realty, media, medical, insurance and retail companies	√	Mix of directors who are likewise directors, advisors or consultants of media, telecommunications, banking, telecommunications, realty, media, medical, insurance and retail companies
Professional, Academic or Advocacy Background or Affiliations				
F.1. Academic Institutions	√	Mix of directors who have degrees in Finance and Commerce, Business Management, or who are member of Board of Overseers, Board of Trustees of colleges or business schools, or graduate of International Management Development Program	√	Mix of directors who have degrees in Finance and Commerce, Business Management, or who are member of Board of Overseers, Board of Trustees of colleges or business schools, or graduate of International Management Development Program
F.2. Advocacy Groups or Foundations	√	Directors with membership in environmental and socio-civic advocacy groups and foundations	√	Directors with membership in environmental and socio-civic advocacy groups and foundations
F.3. Professional Organizations	√	Directors with membership in Integrated Bar, Philippine Bar Association, and Inter-Pacific Bar Association, Philippine Stock Exchange	√	Directors with membership in Integrated Bar, Philippine Bar Association, and Inter-Pacific Bar Association, Philippine Stock Exchange

3. Chairman of the Board

The Chairman of the Board, Mr. Manuel V. Pangilinan, serves to represent the interests of all shareholders and stakeholders, and oversees the performance of the Board and its directors. He champions exemplary ethical governance principles for directors, officers, and employees to emulate and espouse.

Together with the President and CEO, Atty. Ray C. Espinosa, the Corporate Secretary, Atty. Simeon Ken R. Ferrer and the Compliance Officer, Atty. William S. Pamintuan, the Chairman sets a clear agenda before each Board meeting. He provides opportunities for all directors to actively participate, addresses governance-related issues that non-executive, independent directors may raise, and ensures that the Board exercises strong oversight over the Company and its Management, such that the prospect of any corporate risk or threat is adequately and effectively addressed. His roles and responsibilities are specified in the CG Manual accessible at the Company's website.

4. Independent Directors

On April 13, 2022, the Nomination and Governance Committee assessed the profiles of the directors and found that the independent, non-executive directors are indeed free of relationships with the Company, its related corporations, its management or substantial shareholders that could interfere, or be reasonably perceived to interfere, with the exercise of directors' independent business judgment. The Nomination and Governance Committee had reviewed the multiple board representations held presently by the directors and assessed that they do not hinder in any way the performance of their duties to the Company.

Given the nomination for election to the Board of Directors of independent directors, Retired Chief Justice Artemio V. Panganiban and Mr. Pedro Emilio O. Roxas after the maximum nine- (9-) year term, the Board provided for the meritorious justification for their retention in accordance with the CG Manual which was consequently approved by the shareholders during the 2022 Annual Stockholders' Meeting.

The retention of these independent directors was viewed in light of the unprecedented backdrop of the COVID-19 pandemic. The most recent corporate financial and operational indicators have clearly shown that the global COVID-19 pandemic has brought about unique and serious operational, legal and regulatory risks, that unfortunately have continued to loom relentlessly over the Company and the nation as a whole. In the midst of such uncertainty, *MERALCO* and its stakeholders will benefit from stability in the Board brought about in part by Retired Chief Justice Panganiban's and Mr. Roxas' deep experience and knowledge of the Company that will enable them to continue to provide steady guidance and meaningful participation towards the crafting of policies and strategies to immediately address these risks.

5. Board Committees

The Board has formed various Board Committees, namely Executive Committee (ExCom), Audit Committee (AuditCom), Risk Management Committee (RMC), Nomination and Governance Committee (Nom&Gov), Remuneration and Leadership Development Committee (RLDC), Finance Committee (FinCom), Related Party Transactions Committee (RPTCom), and Sustainability Committee. The Board has delegated specific responsibilities to each of these Committees guided by their respective committee charters.

6. Corporate Secretary and Compliance Officer

All Board members have direct and independent access to the Corporate Secretary, the Compliance Officer and Management.

The Corporate Secretary, Atty. Simeon Ken R. Ferrer, under the direction of the Chairman, is responsible for ensuring that good information flows within the Board and Board Committees and between Management and non-executive directors. He also facilitates the orientation and assists with the professional development of directors as required by regulators. He met all the qualifications and skills required for his position.

The Board is likewise assisted by Company's Compliance Officer and Senior Vice President, Atty. William S. Pamintuan, who monitors, reviews, evaluates and ensures the full compliance by the corporation, its directors and officers with relevant laws, rules and regulations and all governance

issuances of regulatory agencies and report violations thereof to the Board and recommends the imposition of appropriate disciplinary action.

The qualifications, duties and responsibilities of the Corporate Secretary and Compliance Officer are stated in the MCG and Board Charter. Both of them regularly attend trainings on corporate governance.

B. Nomination and Election

The *Company's* Nomination and Election Policy sets forth the procedures in the director selection process, including the acceptance of nominations from minority shareholders and the evaluation and screening of nominees vis-à-vis the applicable qualifications and disqualifications set forth in the CG Manual, By-laws and other applicable law, policy or regulation, how the board shortlists candidates, and an assessment of the effectiveness of the Board's processes in the nomination, election or replacement of a director.

The Company uses professional search firms or other external sources of candidates (such as director databases set up by director or shareholder bodies) when searching for candidates to the board of directors/commissioners such as the Institute of Corporate Directors (ICD) to search for candidates to the *Board*. These candidates would be skilled in core competencies such as strategic planning, business expertise, and industry knowledge. The shareholders will then elect the directors during the Annual Stockholders' Meeting (ASM) held every last Tuesday of May.

The Company granted all stockholders, including minority stockholders, the right to nominate directors and propose or inquire on agenda items. The "Call for Nominations" was posted on the Company's website on February 7, 2022 for submission of proposed agenda and nomination of qualified candidates on or before March 4, 2022. The agenda and nominees were approved by the *Board* during its meeting on February 7, 2022 and March 28, 2022, respectively.

The 2022 ASM was held on Tuesday, May 31, 2022, at 10:00 AM at the *MERALCO* Compound, Ortigas Avenue, Barangay Ugong, Pasig City. In light of the COVID-19 pandemic, the Company conducted its third virtual ASM via live broadcast of the proceedings through the Stockholders Electronic Registration and Voting Express (SERVE).

The Corporate Secretary reported a quorum with the attendance of stockholders who own or hold a total of 902,548,837 shares or approximately 80.08% of the total issued and outstanding shares of the Company. An electronic system facilitated the registration and vote tabulation to ensure accuracy and reliability of information. SERVE was also enhanced to allow the stockholders to attend and actively participate via remote communication and to cast their votes for the agenda items online. Stockholders were given opportunity to propound questions and raise concerns to the Board during the meeting.

The Corporate Secretary explained the vote tabulation procedures to the shareholders and stated that all shareholders were entitled to one vote for one share. Representatives from Reyes Tacandong & Co., an independent third party, validated the voting results for each agenda item. The Company also allowed shareholders to freely express their views and raise their questions during the ASM through the SERVE portal.

The Chairman of the *Board*, Chairman of the AuditCom, Chairman of the RLDC, Chairman of the Nom&Gov, Chairman of the Finance Committee, the Board, President and CEO, Chief Finance

Officer (CFO), Corporate Secretary, Assistant Corporate Secretary other officers of the Company, and its external auditor attended the ASM to present the performance results of the Company and respond to any question from the shareholders relevant thereto. The appropriate meeting procedures and guidelines were followed before, during and after the ASM.

The Company posted the resolutions approved during the ASM on its website the following day so that non-attending shareholders may be immediately informed.

C. Board Independence

The Company has no shareholder agreements, by-laws provisions, or other arrangements that constrain the directors' ability to vote independently. Board shall consider designating a lead director among the independent directors if the Chairman of the Board is not independent and if the positions of the Chairman of the Board and Chief Executive Officer are held by one person.

Considering that the Chairman of the Board is not an independent director, the appointment of a Senior or Lead Independent Director was endorsed to, and approved by, the Board of Directors. The Board subsequently appointed Independent Director (ID) Ret. Chief Justice Artemio V. Panganiban as the Lead Independent Director to serve as such until the next Lead ID is appointed. As Lead ID, he has the following functions:

- a. To serve an intermediary between the Chairman and the other directors when necessary;
- b. To convene and chair meeting of the non-executive directors; and
- c. To contribute to the performance evaluation of the Chairman, as required.

The Lead Independent Director does not, however, act as Chairman in the absence of the Chairman, the same having been delegated to the Vice-Chairman.

D. Board Committees

The Board has formed various Board Committees delegated with specific responsibilities. These Committees are established and guided by their respective committee charters. The same is disclosed in the Annual Report and posted in the Company Website.

Currently, there are eight (8) standing Board Committees:

- Executive Committee;
- Nomination and Governance Committee;
- Audit Committee;
- Risk Management Committee;
- Remuneration and Leadership Development Committee;
- Finance Committee;
- Related Party Transactions Committee
- Sustainability Committee

Sustainability Committee was established in 2021 to oversee the development and/or review of the Company's sustainability framework, agenda and policy in alignment with the Company's business philosophy and strategies.

E. Continuing Education for the Board and Senior Management

Corporate governance education continues with orientations and trainings for the *Board* and *Senior Management*. The *Board* keeps abreast with the latest developments in the corporate governance regulatory landscape and implements a policy on orientation and continuing training for all directors and key officers, including an annual CG training with SEC-Accredited providers, in accordance with the Board Charter and the MCG.

The Company has a policy that encourages directors to attend annual continuing training programs. In fulfillment of such policy and the requirements of the Company's MCG, the ERC Resolution No. 1, Series of 2004, and the SEC Memo Circular No. 20, Series of 2013, the Directors, together with the Senior Management, attended via online platform the MVP Group Annual Corporate Governance Enhancement Session (ACGES) on September 22, 2022, entitled "The Metaverse and How it will Transform Business & Human Interaction" by Mr. Matthew Ball and "Proof of Learn: A Philippine Perspective to the Metaverse" by Ms. Sheila Lirio Marcelo. This session covered four (4) hours of governance training and was accredited by the SEC.

2022 ATTENDANCE TO CORPORATE GOVERNANCE TRAINING AND CONTINUING EDUCATION PROGRAMS		
Director	Program	Resource Person/ Name of Training Institution
Manuel V. Pangilinan Anabelle L. Chua Ray C. Espinosa Frederick D. Go Jose Ma. K. Lim Victorico P. Vargas Retired Chief Justice Artemio V. Panganiban Lydia B. Echaz Pedro Emilio O. Roxas	MVP Group Annual Corporate Governance Enhancement Session: "The Metaverse and How it will Transform Business & Human Interaction" and "Proof of Learn: A Philippine Perspective to the Metaverse"	Mr. Matthew Ball Ms. Sheila Lirio Marcelo
Frederick D. Go	MVP Group Annual Corporate Governance Enhancement Session: "The Metaverse and How it will Transform Business & Human Interaction" and "Proof of Learn: A Philippine Perspective to the Metaverse" Sustainability Masterclass	Mr. Matthew Ball Ms. Sheila Lirio-Marcelo JGS Executive Development Program
Lance Y. Gokongwei	Sustainability Masterclass Unbox Extra: The Gokongwei Group Innovation Festival	JGS Executive Development Program JG Summit Digital Transformation

James L. Go	Sustainability Masterclass <i>SEC Granted Mr. James L. Go a permanent exemption from the corporate governance training requirement in its en banc meeting on November 10, 2015.</i>	JGS Executive Development Program
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F. Succession Planning

Together with the Board, the Nomination and Governance Committee (Nom&Gov) is responsible for recommending a succession planning program for its members while the Remuneration and Leadership Development Committee (RLDC) is responsible for overall guidance and direction on succession planning and leadership development of the President and CEO and Senior Management. The Committee, working closely with the head of Human Resources (HR), drives the strategy for succession planning, leadership development, and talent management. The HR head develops and implements the processes and the tools to ensure robust pools of succession candidates for the President and CEO, senior management, middle management and first line management.

Talent Management and Succession Planning Programs are top priorities in the Human Resources (HR) agenda by ensuring that the right leaders and talents are in place to drive our business plans. Progressive talent management assessment tools and methodologies were used to identify, assess, and develop leaders for critical positions.

Presently, the succession plan covers the top 666 leaders of the Company. The succession planning process involves the assessment of the Company's leaders' career aspirations, strengths, and development needs. A key feature of the Company's succession planning process is the talent review conducted at the senior management level and at various levels of the organization. The senior management talent review has resulted in a pool of about of 20 candidates who, subject to realization of their development plans, could become management committee members within the next five (5) years.

G. Retirement Policy

The Board adopts a policy on the retirement for directors and key officers. The Remuneration and Leadership Development Committee assists the Board in the development of the Company's overall performance management, compensation, retirement and leadership development policies and programs based on the Company-approved philosophy and budget.

H. Remuneration

The Board ensures that the remuneration of directors and officers is consistent with the Company's culture, strategy, and the business environment in which it operates and aligned with the long-term interest of the Company. The Company adopts a remuneration policy comprised of fixed and variable components in the form of base salary and variable bonus linked to the Company's and the individual's performance. Compensation packages and revisions of key Management's remuneration are subject to the review and approval of the Remuneration and Leadership Development Committee.

The Remuneration and Leadership Development Committee recommends to the Board, for the approval of the shareholders, a framework of remuneration for directors and Management, including the President and CEO. For the President and CEO, and Management, the framework takes into account all aspects of executive remuneration including salaries, allowances, bonuses, and benefits in kind. The framework is benchmarked against pay and employment conditions within the industry and it links rewards to corporate and individual performance.

In particular, the Company compensates employees based on Company, team, and individual performance to help achieve corporate goals and targets and provides for long term incentives such as deferred bonus or pay based on *MERALCO* Group's achievement of specified level of consolidated core net income approved by the Board and determined on an aggregate basis for a three-year period as well as executives' attainment of a minimum level of performance rating, essentially partaking the nature of deferred bonus.

I. Board, Committee, Chairman, and CEO Assessment

The *Board* annually conducts a self-assessment of its performance individually, collectively, and as members of the different Board Committees. The self-assessment results are key factors in the enhancement of directors' performance and effectiveness in the discharge of their duties.

The *Board* conducted the performance assessment on March 10, 2022 wherein directors were given opportunity to give their opinions and suggestions or identify special issues of interest about their performance or different aspects of the Company's operation.

The *Board* also conducts an annual assessment of the President & CEO's leadership, working relations with the Board, communication and working relations with Management. The Remuneration and Leadership Development Committee exercises functional oversight in the development and administration of leadership development/succession planning and retention programs for executives and officers such as heads of the other control functions (Chief Risk Officer, Chief Compliance Officer and Chief Audit Executive) which include career development, promotions, and performance evaluation.

Every three years, the assessments are supported by an external facilitator. The Company engaged the services of the Good Governance Advocates and Practitioners of the Philippines (GGAPP) for the evaluation of the 2019 Board, Committee, and CEO performance assessment. The Company has again secured GGAPP for the board evaluation process of its performance for year 2022.

Assessment Forms

- | |
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| 1. Board Self-Assessment - each director assessed the board performance individually and as a whole based on the following categories: Board structure and qualifications, Board duties and responsibilities, and Duties and responsibilities as an individual director |
| 2. General Board Committee Performance Assessment – each director assessed the overall performance of the following committees, based on the provisions of the Board Committee Charters. |
| 3. Board Committee Self-Assessment – each committee member assessed his committee's performance vis-à-vis the respective charters and SEC's Guidelines for the Assessment of the Performance of Audit Committee of Companies Listed on the Exchange. |

- | |
|--|
| 4. President and CEO Performance Assessment – each director assessed the President & CEO's leadership, working relations with the Board, communication and working relations with Management. |
|--|

J. Continuing Policy Formulation

With the establishment of a Corporate Governance Office (“CGO”) in *MERALCO* in 2010, corporate governance policies and programs were adopted by the Board and implemented in the Company to such as the Manual of Corporate Governance, Revised Code of Ethics, Policy on Blackout Period/Restriction on Trading of Shares, Policy on Solicitation and Acceptance of Gifts, “Be Right” Open Communication (integrated whistle-blowing) Policy, Conflict of Interest Policy, Related Party Transactions Policy, Suppliers Business Conduct Policy, Human Rights Policy, Anti-Bribery and Social Media Policy, among others. In compliance with the recommendations under the *I-ACGR*, *MERALCO* adopted an Anti-Bribery and Corruption Policy which formalizes its stand against corrupt practices and specifies in detail the prohibition against corporate gift-giving to public and private individuals or entities that constitutes bribery or corruption. The Board also adopted and made available, at the option of a shareholder, an established Alternative Dispute Resolution (“ADR”) mechanism to resolve intra-corporate disputes in an amicable and effective manner as provided in the Revised Manual of Corporate Governance.

The Company, through its Board of Directors, annually reviews, confirms and/or updates the vision, mission, and corporate strategic objectives of the Company. In 2021, the Board reviewed and updated its vision, mission and value statements to align with the Company's current strategic imperatives and initiatives:

VISION: To be a world-class energy solutions provider, powering our nation and empowering our people today and for generations to come.

MISSION: To provide our customers the best value energy solutions—reliably, affordably, superbly, and sustainably.

CORE VALUES: Excellence, Customer Centricity, Sustainability, Integrity, Innovation, *Malasakit*, and *Bayanihan*.

The Company likewise identified the following strategic objectives to ensure that its obligations to shareholders and to all stakeholders are understood and met:

1. Revenue enhancement and expansion;
2. Customer-centricity;
3. Digital Transformation; and
4. Sustainability.

Furthermore, to reinforce board independence and pursuant to the recommendation under ASEAN Corporate Governance Scorecard and the SEC's Code of Corporate Governance for PLCs, the Board appointed Independent Director (“ID”), Retired Chief Justice Artemio V. Panganiban, as the Lead Independent Director. In 2021, the shareholders of the Company elected its first lady independent director, Ms. Lydia Echauz. The Charter of the Board of Directors was also drafted to sets the Board's purposes, authority, duties, and responsibilities, structure and procedures. The Board Charter also

included the provision for guidelines on Board Meetings through Teleconferencing and Videoconferencing.

Following developments in governance policies and practices that are aligned with the recommendations under the Code of Corporate Governance for *PLCs*, the *I-ACGR*, and the ASEAN Corporate Governance Scorecard, *MERALCO* also introduced amendments to existing policies such as the Related Party Transactions (RPT) Policy. Amendment of the Related Party Transactions Policy was made to include the defined thresholds for disclosure and approval of related party transactions and the treatment for de minimis transactions and incorporated provisions that seek to comply with the SEC Rules on Material RPTs for Publicly-listed Companies. Existing governance policies of the Company are also continuously reviewed to align with developments in regulations and governance best practices.

K. Management and Employee Performance Management

The Board has established an effective performance management framework that ensures that the performance of Management and employees is at par with the standards set by the Board and Senior Management.

The achievement of financial and non-financial indicators is reflected in management performance assessment which drives the Company's merit and incentive pay programs.

PERFORMANCE INDICATORS	
Financial	Non-Financial
Measures reflecting the financial results and financial position of the Company to the shareholders, such as revenues, consolidated core net income, reported net income, EBITDA, cash and cash equivalents, debt and stockholders' equity, dividend payouts, etc.	<ul style="list-style-type: none"> ▪ S-Factor Indicators <ul style="list-style-type: none"> - System Loss (SL) - System Average Interruption Frequency Index (SAIFI) - System Average Interruption Duration Index (SAIDI) - Momentary Average Interruption Frequency Index (MAIFI) - Time to Process Applications (TPA) - Time to Connect Premises (TCP) - Call Center Performance (CCP) ▪ Guaranteed Service Level (GSL) Metrics

The Company's performance management process for employees assesses employee performance on the basis of: 1) actual vs. desired results; and 2) how results were delivered in light of corporate core values. Specifically, the annual performance of Management and employees is assessed through the achievement of the Company's Goals and Initiatives (GAINS) indicators.

Performance of the Management and employees is evaluated on a biennial basis based on two critical factors:

GOALS & INITIATIVES (GAINS) – measures the employee's work accomplishments during the performance period (i.e., individual goals vs. actual work accomplishments); and

VALUES & BEHAVIOR (V&B) – measures how well the employee met expectations based on the behavioral manifestations of the seven Corporate Values, namely: Customer Service, Performance, Accountability/Empowerment, Integrity/Transparency, Teamwork/ Collegiality, Malasakit and Makabayan

L. Internal Control and Audit

Audit Committee

The Board is supported by an Audit Committee (AuditCom) to strengthen its oversight capability over the Company's financial reporting, internal control system, internal and external audit processes, and compliance with applicable laws and regulations.

The AuditCom has the power to 1. review with Management and the external auditors the results of the audit of the financial statements and evaluation of internal accounting controls; 2. review and evaluate procedures and criteria for the selection, appointment, annual performance evaluation and if appropriate, termination of services of the external auditors and recommend to the Board for approval, the appointment, reappointment or removal of the external auditors, duly accredited by the SEC and ratified by the shareholders; and 3. Monitor compliance and adherence by the Company with all applicable laws and regulations pursuant to which the Company conducts its operations and business activities.

The Audit Committee, which is composed of non-executive directors undertakes executive sessions with the Chief Audit Executive (CAE) and the External Auditors without the presence of Management. The conduct of executive session with the external auditors and the chief audit executive at least once a year is provided for in the charter of the Audit Committee. On 08 December 2022, the Audit Committee held separate executive session with the engagement partner of the external auditors, SGV, including the private session of the Audit Committee Chair with the Chief Audit Executive. The agenda in these meetings involved matters the Audit Committee and the auditors believe should be discussed without the presence of the executive director or officers from management.

Internal Audit

The Company has in place an in-house independent internal audit function. *MERALCO* Internal Audit adopts a risk-based audit approach in formulating the annual audit plan and strategy that aligns to the key strategies and risks across the Group's business and is reassessed quarterly to consider business changes and emerging risks. This plan is developed in coordination with the relevant business units and subsidiaries and reviewed and approved by the AuditCom.

The assurance and control advisory reviews are aimed at assisting the Board through the AuditCom in promoting sound enterprise risk management, robust internal controls, and good corporate governance. Design and operating effectiveness of controls that govern the key business processes, systems and risk areas at the Distribution Utility and subsidiaries are evaluated particularly on financial reporting, operations, information technology systems reviews, cybersecurity, data privacy, sustainability, revenue assurance, legal and regulatory compliance, and subsidiary oversight. This provides an independent assurance to the Audit Committee on the adequacy and effectiveness of the governance, risk management, internal controls, and compliance systems.

MERALCO Internal Audit communicates the results of audit engagements covering various units of the Company and its subsidiaries including specific areas of concerns identified by Management to the AuditCom. The findings and any improvement opportunities are reviewed by AuditCom which then are reported to the Board for guidance and oversight. Significant concerns, which have been reported by Internal Audit Group and the implementation of responsive remedial measures by Management, are acted upon by Management and monitored by AuditCom. The AuditCom Report to the Board included the review of *MERALCO* Group's system of internal controls (financial, operational, and compliance controls) and risk management systems which are found to be in place and functioning.

A Certification attestation of the Internal Controls is issued bi-annually as a result of the combined risk and control assessment of the Management and Internal Audit including the scope of audit review for the financial year.

MERALCO's Internal Audit (IA) is headed by the Group Chief Audit Executive and First Vice President, Ms. Melanie T. Oteyza, who reports functionally to the AuditCom and administratively to the President and CEO, as outlined in the Company's Internal Audit Charter. The appointment and removal of the Chief Audit Executive require the approval of the AuditCom.

All internal auditors are members of the Institute of Internal Auditors (IIA) and adopts the International Standards for the Professional Practice of Internal Auditing laid down in the International Professional Practices Framework. The internal auditors are comprised of highly certified professionals – Certified Public Accountants, Certified Internal Auditors, Certified Information Systems Auditors, Certified Quality Assurance Validator, Certified Fraud Examiner, Registered Electrical Engineers and others with Certification in Control Self-Assessment, Certification in Risk Management Assurance, and Qualification in Internal Audit Leadership.

MERALCO Internal Audit recruits and employs suitable and qualified professional staff with the requisite skillsets, competencies, and experience. Relevant trainings and continuing professional development are provided to its staff to ensure that internal audits are performed effectively and that the team possess the technical knowledge needed for the job and to remain relevant and value-adding to the organization.

MERALCO Internal Audit also provide a confirmation of their independence to the Audit Committee on an annual basis.

External Audit

The Company's external auditor, SGV was evaluated, nominated, and recommended for appointment including its audit fees by the AuditCom, and such recommendation was approved by the Board. The re- appointment of SGV was thereafter confirmed by the shareholders in the ASM held on May 31, 2022. In 2022, the fees paid to the external auditor for non-audit services do not outweigh the fees paid for audit services.

CONSOLIDATED EXTERNAL AUDITOR'S FEES (in million PhP)		
	2022	2021
Financial Statements Audit	₱19.0	₱18.1
Audit of financial statements in accordance with the requirements of the Business Separation and Unbundling Plan of the ERC and Audit of universal charge reports as required by PSALM	0.7	0.7
<i>Note: The fees for non-audit services did not exceed those for audit services.</i>		

Confirmation on Adequacy of Internal Controls

For the year ended December 31, 2022, Management, through the CEO and Chief Audit Executive, has reviewed the adequacy and effectiveness of the overall internal control system of *MERALCO* and its subsidiaries. The review covered material controls, including financial, operational and compliance controls.

The approach adopted to support this year-end assessment on the adequacy of the *MERALCO* Group's system of internal control was based on the results of the Risks and Controls Self-Assessment of Management and the various audits undertaken by Internal Audit within the *MERALCO* Group of companies as of December 31, 2022. Control issues have been disclosed by Management and validated by Internal Audit to provide reasonable level of assurance. While this approach covers a large part of the Company's internal control systems, it is not intended to cover all areas of the Company, nor all possible areas of risk.

Based on the results of Management's Control Self-Assessments and the Internal Audit's review of key business processes focusing on identified or potential areas of business risks, Management confirms that the *MERALCO* Group's systems of internal control are in place and functioning. There are no major internal control issues that have not been acted upon by management as of December 31, 2022.

M. Risk Management

MERALCO has a robust Enterprise Risk Management ("*ERM*") framework to monitor and manage its strategic, regulatory, operational and financial risks. The Company adopted ISO 31000 as its model for *ERM* framework. The Enterprise Risk Management Manual was approved and adopted by the Company to provide the methodology and processes for risk management including:

- identification, assessment, evaluation and mitigation of risks or exploitation of opportunities;
- definition of management responsibilities and accountabilities; and
- escalation and reporting of company's key enterprise risks

The risk management strategies were shown to be effective in the light of the operational and regulatory challenges brought about by the COVID-19 pandemic. These were detailed in the Annual Report. The Board, through the Risk Management Committee, oversees the Enterprise-Wide Risk Management framework, identifies and assesses top risks and reviews the effectiveness of risk mitigation strategies and treatment plans developed by management, particularly in the Message of

the Chairman of the Board and President and CEO. The *ERM* framework helps manage risks by influencing and collaborating with internal organizations and external stakeholders to identify best practices, controls and process improvement opportunities to address risks.

ERM initiates the annual enterprise-wide assessment of the Company's top risks. Risk assessment is conducted to substantiate existing and emerging risks brought about by changes in regulations, market structure developments, technological/operational issues and external forces, including changes in weather patterns, customer satisfaction measures and evolving environmental sustainability issues. Top risks are quantified, and designated risk owners are asked to develop risk treatment and mitigation plans to address potential issues. The results are presented and vetted with the One Meralco Risk Management Committee and the Risk Management Committee of the Board.

IT Governance

The Board, through its Risk Management Committee, oversees the governance process around IT issues including disruption, cyber security, disaster recovery, to ensure that all key risks are identified, managed and reported to the board.

Management is accountable to the Board for the Company's information security governance. Management provides the strategic direction and adequate resources to manage appropriately the information security risks of the organization. Management reviews and approves the information security policies ensuring that the implementation of ISMS requirements is coordinated and integrated in the relevant processes across the organization, and adequate resources are in place and establishes clear assignment and designation of authority for the information security roles and responsibilities across line organizations.

The Company adopts an Information Security Policy which guides the *MERALCO* workforce in supporting this company thrust and in managing and protecting the Company's information assets, forming the basis of information security plans and initiatives in *MERALCO*. The policy provides mechanisms to help identify weaknesses, protect from possible threats, detect attacks, respond and recover during incidents that will compromise the security of information assets and critical infrastructure.

The Policy consists of fourteen (14) parts as adopted from the ISO 27001 standard:

- *Security Policy* to provide reasonable protection for information confidentiality and integrity, ensure availability of information assets, and address disruption and cybersecurity issues.
- *Organizational Security framework* that defines the roles, responsibilities, processes, and methodologies to initiate, control, and manage the implementation of information security across the Company, including correlation with external parties.
- *Mobility and Teleworking Security* for the protection of information assets accessed, processed, transmitted, and stored using mobile devices.
- *Human Resource Security* where all users and custodians are made aware of security threats and concerns on information assets, and are equipped to support the organizational security policy in the conduct of their normal work.
- *Asset Classification and Control* where information assets have designated custodians and are appropriately classified according to their sensitivity and criticality to the business of the Company, to ensure that the information assets receive an appropriate level of protection.

- *Access Control* where access and use of information assets are controlled, authorized, monitored, and restricted to persons with a legitimate business need.
- *Physical and Environmental Security* where information assets are provided with suitable physical protection to prevent unauthorized access, compromise, damage, theft, and interruption to business activities.
- *Communications Security* are in place for the protection of information in networks and its supporting information processing facilities during transfer within the organization and with any external entity.
- *Operations Security* being performed to ensure information assets and critical infrastructure are protected against malware and loss of data, ensuring events are recorded, and maintaining its integrity to prevent any exploitation of vulnerabilities.
- *Cryptography* ensuring proper and effective use of encryption of data and key management to protect the confidentiality, authenticity, and/or integrity of information.
- *Supplier Relationship Security* being exercised for the protection of the organization's information assets which are accessible by suppliers, maintaining an agreed level of information security and service delivery in line with supplier agreements.
- *System Acquisition, Development, and Maintenance* providing for appropriate security controls and audit trails being integrated in business process management and application systems management to prevent loss, unauthorized alteration, destruction, or misuse of data.
- *Information Security Incident Management* in responding immediately to address security incidents, preventing further damage, ensuring proper communication is in place, and most importantly, determining their root cause and implementing appropriate corrective actions to prevent their recurrence.
- *Business Continuity Management* to protect critical business processes from the effects of security failures and major disasters.
- *Compliance process* where the Company is ensured to comply with all applicable legal requirements to avoid breaches of any criminal and civil laws, statutory, regulatory and contractual obligations; and security requirements.

N. Related Party Transactions

The Company strictly complies with its Related Party Transactions ("*RPT*") Policy as well as pertinent rules issued by the SEC. Under the Policy, the Board, through the *RPT* Committee, reviews material/significant *RPTs* to determine whether they are in the best interest of the Company and its shareholders and ensure that all *RPTs* of the Company are conducted in fair and at arm's length terms. The Policy provides for materiality thresholds, i.e., *de minimis*, significant, material *RPTs* including SEC material *RPTs* which constitute ten percent (10%) of the Company's assets.

In 2022, all *RPTs* have been reviewed and executed in accordance with the Policy and have been determined to be fair and at arm's length terms. No *RPTs* were entered into that can be classified as financial assistance to entities other than wholly-owned subsidiary companies.

The Company provides all the names of related parties, degree of relationship, nature, and value for each material/ significant *RPT* in the Company's Consolidated Financial Statements.

O. Annual Corporate Governance Performance Assessments

MERALCO's Performance in the field of corporate governance was assessed and found to be exemplary in the ACGS which evaluates the level of CG practices of Philippine *PLCs* vis-à-vis regional and international standards and best practices. This was conducted by the *ICD* in cooperation with *SEC* and *PSE*.

P. Corporate Governance Advocacies and Outlook

Believing that corporate governance is about shining a light through the whole organization, *MERALCO* has institutionalized the Be Right Open Communication Policy in the corporate culture, which has paved the way to an extensive good governance awareness program for its internal stakeholders. CG orientations for its new employees and roadshows for its directors, officers, employees, and suppliers are regularly held, and online CG policy information campaigns are periodically issued. *MERALCO* has also enhanced its CG compliance monitoring through a unique online HR Express Corporate Governance Facility and SharePoint platform where employees can file their annual CG commitment, conflict-of-interest disclosures and gift registry. In 2022, 100% of *MERALCO* employees complied with these disclosure requirements and attended the CG Refresher program containing discussions on relevant CG policies of the Company.

MERALCO is in the process of embedding CG policies and programs in its business responsibility unit through its line leadership to make the full transition from compliance to a culture of good governance from Top Management to the ranks in the Company in pursuit of sustainability of relationships with and interests of all stakeholders.

MERALCO also ensures that the governance structure and policies of subsidiaries and affiliates are aligned with its current standards. The Company aided them in the review and drafting of their own Corporate Governance manuals, policies, codes, and best practices.

MERALCO believes that it is necessary to maintain a culture of good governance by utilizing innovative ways in reaching out to its stakeholders in these challenging times. In line with this, *MERALCO* afforded stockholders the right to propose the holding of meetings and to include agenda items ahead of the scheduled Annual and Special Shareholders' Meeting. Also, the Company introduced its enhanced Stockholders Electronic Registration and Voting Express (SERVE). SERVE allows the Company's stockholders to cast their votes online and participate in the Annual Stockholders' Meeting ("ASM") via remote communication. This also allows the stockholders to send their questions and clarifications regarding other agenda items.

The Company also provided online learning modules to its employees in January 2022 to strengthen the awareness of all employees on the governance policies promulgated by the Board. This provided an accessible platform that helped ensure that employees are continuously updated on the best practices in corporate governance.

In pursuit of further improvements in the discipline of governance, *MERALCO* is also actively involved with national and international CG advocates and organizations such as the *ICD*, and the Good Governance Advocates and Practitioners of the Philippines ("GGAPP"). The Company participates in best practice and knowledge-sharing events organized by these organizations with CG practitioners, *BOD* and Senior Management, as unified by their CG principles and philosophy that responsible professionals yield ethical companies and ultimately, economically sustainable businesses.

For a full discussion on the Corporate Governance practices and achievements of *MERALCO*, please refer to the Company website: www.meralco.com.ph.

PART V. SUSTAINABILITY REPORT

Refer to attached 2022 Sustainability Report

PART VI. EXHIBITS AND SCHEDULES

Item 14. Exhibits and Reports

(a) Report on SEC Form 17-C and other Disclosures

JANUARY 2022	
January 04	SEC Form 23-A - Sante C. Buella
January 04	SEC Form 23-A - Jeffrey O. Tarayo
January 04	SEC Form 23-A - Erville D. Magtubo
January 04	SEC Form 23-A - Ricardo Carmelo D. Buenafe
January 04	SEC Form 23-A - Joseph L. Amosco
January 04	SEC Form 23-A - Alberto N. Castillo
January 04	SEC Form 23-A - Jerry B. Lao
January 04	SEC Form 23-A - Ricardo L. Concepcion
January 07	Foreign ownership Report as of December 31, 2022
January 07	Report on Number of Shareholders as of December 31, 2022 (Board Lots report)
January 10	General Information Sheet
January 10	SEC 17-C - Resignation of an Officer - Jose Antonio T. Valdez
January 13	Public Ownership Report December 31, 2022
January 14	Top 100 stockholders report December 31, 2022
January 28	Certificate of Attendance and Compliance to CG Manual for the Year 2022
FEBRUARY 2022	
February 02	Statement of Changes in Beneficial Ownership of Securities SEC Form 23-B (Lance Y. Gokongwei) 2022
February 03	SEC 17-C - Invitation to the Presentation of the Company's FY2022 Financial and Operating Results
February 07	Foreign ownership Report as of January 31, 2022
February 07	Report on Number of Shareholders as of January 31, 2022 (Board Lots report)
February 16	Manila Electric Company_Amended GIS 2021
February 28	Results of Board Meeting
MARCH 2022	
March 02	SEC 17-C - 2020 Audited Consolidated Financial Results of the Company.
March 04	Foreign ownership Report as of February 28, 2022
March 04	Report on Number of Shareholders as of February 28, 2022 (Board Lots report)
March 10	Meralco List of Stockholders entitled to Notice and to Vote March 4, 2022
March 29	March 29, 2022 - Clarification of News Article - "Meralco to spend P150 billion in next 4 years"
March 29	SEC Form 23-B - Antonio M. Abuel Jr.
APRIL 2022	
April 01	Manila Electric Company Preliminary Information Statement
April 05	SEC 17-C Invitation to the Presentation of the Company's First Quarter 2022 Financial and Operating Results
April 06	Foreign ownership Report as of March 31, 2022
April 06	Report on Number of Shareholders as of March 31, 2022 (Board Lots report)
April 11	Public Ownership Report as of March 2022
April 13	MERALCO List of Top 100 Stockholders as of March 2022
April 20	MERALCO 2020 Definitive Information Statement

April 25	SEC 17-C - Results of Board Meeting
MAY 2022	
May 01	[Amended-1] Definitive Information Statement
May 05	Foreign ownership Report as of April 30, 2022
May 05	Report on Number of Shareholders as of April 30, 2022 (Board Lots report)
May 06	SEC Advisement Letter - Training of an Officer - Jeffrey O. Tarayao
May 13	MANILA ELECTRIC COMPANY SEC 17-A Final 2020 with Sustainability Report
May 16	[Amended-1] MANILA ELECTRIC COMPANY SEC 17-A Final 2020 with Sustainability Report
May 17	SEC 17-Q 1st Quarter 2022 FINAL
May 27	2022 MANILA ELECTRIC COMPANY I-ACGR 2020
May 31	SEC 17-C Results of the 2021 Annual Stockholders' Meeting and Organizational Meeting
JUNE 2022	
June 06	Foreign ownership Report as of May 31, 2022
June 06	Report on Number of Shareholders as of May 31, 2022 (Board Lots report)
June 07	SEC Advisement Letter - Training of an Officer - Jeffrey O. Tarayao
June 13	General Form for Financial Statements 2020
June 20	SEC 17-C - Updating of Corporate Contact Details
June 24	MERALCO 2022 General Information Sheet
JULY 2022	
July 04	SEC Form 23-B - Jose Ma. K. Lim
July 04	SEC 17-C Invitation to the Presentation of the Company's First Half 2022 Financial and Operating Results
July 06	Foreign ownership Report as of June 30, 2022
July 06	Report on Number of Shareholders as of June 30, 2022 (Board Lots report)
July 13	2022 POR AND SHAREHOLDINGS OF BENEFICIAL OWNERS AND OFFICERS June 2022
July 14	Top 100 stockholders report June 30, 2022
July 25	SEC 17-C Results of Board Meeting
AUGUST 2022	
August 01	SEC Form 23-B - Metro Pacific Investments Corporation
August 02	SEC Form 23-B - Ferdinand O. Geluz
August 03	Report on Number of Shareholders as of July 31, 2022 (Board Lots report)
August 04	SEC Form 23-B - Charina P. Padua
August 10	Foreign ownership Report as of July 31, 2022
August 12	SEC Form 23-B - Jose Ma. K. Lim
August 15	SEC 17-Q - 1H 2022
August 31	SEC Form 23-B - Lance Y. Gokongwei
SEPTEMBER 2022	
September 05	Report on Number of Shareholders as of August 31, 2022 (Board Lots report)
September 05	Foreign ownership Report as of August 31, 2022
September 29	SEC Advisement Letter September 24, 2022 ACGES - Training of Directors and Officers
September 29	SEC Form 23-B - Anabelle L. Chua
September 29	SEC Form 23-B - Lydia B. Echaz
September 29	SEC Form 23-B - Victorico P. Vargas
September 29	SEC Form 23-B - Ray C. Espinosa

September 29	SEC Form 23-B - Jose Ma. K. Lim
September 29	SEC Form 23-B - Lance Y. Gokongwei
September 29	SEC Form 23-B - James L. Go
OCTOBER 2022	
October 04	Invitation to the Presentation of the Company's 9M 2022 Financial and Operating Results
October 05	ERC Decision on Power Supply Agreements with South Premiere Power Corporation and San Miguel Energy Corporation
October 06	Report on Number of Shareholders as of September 30, 2022 (Board Lots report)
October 06	Foreign ownership Report as of September 30, 2022
October 06	October 6, 2022 - Clarification of News Articles - "ERC denies SMC-Meralco rate hike application"
October 13	Top 100 stockholders report September 30, 2022
October 13	Public Ownership Report as of September 2022
October 28	Results of Board Meeting
NOVEMBER 2022	
November 07	[Amended-1] MERALCO 2022 AGIS (23Nov2022)
November 07	Report on Number of Shareholders as of October 31, 2022 (Board Lots report)
November 07	Foreign ownership Report as of October 31, 2022
November 14	SEC 17-Q - 3Q 2022
November 21	SEC Advisement Letter November 17, 2022 ACGES - Training of Officers
November 25	SE 17-C Retirement of an Officer - Benjamin U. Cusi
November 28	November 28, 2022 - Clarification of News Article - "Meralco wants 1,070-MW emergency power deals exempted from bidding"
November 28	SEC 17-C - Results of Board Meeting
DECEMBER 2022	
December 06	Report on Number of Shareholders as of November 30, 2022 (Board Lots report)
December 06	Foreign ownership Report as of November 30, 2022
December 06	[Amended-1] MERALCO 2022 AGIS
December 07	Clarification of News Article - "Meralco reviews SMC offer"
December 13	SEC 17-C Rank Conferment of Officers
December 15	SEC 17-C - Meralco signs emergency supply deal with GNPowr
December 16	SEC 17-C - Results of Board Meeting
December 17	Clarification of News Article - "MPIC on expansion mode in 2022."

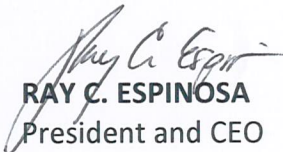
SIGNATURES

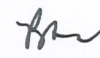
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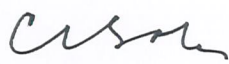
SIGNATURES

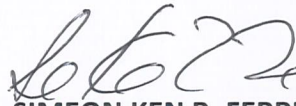
Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned thereunto duly authorized, in the City of Pasig this _____ day of 05 APR 2023 2023.

By:


RAY C. ESPINOSA
President and CEO


BENNETTE D. BACHOCO
Vice President and Head,
Financial Planning and Reporting

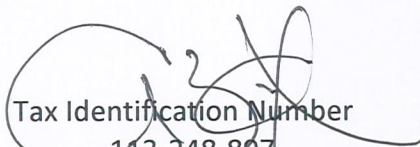

MA. CYNTHIA C. SOLUREN
Senior Assistant Vice President,
Interim Treasurer
Head, Investment and Debt Management


SIMEON KEN R. FERRER
Corporate Secretary

05 APR 2023

SUBSCRIBED AND SWORN to before me this _____ 2023 in Pasig City, by the above-named persons who exhibited to me their respective Tax Identification Numbers as follows:

NAME
Ray C. Espinosa
Ma. Cynthia C. Soluren
Bennette D. Bachoco
Simeon Ken R. Ferrer


Tax Identification Number
113-248-897
109-268-543
129-433-970
116-283-788

Atty. CORNELIA MANUEL III C. DICCION
Public Attorney
Pasig, Bulacan and Pateros
Issued on May 30, 2022
Appointed for the term (2022-2023)
Roll No. 45053/ IBP No. 293602 01/10/2023 RSM Chapter
PTR No. 174307 01/16/2023 Pasig City
JCE No. VII-0001097 10/17/2019

Doc. No. 63 ;
Page No. 14 ;
Book No. XXVI ;
Series of 2023.

MANILA ELECTRIC COMPANY
INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES

- Statement of Management's Responsibility for Consolidated Financial Statements
- Report of Independent Auditors
- Consolidated Statement of Financial Position as at December 31, 2022 (With Comparative Figures as at December 31, 2021)
- Consolidated Statement of Income for the Year Ended December 31, 2022 (With Comparative Figures for the Years Ended December 31, 2021 and 2020)
- Consolidated Statement of Comprehensive Income for the Year Ended December 31, 2022 (With Comparative Figures for the Years Ended December 31, 2021 and 2020)
- Consolidated Statement of Changes in Equity for the Year Ended December 31, 2022 (With Comparative Figures for the Years Ended December 31, 2021 and 2020)
- Consolidated Statement of Cash Flows for the Year Ended December 31, 2022 (With Comparative Figures for the Years Ended December 31, 2021 and 2020)
- Notes to Consolidated 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
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 - Schedule F. Indebtedness to Related Parties*
 - Schedule G. Guarantees of Securities of Other Issuers*
 - Schedule H. Capital Stock
 - Schedule I. List of Effective Standards and Interpretations*ss
 - Schedule J. Reconciliation of Retained Earnings Available for Dividend Declaration
 - Schedule K. Map Showing the Relationships among the Companies within the Group
 - Financial Soundness Indicators
- Parent Company Financial Statements

**These schedules have been omitted because they are either not applicable or schedule is in the Consolidated Financial Statements.*



STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The Management of Manila Electric Company (the Company) is responsible for the preparation and fair presentation of the consolidated financial statements, including the schedules attached therein, as at December 31, 2022 and 2021, and for each of the three years ended December 31, 2022, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

SyCip Gorres Velayo & Co., the independent auditor appointed by the stockholders, has audited the consolidated financial statements of the Company in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

MANUEL V. PANGILINAN
Chairman of the Board

RAY C. ESPINOSA
President and Chief Executive Officer

BETTY C. SIY-YAP
Chief Finance Officer

22 MAR 2023

SUBSCRIBED AND SWORN to before me this ____ day of _____, 2023 in Pasig City, by the above-named persons who exhibited to me their respective Tax Identification Numbers as follows:

NAME	Tax Identification Number
Manuel V. Pangilinan	914-481-801
Ray C. Espinosa	113-248-897
Betty C. Siy-Yap	102-100-627

Doc. No. 33
Page No. 8
Book No. XVI
Series of 2023.

ATTY. CORNELIO MANUEL B. SOLUCION
Notary Public
Pasig San Juan and Pateros
Issued on May 30, 2022
Appointment No. 62 (2022-2023)
JIL No. 45053/IBP No. 293602 01/10/2023 RSM Chapter
PTR No. 174307 01/16/2023 Pasig City
10:17:00 AM



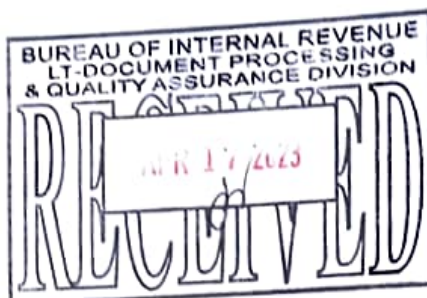
Building a better
working world

Sylvia Gervacio Alayon & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 8891 0307
Fax: (632) 8819 0872
sgv.com.ph

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and the Stockholders
Manila Electric Company and Subsidiaries
Lopez Building, Ortigas Avenue
Barangay Ugong, Pasig City, Metro Manila



Opinion

We have audited the consolidated financial statements of Manila Electric Company (the Company) and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2022 and 2021, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2022, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Key Audit Matters

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

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



Revenue from sale of electricity

The Group's revenue from its electricity distribution business represents 93% of its consolidated revenues and arise from its service contracts with a large number of customers that are classified as either commercial, industrial or residential, located within the Group's franchise area. This matter is significant to our audit because the revenue recognized depends on (a) the complete capture of electric consumption based on the meter readings over the franchise area taken on various dates; (b) the propriety of rates computed and applied across customer classes including the application of adjustments promulgated by the Energy Regulatory Commission (ERC); and (c) the reliability of the information technology (IT) systems involved in processing the billing transactions.

Notes 2, 23, 24, 30 and 32 provide the relevant disclosures related to the rate-making regulations and regulatory policies of the ERC.

Audit response

We obtained an understanding and evaluated the design of, as well as tested the controls over, the customer master file maintenance, accumulation and processing of meter data, and interface of data from the billing system to the financial reporting system. In addition, we performed a test recalculation of the bill amounts using the ERC-approved rates, adjustments and formulae, as well as actual pass-through costs incurred, and compared them with the amounts reflected in the billing statements. We involved our internal specialist in understanding the IT processes and in understanding and testing the IT general controls over the IT systems supporting the revenue process.

Adequacy of allowance for expected credit losses for receivables

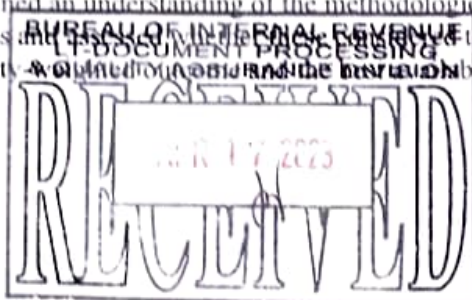
Under PFRS 9, *Financial Instruments*, the Group is required to estimate the expected credit loss (ECL) for its financial assets, particularly its trade receivables, which represent 10% of the consolidated assets of the Group as of December 31, 2022. The allowance for ECL and the provision for ECL as at and for the year ended December 31, 2022 amounted to P7,115 million and P2,311 million, respectively.

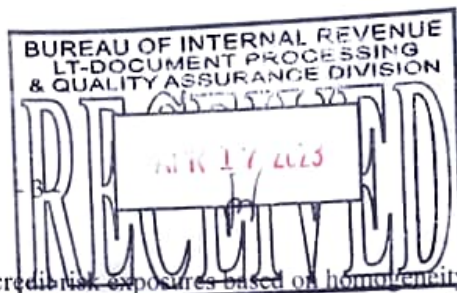
The Group's use of the ECL model is significant to our audit as it involves the exercise of significant management judgment. Key areas of judgment include: segmenting the Group's credit risk exposures; defining default; determining assumptions to be used in the ECL model; and incorporating forward-looking information (called overlays), including the impact of the coronavirus pandemic, in calculating ECL.

The disclosures in relation to allowance and provisions for ECL using the ECL model are included in Notes 5, 13 and 27 to the consolidated financial statements.

Audit response

We obtained an understanding of the methodologies and models used for the Group's varying credit exposures and the requirements of PFRS 9 to reflect an unbiased and probability-weighted outcome and the forward-looking information.





We (a) assessed the Group's segmentation of its credit risk exposures based on homogeneity of credit risk characteristics; (b) tested the definition of default against historical analysis of accounts and credit risk management policies and practices in place, (c) tested historical loss rates by inspecting historical collections, recoveries and write-offs (d) checked the classification of outstanding exposures to their corresponding aging buckets; and (e) checked the forward-looking information used for overlay through statistical test and corroboration using publicly available information and our understanding of the Group's receivable portfolios and industry practices, including the impact of the coronavirus pandemic.

Further, we checked the data used in the ECL models, such as the historical aging analysis and default and recovery data, by reconciling data from the billing system to the loss allowance analysis/models and financial reporting systems. To the extent that the loss allowance analysis is based on credit exposures that have been disaggregated into subsets with similar risk characteristics, we traced the disaggregation from source systems to the loss allowance analysis.

We reviewed the completeness of the disclosures made in the consolidated financial statements.

Retirement and other long-term post-employment benefits

The Group has defined retirement and other long-term post-employment benefits plans covering all regular employees. The valuation of the retirement benefits obligation involves significant management judgment in the use of assumptions. The valuation also requires the assistance of an external actuary whose calculations depend on certain assumptions, such as discount rates and future salary increases, which could have a material impact on the results. Thus, we considered this as a key audit matter.

Note 26 to the consolidated financial statements provides the relevant disclosures related to this matter.

Audit response

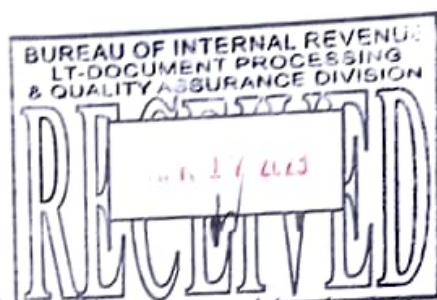
We involved our internal specialist in the review of the scope, bases, methodology and results of the work by the external actuary, whose professional qualifications, capabilities and objectivity were also taken into consideration. We evaluated the key assumptions used by comparing the employee demographics and attrition rates against the Group's human resource data, and the discount rate and mortality rate against external data. We inquired from management about the basis of salary increase rate and compared it against the Group's historical data and future plans. Moreover, we reviewed the required disclosures in the consolidated financial statements.

Provisions and contingencies

The Group is involved in certain proceedings and claims for which it has recognized provisions for probable costs and/or expenses and/or has disclosed relevant information about such contingencies. This matter is significant to our audit because the determination of whether any provision should be recognized and the estimation of the potential liability resulting from these assessments require significant judgment by management. The inherent uncertainty over the outcome of these matters is brought about by the differences in the interpretation and implementation of the relevant laws and regulations.

Notes 2, 19, 22 and 29 to the consolidated financial statements provide the relevant disclosures related to this matter.





Audit response

We examined the bases of management's assessment of the possible outcomes and the related estimates of the probable costs and/or expenses that are recognized and/or disclosed in the Group's consolidated financial statements and involved our internal specialists when necessary. We discussed with management the status of the claims and/or assessments and obtained correspondences with the relevant authorities and opinions from the internal and external legal counsels. We evaluated the position of the Group by considering the relevant laws, rulings and jurisprudence. We also reviewed the disclosures on provisions and contingencies in the Group's consolidated financial statements.

Accounting for business combination

As disclosed in Note 3 to the consolidated financial statements, in 2021, MERALCO PowerGen Corporation, a wholly owned subsidiary of the Company, acquired an additional 86% interest in Global Business Power Corporation (GBPC) for a total consideration of ₱32,575 million. The acquisition was accounted for as a business combination under PFRS 3, *Business Combinations* and reported in the 2021 consolidated financial statements based on provisional purchase price allocation. In 2022, the fair values of the net assets acquired were remeasured and the purchase price allocation was thus finalized. Apart from the significance of the amounts involved, we consider the accounting for this acquisition as a key audit matter because the determination of the fair values of the assets acquired and liabilities assumed from GBPC requires significant management judgment and estimation based on the available information, specifically about the acquired property and equipment and intangible assets, as at the acquisition date.

Audit response

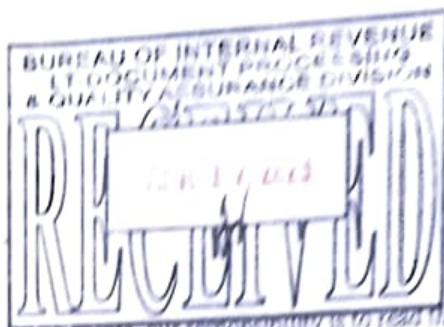
We reviewed the share purchase agreements covering the acquisition and assessed whether the acquisition has been appropriately accounted for. We reviewed the final purchase price allocation and evaluated management's basis in determining the fair values of the assets acquired and liabilities assumed from GBPC using the available information as of the acquisition date. We assessed the competence, capabilities and objectivity of the external appraiser who was engaged to prepare the appraisal report used in the final purchase price allocation, by considering their qualifications, experience and reporting responsibilities. We involved our internal specialist in evaluating the methodologies and assumptions used in arriving at the fair values of the property and equipment and intangible assets. We also assessed the adequacy of the related disclosures in Note 3 to the consolidated financial statements.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2022 but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2022 are expected to be made available to us after the date of this auditor's report.

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





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

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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



disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

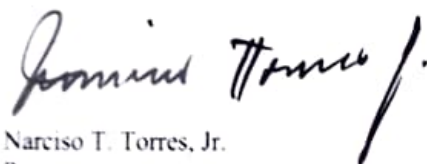
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

The engagement partner on the audit resulting in this independent auditor's report is Narciso T. Torres, Jr.

SYCIP GORRES VELAYO & CO.



Narciso T. Torres, Jr.

Partner

CPA Certificate No. 84208

Tax Identification No. 102-099-147

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

SEC Partner Accreditation No. 84208-SEC (Group A)

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

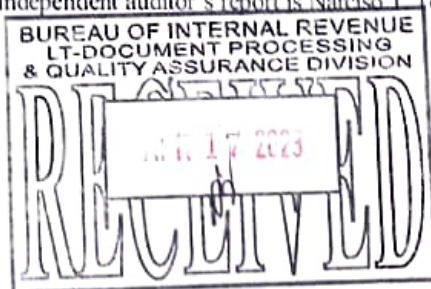
SEC Firm Accreditation No. 0001-SEC (Group A)

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

BIR Accreditation No. 08-001998-111-2020, November 27, 2020, valid until November 26, 2023

PTR No. 9566006, January 3, 2023, Makati City

February 27, 2023



MANILA ELECTRIC COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

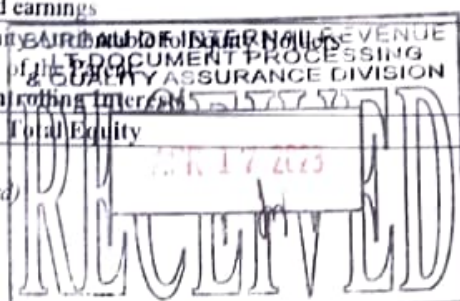
	Note	December 31	
		2022	2021
			(As restated - Note 3)
		(Amounts in millions)	
ASSETS			
Noncurrent Assets			
Utility plant, generation plant and others	7 and 10	₱243,323	₱225,326
Investments in associates and interests in joint ventures	8 and 23	31,888	23,317
Investment properties	9	1,495	1,496
Intangible assets	7 and 10	21,691	15,054
Deferred tax assets – net	28	22,657	27,143
Financial and other noncurrent assets	2, 11, 15, 26, 27 and 30	43,920	53,125
Total Noncurrent Assets		364,974	345,461
Current Assets			
Cash and cash equivalents	12 and 27	55,832	55,007
Trade and other receivables	13, 24 and 27	54,683	45,013
Inventories	14	10,629	9,817
Financial and other current assets	11, 15, 23 and 27	33,143	28,317
Total Current Assets		154,287	138,154
Total Assets		₱519,261	₱483,615

EQUITY AND LIABILITIES

**Equity Attributable to Equity Holders
of the Parent**

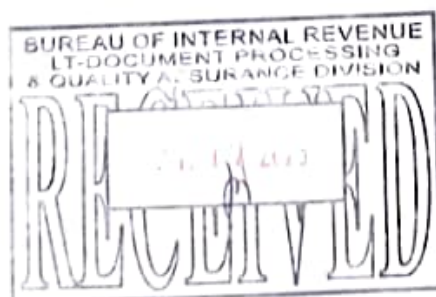
Common stock	16	P11,273	P11,273
Additional paid-in capital		4,111	4,111
Equity reserve		(111)	(116)
Employee stock purchase plan	16	1,049	1,049
Unrealized fair value gains on financial assets at fair value through other comprehensive income ("FVOCI")	11	311	502
Remeasurement adjustments on retirement and other post-employment liabilities	26	7,282	2,681
Share in remeasurement adjustments on associates' retirement liabilities	8	(16)	(25)
Cumulative translation adjustments of associates	8	(30)	306
Cumulative translation adjustments of subsidiaries		51	40
Treasury shares	16	(11)	(11)
Retained earnings	16	85,755	75,394
Equity attributable to Equity Holders		109,664	95,204
Non-controlling interest	3 and 16	14,445	10,124
Total Equity		124,109	105,328

(Forward)



	Note	December 31	2021
			(As restated - Note 3)
		2022	
<i>(Amounts in millions)</i>			
Noncurrent Liabilities			
Interest-bearing long-term financial liabilities - net of current portion	17 and 27	P68,757	P52,720
Customers' deposits - net of current portion	18, 22 and 27	31,590	30,901
Long-term employee benefits	26	2,893	10,257
Provisions	19, 22 and 29	12,657	13,554
Refundable service extension costs - net of current portion	22 and 27	4,653	5,334
Deferred tax liabilities - net	28	5,427	5,959
Other noncurrent liabilities	2, 5, 7, 24 and 29	63,450	97,981
Total Noncurrent Liabilities		189,427	216,706
Current Liabilities			
Notes payable	21 and 27	29,491	28,834
Trade payables and other current liabilities	16, 22, 23, 27 and 29	163,902	119,067
Customers' refund	2, 20 and 27	2,905	2,929
Income tax payable		92	1,637
Current portion of long-term employee benefits	26	3,750	-
Current portion of interest-bearing long-term financial liabilities	17 and 27	5,585	9,114
Total Current Liabilities		205,725	161,581
Total Liabilities		395,152	378,287
Total Liabilities and Equity		P519,261	P483,615

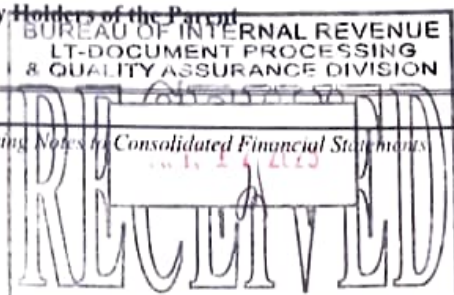
See accompanying Notes to Consolidated Financial Statements.



MANILA ELECTRIC COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

		Years Ended December 31		
	Note	2022	2021	2020
(Amounts in millions, except per share data)				
REVENUES				
Sale of electricity	6, 23, 24, 30 and 32	P413,950	P309,238	P267,946
Sale of other services	23	12,579	9,309	7,358
		426,529	318,547	275,304
COSTS AND EXPENSES				
Purchased power	24 and 30	322,645	224,915	204,420
Coal and fuel		22,577	8,793	-
Depreciation and amortization	7, 9, 10 and 25	16,031	12,499	8,555
Salaries, wages and employee benefits	25 and 26	15,836	15,892	12,301
Contracted services		8,440	7,074	6,348
Provision for probable losses and expenses from claims	2, 19 and 29	5,831	10,175	15,526
Taxes, fees and permits		2,132	1,939	1,069
Power plant operations and maintenance cost		1,906	1,103	-
Provision for expected credit losses ("ECL")	13	2,498	506	1,827
Other expenses	23 and 25	8,452	6,312	4,267
		406,348	289,208	254,313
OTHER INCOME (EXPENSES)				
Equity in net earnings of associates and joint ventures	8	12,035	3,127	1,233
Interest and other financial charges	17, 18 and 21	(3,754)	(3,728)	(1,594)
Interest and other financial income	11 and 12	2,063	2,197	2,323
Foreign exchange gains (losses)		1,011	487	(839)
Others	2, 5, 7, 8, 23, 30 and 32	3,700	1,573	301
		15,055	3,656	1,424
INCOME BEFORE INCOME TAX		35,236	32,995	22,415
PROVISION FOR (BENEFIT FROM) INCOME TAX	28			
Current		4,122	8,728	10,295
Deferred		2,526	184	(4,029)
		6,648	8,912	6,266
NET INCOME		P28,588	P24,083	P16,149
Attributable To				
Equity holders of the Parent	31	P28,431	P23,498	P16,316
Non-controlling interests		157	585	(167)
		P28,588	P24,083	P16,149
Earnings Per Share Attributable to Equity Holders of the Parent				
Basic	31	P25.23	P20.85	P14.48
Diluted		25.23	20.85	14.48

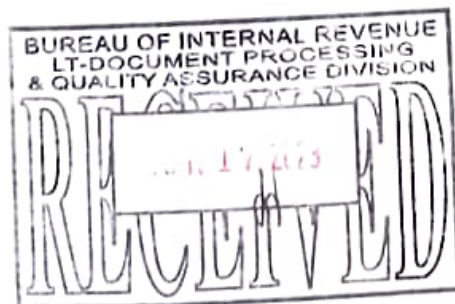
See accompanying Notes to Consolidated Financial Statements



MANILA ELECTRIC COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

		Years Ended December 31		
	Note	2022	2021	2020
(Amounts in millions)				
NET INCOME		P28,588	P24,083	P16,149
OTHER COMPREHENSIVE INCOME				
Items that will be reclassified to profit or loss in subsequent years:				
Unrealized fair value gains (losses) on fair value through other comprehensive ("FVOCI") financial assets	11	(280)	139	100
Cumulative translation gains (losses) of subsidiaries		11	18	(10)
Cumulative translation gains (losses) of associates		(336)	300	(756)
Net other comprehensive income (loss) that will be reclassified to profit or loss in subsequent years		(605)	457	(666)
Items that will not be reclassified to profit or loss in subsequent years:				
Remeasurement gains (losses) on retirement and other post-employment liabilities	26	6,135	8,671	(5,186)
Income tax effect		(1,534)	(2,168)	1,557
		4,601	6,503	(3,629)
Unrealized fair value gains (losses) on equity securities at FVOCI		99	43	(3)
Income tax effect		(10)	(4)	-
		89	39	(3)
Share in remeasurement gains (losses) on associates' retirement liabilities	8	9	(12)	(1)
Net other comprehensive income (loss) that will not be reclassified to profit or loss in subsequent years		4,699	6,530	(3,633)
OTHER COMPREHENSIVE INCOME (LOSS), NET OF INCOME TAX		4,094	6,987	(4,299)
TOTAL COMPREHENSIVE INCOME, NET OF INCOME TAX		P32,682	P31,070	P11,850
Total Comprehensive Income Attributable To				
Equity holders of the Parent		P32,525	P30,485	P12,017
Non-controlling interests		157	585	(167)
		P32,682	P31,070	P11,850

See accompanying Notes to Consolidated Financial Statements.



MANILA ELECTRIC COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31, 2022, 2021 AND 2020



Equity Attributable to Equity Holders of the Parent

	Common Stock (Note 16)	Additional Paid-in Capital	Equity Reserve	Employee Stock Purchase Plan (Note 16)	Unrealized Fair Value Gains (Losses)	Retirement on Financial Assets at FVOCI (Note 11)	Post- Employment Liabilities (Note 26)	Associates' Retirement Liabilities (Note 8)	Cumulative Translation Adjustments of Associates (Note 8)	Treasury Shares (Note 16)	Retained Earnings (Note 16)	Equity Attributable to Equity Holders of the Parent	Non- controlling Interests (Note 3 and 6)	Total Equity
<i>(Amounts in millions)</i>														
At January 1, 2022	₱11,273	₱4,111	(₱116)	₱1,049	₱502	₱2,681	(₱25)	(₱25)	₱306	₱40	₱75,394	₱95,204	₱10,124	₱105,328
Net income	-	-	-	-	-	-	-	-	-	-	28,431	28,431	157	28,588
Other comprehensive income (loss)	-	-	-	-	(191)	4,601	9	9	(336)	11	-	4,094	-	4,094
Total comprehensive income (loss)	-	-	-	-	(191)	4,601	9	9	(336)	11	28,431	32,525	157	32,682
Dividends	-	-	-	-	-	-	-	-	-	-	(18,070)	(18,070)	(95)	(18,165)
Others	-	-	5	-	-	-	-	-	-	-	-	5	4,259	4,264
At December 31, 2022	₱11,273	₱4,111	(₱111)	₱1,049	₱311	₱7,282	(₱16)	(₱16)	(₱30)	₱51	₱85,755	₱109,664	₱14,445	₱124,109
At January 1, 2021	₱11,273	₱4,111	(₱116)	₱1,049	₱324	(₱3,822)	(₱13)	(₱13)	₱6	₱22	₱66,414	₱79,237	₱1,404	₱80,731
Net income	-	-	-	-	-	-	-	-	-	-	23,498	23,498	585	24,083
Other comprehensive income (loss)	-	-	-	-	178	6,503	(12)	(12)	300	18	-	6,987	-	6,987
Total comprehensive income (loss)	-	-	-	-	178	6,503	(12)	(12)	300	18	23,498	30,485	585	31,070
Dividends	-	-	-	-	-	-	-	-	-	-	(14,518)	(14,518)	(1,358)	(15,876)
Effect of consolidation of Global Business Power Corporation (“GBPC”)	-	-	-	-	-	-	-	-	-	-	-	-	9,359	9,359
Others	-	-	-	-	-	-	-	-	-	-	-	-	44	44
At December 31, 2021	₱11,273	₱4,111	(₱116)	₱1,049	₱502	₱2,681	(₱25)	(₱25)	₱106	₱40	₱75,394	₱95,204	₱10,124	₱105,328

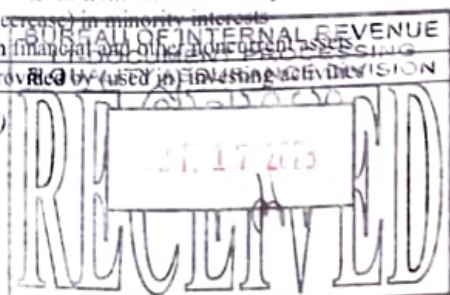


MANILA ELECTRIC COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

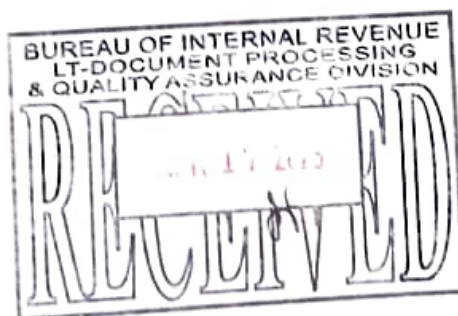
		Years Ended December 31			
		Note	2022	2021	2020
		(Amounts in millions)			
CASH FLOWS FROM OPERATING ACTIVITIES					
Income before income tax			₱35,236	₱32,995	₱22,415
Adjustments for:					
Provision for probable losses and expenses from claims – net	2 and 29	(15,022)		7,951	14,473
Depreciation and amortization	7, 9 and 10	16,031		12,499	8,555
Interest and other financial charges	17, 18 and 21	3,754		3,728	1,594
Interest and other financial income	11 and 12	(2,063)		(2,197)	(2,323)
Equity in net earnings of associates and joint ventures	8	(12,035)		(3,127)	(1,233)
Impairment losses		2,601		–	–
Provision for expected credit losses ("ECL")		2,548		557	1,827
Others		(592)		12	(151)
Operating income before working capital changes		30,458		52,418	45,157
Decrease (increase) in:					
Trade and other receivables		(15,083)		11,127	(27,922)
Inventories		(812)		(2,136)	(926)
Financial and other current assets		(4,100)		(2,573)	184
Increase (decrease) in:					
Trade payables and other current liabilities		18,253		(12,832)	18,215
Customers' deposits		1,143		1,244	1,282
Customers' refund		(24)		(20)	(83)
Long-term employee benefits		(1,336)		2,855	1,573
Cash generated from operations		28,499		50,083	37,480
Income tax paid		(3,317)		(6,902)	(7,608)
Net cash flows provided by operating activities		25,182		43,181	29,872
CASH FLOWS FROM INVESTING ACTIVITIES					
Acquisition of Global Business Power Corporation ("GBPC") – net of GBPC's cash upon acquisition	3	–		(16,476)	–
Additions to:					
Debt securities at amortized cost	11	(18,587)		(23,115)	(15,949)
Financial assets at FVOCI	11	(26,267)		(42,458)	(92,057)
Utility plant, generation plant and others	7	(33,663)		(26,260)	(19,662)
Intangible assets	10	(8,533)		(976)	(896)
Investments in associates and interests in joint ventures	8	(504)		(992)	(466)
Short-term investments		(2,784)		(435)	(5,472)
Investment properties	9	(3)		(1)	–
Proceeds from maturity of:					
Financial assets at FVOCI		30,396		43,070	85,268
Debt securities at amortized cost		22,707		14,059	23,999
Short-term investments		3,025		–	23,680
Interest and other financial income received		2,033		2,184	2,657
Proceeds from disposal of utility plant, generation plant and others		914		161	353
Dividends received from associates and joint ventures		4,039		1,778	475
Increase (decrease) in minority interests		4,164		(1,364)	651
Decrease in financial and other non-current assets		982		1,358	195
Net cash provided by (used in) investing activities		(22,081)		(49,467)	2,776

(Forward)



		Years Ended December 31		
	Note	2022	2021	2020
		(Amounts in millions)		
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from availment of:				
Interest-bearing long-term financial liabilities	17	P32,507	P24,513	P2,578
Notes payable	21	2,920	22,880	179
Payments of:				
Notes payable		(2,263)	(17,419)	(199)
Dividends	16	(16,890)	(13,748)	(16,796)
Interest-bearing long-term financial liabilities	17	(18,679)	(7,388)	(3,669)
Interest and other financial charges		(241)	(215)	(1,446)
Proceeds from disposal of non-controlling interests		6	-	-
Increase (decrease) in other noncurrent liabilities		367	2,238	(938)
Net cash provided by (used in) financing activities		(2,273)	10,861	(20,291)
NET INCREASE IN CASH AND CASH EQUIVALENTS		825	4,575	12,357
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		55,007	50,912	38,262
NET UNREALIZED FOREIGN EXCHANGE LOSSES (GAINS)		-	(480)	293
CASH AND CASH EQUIVALENTS AT END OF YEAR		12	P55,832	P55,007
			P50,912	

See accompanying Notes to Consolidated Financial Statements.



MANILA ELECTRIC COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

The businesses of Manila Electric Company (“*MERALCO*”) and its subsidiaries (the “*MERALCO Group*”) consist of the unregulated and regulated segments of the energy supply chain; engineering design services; construction and consulting services; payment fulfilment and bills collection services; after-the-meter and energy management services; and telecommunication and information technology services.

The regulated and unregulated segments of the energy supply chain of the *MERALCO Group* consist of electricity distribution, power generation, retail electricity supply, and management of electric distribution facilities.

As a distribution utility (“*DU*”), *MERALCO* holds a 25-year congressional franchise under Republic Act (“*RA*”) No. 9209 valid through June 28, 2028 to construct, operate, and maintain the electric distribution system in the cities and municipalities of Bulacan, Cavite, Metro Manila, and Rizal and certain cities, municipalities and barangays in the provinces of Batangas, Laguna, Pampanga, and Quezon. The Energy Regulatory Commission (“*ERC*”) granted *MERALCO* a consolidated Certificate of Public Convenience and Necessity (“*CPCN*”) for the operation of electric service within its franchise area, which shall be valid within the franchise period.

Clark Electric Distribution Corporation (“*Clark Electric*”), a 65%-owned subsidiary of *MERALCO* is a registered private distribution utility with a franchise granted by Clark Development Corporation (“*CDC*”) to own, operate and maintain the electric distribution system within the Clark Freeport Zone and the sub-zones. The *Clark Electric* franchise is valid through October 2047.

Through a 60% owned subsidiary, Shin Clark Power Holdings, Inc. (“*Shin Clark*”), *MERALCO* together with a consortium, composed of Axia Power Holdings Philippines Corporation (a wholly-owned subsidiary of Marubeni Corporation), KPIC Netherlands BV [a wholly-owned subsidiary of the Kansai Electric Power, Inc. (“*Kansai*”)], and Chubu Electric Power Co., Inc. (“*Chubu*”), hold a 90% interest in Shin Clark Power Corporation (“*Shin Clark Power*”). *Shin Clark Power* is a company formed with Bases Conversion and Development Authority (“*BCDA*”) through a 25-year joint venture agreement to provide electricity distribution services within the New Clark City (“*NCC*”). *NCC* consists of a 9,450 hectare development within the Clark Special Economic Zone located in Capas and Bamban towns in the Tarlac province.

MERALCO also manages the electric distribution facilities of Pampanga Electric Cooperative II (“*PELCO II*”) through Comstech Integration Alliance, Inc. (“*Comstech*”) under a 25-year Investment Management Contract (“*IMC*”) and that of the Cavite Economic Zone (“*CEZ*”) under a 25-year concession agreement with Philippine Economic Zone Authority (“*PEZA*”).

MERALCO Group’s participation in retail electricity supply (“*RES*”) is directly through the local *RES* units, *MPower* and *Cogent Energy*, and indirectly through affiliate *RES* entities, Vantage Energy Solutions and Management, Inc. (“*Vantage*”), MeridianX Inc. (“*MeridianX*”), Phoenix Power Solutions, Inc. (“*Phoenix Power*”) and Global Energy Supply Corporation (“*GESC*”). Clarion Energy Management Inc. (“*Clarion*”), a wholly owned subsidiary of *Clark Electric*, is awaiting issuance of license by the *ERC*.



MERALCO PowerGen Corporation (“*MGen*”) is *MERALCO*’s power generation investment vehicle. Global Business Power Corporation (“*GBPC*”), which has 970 *MW* of coal and diesel capacities, is a wholly owned subsidiary of *MGen*. Through *MGen Renewable Energy, Inc. (“MGreen”)*, *MGen* has 80 *MWdc*/50 *MWac* utility scale solar facility in San Miguel, Bulacan and is in the process of developing 143 *MWac* of renewable power plants. *MGen* also holds a 58% interest in PacificLight Power Pte Ltd. (“*PacificLight Power*”), which owns and operates a 2 x 400 *MW* liquefied natural gas plant in Jurong Island, Singapore.

MERALCO’s related businesses include engineering, design, construction and consulting services, bill collection services, distribution and energy management services, development, leasing and management of communication towers and infrastructure, and communication, information system and technology services.

MERALCO is owned directly by two (2) major shareholder groups, Metro Pacific Investments Corporation (“*Metro Pacific*”) and JG Summit Holdings, Inc. (“*JG Summit*”). As at December 31, 2022, *Metro Pacific* has combined direct equity interests in *MERALCO* and indirect ownership through its wholly owned subsidiary, Beacon Electric Asset Holdings, Inc. *Metro Pacific*’s combined direct and indirect ownership interests in *MERALCO* totaled 47.46% while *JG Summit* has 26.37% direct ownership interest in *MERALCO*. First Philippine Holdings Corporation (“*First Holdings*”) and First Philippine Utilities Corporation have a combined direct equity ownership of 3.95% in *MERALCO*. The balance of *MERALCO*’s common shares is held by institutional investors and the public.

The shares of *MERALCO* are listed and traded in the Philippine Stock Exchange (“*PSE*”) with ticker symbol, *MER*.

The registered office address of *MERALCO* is Lopez Building, Ortigas Avenue, Barangay Ugong, Pasig City, Metro Manila, Philippines.

The consolidated financial statements were approved and authorized for issue by the *BOD* on February 27, 2023.

2. Rate Regulations

As distribution utilities (“*DUs*”), *MERALCO* and *Clark Electric* are subject to the rate-making regulations and regulatory policies of the *ERC*. Billings of *MERALCO* and *Clark Electric* to customers are itemized or “unbundled” into a number of bill components that reflect the various activities and costs incurred in providing electricity distribution services. The adjustment to each bill component is governed by mechanisms promulgated and enforced by the *ERC*, mainly: [i] the “Rules Governing the Automatic Cost Adjustment and True-up Mechanisms and Corresponding Confirmation Process for Distribution Utilities”, which govern the recovery of pass-through costs, including over- or under-recoveries of the bill components, namely, (a) generation charge, (b) transmission charge, (c) system loss (“*SL*”) charge, (d) lifeline and inter-class rate subsidies, and (e) local franchise and business taxes as modified by Rules on Recovery of Pass-Through Taxes (Real Property, Local Franchise, and Business Taxes) of Distribution Utilities; and [ii] the “Rules for the Setting of Distribution Wheeling Rates” (“*RDWR*”), as modified, which govern the determination of *MERALCO*’s distribution, supply, and metering charges.



The following is a discussion of matters related to rate-setting of *MERALCO* and *Clark Electric*:

Performance-Based Regulations (“PBR”)

MERALCO

MERALCO is among the Group A entrants to the *PBR*, together with two (2) other private *DUs*.

Rate-setting under *PBR* is governed by the *RDWR*. Under *PBR*, tariffs are set once every Regulatory Period (“*RP*”) based on a rate setting framework which includes the regulatory asset base (“*RAB*”) of each *DU*, and the required operating and capital expenditures to meet operational performance and service level requirements responsive to the need for adequate, reliable and quality power, efficient service, and growth of all customer classes in the franchise area as approved by the *ERC*. *PBR* also employs a mechanism that penalizes or rewards a *DU* depending on its network and service performance.

Rate filings and settings are done on a *RP* basis. One (1) *RP* consists of four (4) Regulatory Years (“*RYs*”). A *RY* for *MERALCO* begins on July 1 and ends on June 30 of the following year.

Maximum Average Price (“MAP”) for the 3rd RP

After rate setting process for a *RP*, *MERALCO* goes through a rate verification process to set the *MAP* for each *RY* within the *RP*. In each of *RYs* 2012, 2013, 2014 and 2015, *MERALCO* filed for the respective *MAP* with the *ERC*. The *ERC* provisionally approved the *MAPs* for each of the *RY*.

On April 29, 2022, *MERALCO* received an Order from the *ERC* dated March 8, 2022, which resolved the true-up value of *MERALCO*’s regulatory asset base for the 3rd *RP*. On such basis, the *ERC* adjusted the *MAPs* for *RYs* 2012, 2013, 2014 and 2015. The *ERC* then granted interim relief, which among other things, directed *MERALCO* to implement the refund of ₱7.8 billion or equivalent to ₱0.2583 per *kWh*. *MERALCO* implemented the refund beginning its May 2022 billing. In a Decision dated June 10, 2022, the interim approval of the *ERC* was rendered permanent and *MERALCO* was directed to continue implementing the refund. As at December 31, 2022, the amount has been fully refunded.

Interim Average Rate beginning RY 2016

On July 10, 2015, the *ERC* provisionally approved an interim average rate (“*IAR*”) of ₱1.3810 per *kWh* (excluding efficiency adjustment) and the rate translation per customer class, which was reflected in the customer bills starting July 2015.

In a letter dated July 4, 2019, the *ERC* authorized the continued implementation of the interim average rate but directed *MERALCO*, as well as other *DUs*, to refund any remaining amount pertaining to regulatory reset costs for the previous *RPs*.

On July 13, 2022, *MERALCO* received the June 16, 2022 Decision of the *ERC* which approved a revised and final *IAR* of ₱1.3522 per *kWh* as the final distribution rate for the period from July 1, 2015 to June 30, 2022. The *ERC* likewise approved the corresponding distribution rate structure based thereon. *MERALCO* was authorized to continue implementing the *ERC*-approved *IAR* of ₱1.3522 per *kWh* until otherwise directed. *MERALCO* implemented the Decision beginning its August 2022 billing.



MERALCO recognized provisions for any resulting over-recoveries. The movements in and the balance of the “Other noncurrent liabilities” and “provision for probable losses and expenses from claims” accounts in the consolidated statements of financial position and consolidated statements of income include these provisions, consistent with the limited disclosure as allowed in Philippine Financial Reporting Standards (“*PFRSs*”) as it may prejudice the position of *MERALCO*.

Distribution Rate True-Up (“DRTU”) Applications

On January 27, 2021, the *ERC* approved *MERALCO*’s application to refund to its customers ₱13,886 million of over-recoveries (*DRTU* 1) representing the difference between the Actual Weighted Average Tariff (“*AWAT*”) for the period July 1, 2015 to November 2020 and the then *IAR* of ₱1.3810 per *kWh*, as provisionally approved by the *ERC* on July 10, 2015.

Thereafter, there were three (3) other *DRTU* refunds ordered: (a) *DRTU* 2 totaling ₱4,837 million representing the difference between the *AWAT* for the period December 2020 to December 2021 and the then *IAR* of ₱1.3810 per *kWh*; (b) *DRTU* 3 of ₱7,755 million related to *3RP* asset true-up adjustments; and (c) *DRTU* 4 amounting to ₱21,769 million based on *ERC* approved revised and final *IAR* of ₱1.3522 per *kWh*.

MERALCO implemented the foregoing refunds. As at December 31, 2022, a total of ₱38.3 billion have been credited to the bills of customers.

As at December 31, 2022, the outstanding balance of *DRTU* for refund amounted to ₱9,581 million, presented as part of “Provisions” under “Trade payables and other current liabilities” account in the consolidated statement of financial position.

CAPEX for 4th RP, RY 2020 to RY 2022

Absent the final rules governing the 4th *RP* and 5th *RP* rate setting, *MERALCO* filed its applications for approval of authority to implement its *CAPEX* program for each of the *RYs* beginning July 1, 2015. This is consistent with the provisions of Section 20(b) of Commonwealth Act No. 146, as amended, otherwise known as the Public Service Act.

Except with respect to partial approval by the *ERC* of the *RY* 2016 *CAPEX* amounting to ₱15,466 million and provisional authority granted by the *ERC* to implement certain projects for *RY* 2017 amounting to ₱8,758 million, all other applications remain pending with the *ERC*. As at February 27, 2023, *MERALCO* is awaiting the final resolution of the *ERC*.

Pending *ERC*’s approval, *MERALCO* manifested several projects as “urgent” or “emergency in nature” and proceeded with the implementation of said *CAPEX*.

Regulatory Reset Process Application

On March 16, 2022, *MERALCO* filed its application for the approval of its annual revenue requirement and performance incentive scheme for the 5th *RP* (July 1, 2022 to June 30, 2026) based on *ERC*-promulgated *RDWR*. As at February 27, 2023, hearings on the case are ongoing.



Clark Electric

Clark Electric is among the four (4) Group D entrants to the *PBR*. Similar to *MERALCO*, it is subject to operational performance and service level requirements approved by the *ERC*. The *RY* for *Clark Electric* begins on October 1 and ends on September 30 of the following year.

3rd and 4th RP PBR Reset for Clark Electric

Pending the issuance by the *ERC* of the final rules to govern the 3rd and 4th *RPs* of Group D entrants, *Clark Electric* continued to bill its customers using the last approved *MAP* for *RY* 2015. Similarly, *Clark Electric* filed and manifested as urgent its *CAPEX* requirements with the *ERC* to be able to implement such projects immediately.

As at February 27, 2023, the applications remain pending with the *ERC*.

Clark Electric recognized provisions for any resulting over-recoveries. The movements in and the balance of the “Other noncurrent liabilities” and “provision for probable losses and expenses from claims” accounts in the consolidated statements of financial position and “consolidated statements of income” include these provisions, consistent with the limited disclosure as allowed in Philippine Financial Reporting Standards (“*PFRSs*”) as it may prejudice the position of *Clark Electric*.

Supreme Court (“SC”) Decision on Unbundling Rate Case

On May 30, 2003, the *ERC* issued an Order approving *MERALCO*’s unbundled tariffs that resulted in a total increase of ₱0.17 per *kWh* over the May 2003 tariff levels. However, on August 4, 2003, *MERALCO* received a Petition for Review of the *ERC*’s ruling filed by certain consumer and civil society groups before the Court of Appeals (“*CA*”). On July 22, 2004, the *CA* set aside the *ERC*’s ruling on *MERALCO*’s rate unbundling and remanded the case to the *ERC*. Further, the *CA* opined that the *ERC* should have asked the Commission on Audit (“*COA*”) to audit the books of *MERALCO*. The *ERC* and *MERALCO* subsequently filed separate motions asking the *CA* to reconsider its decision. As a result of the denial by the *CA* of the motions on January 24, 2005, the *ERC* and *MERALCO* elevated the case to the *SC*.

In an En Banc decision promulgated on December 6, 2006, the *SC* set aside and reversed the *CA* ruling saying that a *COA* audit was not a prerequisite in the determination of a utility’s rates. However, while the *SC* affirmed *ERC*’s authority in rate-fixing, the *SC* directed the *ERC* to request *COA*’s assistance to undertake a complete audit of the books, records and accounts of *MERALCO*. In compliance with the directive of the *SC*, the *ERC* requested *COA* to conduct an audit of the books, records and accounts of *MERALCO* using calendar years 2004 and 2007 as test years.

The *COA* audit, which began in September 2008, was completed with the submission to the *ERC* of its report on November 12, 2009.

On February 15, 2010, the *ERC* issued its Order directing *MERALCO* and all intervenors in the case to submit, within 15 days from receipt of the Order, their respective comments on the *COA* report.



On June 21, 2011, the *ERC* maintained and affirmed its findings and conclusions in its Decision dated March 20, 2003 and Order dated May 30, 2003. The *ERC* stated that the *COA* recommendation to apply disallowances under *PBR* to rate unbundling violates the principle against retroactive rate-making. An intervenor group filed a *MR* of the said Order. On September 5, 2011, *MERALCO* filed its comment on the intervenor's *MR*. On February 4, 2013, the *ERC* denied the intervenor's *MR*. The intervenor filed a Petition for Review before the *CA* and *MERALCO* filed its comment thereon on May 29, 2014. In compliance with the *CA*'s directive, *MERALCO* filed its Memorandum in August 2015. In a Resolution dated September 29, 2015, the *CA* declared the case submitted for decision. In a Decision dated February 29, 2016, the *CA* dismissed the Petition for Review and affirmed the orders dated June 21, 2011 and February 4, 2013 of the *ERC*.

On March 22, 2016, the intervenors filed a *MR* on the *CA* Decision dated February 29, 2016. The same was denied by the *CA* through a Resolution dated August 8, 2016.

On October 11, 2016, *MERALCO* received a Petition for Review on Certiorari filed by the intervenors before the *SC* appealing the dismissal of its Petition. *MERALCO*, *COA* and the *ERC* have filed their respective comments to the Petition. On June 22, 2017, *MERALCO* received the Motion for Leave to Intervene and Admit Comment-in-Intervention filed by other *DUs* that sought to intervene in the case. In a Resolution dated October 3, 2017, the *SC* granted the Motion for Leave to Intervene and Comment-in-Intervention. On November 13, 2019, *MERALCO* received a Decision dated October 8, 2019 partially granting the Petition filed by the National Association of Electric Consumers for Reforms Inc. ("*NASECORE*"), which among other things, (i) voided the adoption by the *ERC* of the current or replacement cost in the valuation of *MERALCO*'s *RAB*; and (ii) remanded the case to *ERC* to determine, within 90 days from finality of the Decision, (1) the valuation of the *RAB* of *MERALCO*; and (2) the parameters whether expenses that are not directly and entirely related to the operation of a *DU* shall be passed on wholly or partially to consumers.

MERALCO, the other *DUs* and the *ERC* filed their respective motions for reconsideration which are pending before the *SC*. Two (2) new *DUs* filed their respective motions for leave to intervene and to file their motions for reconsideration. As at February 27, 2023, the case is pending before the *SC*.

*Applications for the Confirmation of Under- or Over-recoveries of
Pass-through Charges*

MERALCO

The *ERC* issued resolutions to govern the recovery of pass-through costs, including under- or over-recoveries with respect to the following bill components: generation charge, transmission charge, *SL* charge, lifeline and inter-class rate subsidies, senior citizen discounts, local franchise and business taxes, including the timelines for *DUs* to file their respective application and post-verification.

On various dates, the *ERC* provisionally approved *MERALCO*'s applications for net over-recoveries of generation, transmission, net lifeline subsidy, *SL* and net senior citizens discount totalling ₱657.4 million (February 2011 to October 2013) and ₱6,927 million (January 2014 to December 2016). As at February 27, 2023, hearings covering the provisional approval are still ongoing.

Separately, *MERALCO* also filed for recovery of net under-recoveries of generation charge for special programs of ₱250.7 million, excluding carrying charges, covering the period March 2007 to December 2011. As at February 27, 2023, the *ERC* has not acted on such application.

Further, on September 1, 2020, *MERALCO* filed an application with the *ERC* to confirm its net generation charge under-recoveries of ₱2,382 million, net transmission charge over-recoveries of



₱440 million, net lifeline subsidy over-recoveries of ₱31 million, net *SL* over-recoveries of ₱971 million, and net senior citizen discount over-recoveries of ₱3 million from January 2017 to December 2019. In an Order dated December 16, 2020, the *ERC* granted interim relief to implement the refund/collection. *MERALCO* started implementation of the Order in its January 2021 billing. Hearings have been completed on January 21, 2021.

Clark Electric

Clark Electric filed an application for the approval of the calculations for the Automatic Cost Adjustment and True-up Mechanism for generation, transmission and system loss rates on April 1, 2014 covering the period January 2011 to December 2013 in conformity with *ERC* resolutions. After a Clarificatory Meeting with the *ERC*, *Clark Electric* filed a Manifestation for the implementation of the January 2017 *ERC* Decision starting in its March 2022 billing. Refund is ongoing.

Clark Electric also completed *ERC* orders to refund/collect over- and under-recoveries related to generation, transmission, system loss charges covering the years 2014 to 2019.

Application for Approval of the Staggered Recovery and Payment of the Differential Generation Charge for February 2017 Supply

On January 31, 2017, *MERALCO* filed an Application seeking the *ERC*'s approval of the staggered recovery and payment scheme for the generation charge for the February 2017 supply month to mitigate the impact of scheduled outages and maintenance of certain generation power plants. On March 6, 2017, the *ERC* provisionally approved the recovery of the incremental fuel cost through a staggered scheme. The incremental fuel cost was included in the March 2017 until May 2017 billings to customers. As at February 27, 2023, the *ERC* has not issued its decision.

Application for the Recovery of Differential Generation Costs

On February 17, 2014, *MERALCO* filed for the recovery of the unbilled generation costs for December 2013 supply month amounting to ₱11,075 million. An amended application was filed on March 25, 2014 to adjust the unbilled generation costs for recovery to ₱1,310 million, following the receipt of the Wholesale Electricity Spot Market ("*WESM*") billing adjustments based on regulated Luzon *WESM* prices. The first hearing was conducted on May 26, 2014. The *ERC* suspended the proceedings, pending resolution of issues of related cases at the *SC* involving generation costs for the November and December 2013 supply months and the regulated *WESM* prices for the said period. As at February 27, 2023, the proceedings remain suspended and *MERALCO* is awaiting further action of the *ERC* on this matter. However, the *SC* issued a Decision dated August 3, 2021 which voided the March 3, 2014 Order of the *ERC* which imposed regulated *WESM* prices for the November and December 2013 supply months. The Decision is now final and executory with the issuance by the *SC* of its Resolution dated October 11, 2022 which denied the motions for reconsideration filed by the *ERC* and the petitioners.

Deferred Purchase Price Adjustment

On October 12, 2009, the *ERC* released its findings on *MERALCO*'s implementation of the collection of the approved pass-through cost under-recoveries for the period June 2003 to January 2007. The *ERC* directed *MERALCO* to refund to its customers ₱268 million of deferred purchased power adjustment ("*PPA*") transmission line costs related to Quezon Power (Philippines) Limited Company ("*QPPL*") and deferred accounting adjustments incurred along with ₱184 million in carrying charges, or an equivalent ₱0.0169 per *kWh*. *MERALCO* implemented the refund beginning November 2009



until September 2010. However, the *ERC* has yet to rule on *MERALCO*'s deferred *PPA* under-recoveries of ₱106 million, which is not a transmission line fee. On November 4, 2009, *MERALCO* filed an *MR* with the *ERC*. As at February 27, 2023, the *MR* is still pending resolution by the *ERC*.

Applications for Recovery of Local Franchise Tax ("LFT")

MERALCO has filed distinct applications with request for provisional authority to implement new *LFT* rates based on Ordinances from the cities of Manila, Quezon, Binan, Makati, Valenzuela, Taguig and Pasig. Some hearings have been completed and are awaiting final approval. Applications for recovery of taxes paid have been filed and pending decision of the *ERC*.

SC Decision on the ₱0.167 per kWh Refund

Following the *SC*'s final ruling that directed *MERALCO* to refund affected customers ₱0.167 per *kWh* for billings made from February 1994 to April 2003, the *ERC* approved the release of the refund in four (4) phases. On December 18, 2015, *MERALCO* filed a Motion seeking the *ERC*'s approval for the continuation of the implementation of the refund to eligible accounts or customers under Phases I to IV, three (3) years from January 1, 2016 or until December 31, 2018. In said Motion, *MERALCO* likewise manifested to the *ERC* that, in order to give eligible customers, the opportunity to claim their refund, and, so as not to disrupt the *SC* Refund process, *MERALCO* shall continue implementing the refund even after the December 2015 deadline, until and unless the *ERC* directs otherwise. In its Order dated December 18, 2019, the *ERC* granted *MERALCO*'s Motion and authorized *MERALCO* to continue with the implementation of the *SC* Refund to eligible accounts or customers under Phases I to IV until June 30, 2019 and submit a proposed scheme on how the unclaimed refund will be utilized for purposes of reducing the distribution rates of customers. On February 18, 2019, *MERALCO* filed a Partial Compliance with Manifestation and Motion. On March 8, 2019, *MERALCO* filed a Compliance with Manifestation and Motion. On July 12, 2019, *MERALCO* filed its Compliance with Manifestation informing the *ERC* that on July 1, 2019, *MERALCO* deposited all the unclaimed amounts of the *SC* Refund as of June 30, 2019 in a separate bank account. *MERALCO* further manifested in said Compliance that it shall continue with the processing of the refund claims of eligible customers and should the refund claims of these customers be evaluated to be valid, *MERALCO* shall, for the benefit of the customers, withdraw the refund amount from the bank account, release the same to the concerned customers and accordingly inform the *ERC* of the refunds paid. On September 10, 2019, *MERALCO* filed an Urgent Manifestation and Motion with respect to the Order dated December 19, 2018 of the *ERC*. The *ERC* has yet to rule on the Urgent Manifestation and Motion by *MERALCO*. In its letter dated July 23, 2020, *MERALCO* informed the *ERC* of the updated balance of the *SC* Refund. As at February 27, 2023, *MERALCO* continues to process the refund claims of eligible customers.

In a letter dated February 3, 2021, the *ERC* informed *MERALCO* that it will be undertaking an audit and verification of *MERALCO*'s refunds, which included *MERALCO*'s *SC* refund. The audit has been completed and as at February 27, 2023, *MERALCO* is awaiting further action of the *ERC* on the matter.

See Note 20 – Customers' Refund.



Violation of the ERC's Advisories during the Enhanced Community Quarantine ("ECQ") and Modified ECQ

In a Decision dated August 20, 2020, the *ERC* imposed a ₱19 million fine on *MERALCO* for alleged violation of the following *ERC*'s directives: (1) failure to clearly indicate that the bills were estimated; and (2) failure to comply with the mandated installment payment arrangement.

In addition, the *ERC* also directed *MERALCO* to set to zero the distribution, supply, and metering ("DSM") charges of lifeline consumers whose monthly energy consumption do not exceed 100 *kWh* for one (1) month billing cycle effective in the next billing cycle immediately upon receipt of the *ERC* Decision. The cost of the discount shall not be charged to the non-lifeline consumers.

On September 11, 2020, *MERALCO* filed its Motion for Partial Reconsideration with respect to the directive to set to zero the *DSM* charges of lifeline consumers. On the same date, *MERALCO* also paid the ₱19 million fine imposed by the *ERC*. As at February 27, 2023, the Motion for Partial Reconsideration remains pending with the *ERC*. However, *MERALCO* implemented the directive to set to zero the *DSM* charges of lifeline consumers in its October 2020 billing subject to the resolution of its Motion for Partial Reconsideration.

3. Basis of Preparation and Statement of Compliance

Basis of Preparation

The accompanying consolidated financial statements have been prepared on a historical cost basis, except for *MERALCO*'s utility plant and others and investment properties acquired before January 1, 2004, which are carried at deemed cost; and fair value through other comprehensive income ("FVOCI") financial assets, which are measured at fair value.

All values are rounded to the nearest million peso, except when otherwise indicated.

Statement of Compliance

The consolidated financial statements of *MERALCO* and its subsidiaries have been prepared in compliance with *PFRSs*.

Basis of Consolidation

The consolidated financial statements comprise the financial statements of *MERALCO* and its directly and indirectly owned subsidiaries, collectively referred to as the *MERALCO Group*. The following table presents such subsidiaries and the respective percentage of ownership:



Subsidiaries	Place of Incorporation	Principal Business Activity	2022		2021	
			Percentage of Ownership			
			Direct	Indirect	Direct	Indirect
Corporate Information Solutions, Inc. (“CIS”)	Philippines	e-Transactions	100	—	100	—
Customer Frontline Solutions, Inc. (“CFSP”)	Philippines	Teller services	—	95	—	95
CIS Bayad Center, Inc. (“Bayad”)	Philippines	Bills payment collection	—	95	—	95
Meralco Energy, Inc. (“MServ”)	Philippines	Energy systems management	100	—	100	—
eMeralco Ventures, Inc. (“e-MVT”)	Philippines	e-Business development	100	—	100	—
Paragon Vertical Corporation (“Paragon”)	Philippines	Information technology (“IT”) and multi-media services	—	100	—	100
Radius Telecoms, Inc. (“Radius”)	Philippines	Telecommunication services	—	100	—	100
MGen	Philippines	Development of power generation plants	100	—	100	—
Calamba Aero Power Corporation ¹	Philippines	Power generation	—	100	—	100
Atimonan Land Ventures Development Corporation	Philippines	Real estate	—	100	—	100
Atimonan One Energy, Inc. (“AIE”) ²	Philippines	Power generation	—	100	—	100
MPG Holdings Phils., Inc.	Philippines	Holding company	—	100	—	100
MPG Asia Limited (“MPG Asia”)	British Virgin Islands	Holding company	—	100	—	100
Solvre, Inc. ¹	Philippines	Retail electricity supplier	—	100	—	100
MGen Renewable Energy, Inc. (“MGreen”)	Philippines	Renewable energy	—	100	—	100
LagunaSol Corporation (“LagunaSol”) ¹	Philippines	Renewable energy	—	100	—	100
Nortesol III Inc. (“NorteSol”) ¹	Philippines	Renewable energy	—	70	—	70
Powersource First Bulacan Solar, Inc. (“First Bulacan”)	Philippines	Renewable energy	—	60	—	60
Greentech Solar Energy, Inc. (“GSEI”)	Philippines	Renewable energy	—	100	—	100
CACI Power Corporation	Philippines	Power generation	—	60	—	60
PH Renewables Inc. (“PHRF”)	Philippines	Power generation	—	60	—	60
Greenenergy For Global Inc. (“Greenenergy”)	Philippines	Renewable energy	—	57	—	28
GBPC	Philippines	Holding company	—	100	—	100
ARB Power Ventures, Inc.	Philippines	Holding company	—	100	—	100
Toledo Power Company (“TPC”)	Philippines	Power generation	—	100	—	100
Toledo Holdings Corporation	Philippines	Real estate	—	100	—	100
Global Trade Energy Resources Corp.	Philippines	Trading of coal	—	100	—	100
Panay Power Holdings Corporation	Philippines	Holding company	—	89	—	89
Panay Energy Development Corporation (“PEDC”)	Philippines	Power generation	—	89	—	89
Panay Power Corporation	Philippines	Power generation	—	89	—	89
GBH Power Resources, Inc.	Philippines	Power generation	—	100	—	100
Global Formosa Power Holdings, Inc.	Philippines	Holding company	—	93	—	93
Cebu Energy Development Corporation (“CEDC”)	Philippines	Power generation	—	52	—	52
GESC	Philippines	Retail electricity supplier	—	100	—	100
Mindanao Energy Development Corporation	Philippines	Power generation	—	100	—	100
Global Hydro Power Corporation	Philippines	Power generation	—	100	—	100
Global Luzon Energy Development Corporation (“GLEDC”)	Philippines	Power generation	—	57	—	57
Lunar Power Core, Inc.	Philippines	Holding company	—	57	—	57
Global Renewable Power Corporation	Philippines	Renewable energy	—	100	—	100
(Forward)						

(Forward)



Subsidiaries	Place of Incorporation	Principal Business Activity	2022 Percentage of Ownership		2021 Percentage of Ownership	
			Direct	Indirect	Direct	Indirect
MSpectrum, Inc. (“ <i>Spectrum</i> ”)	Philippines	Renewable energy	100	–	100	–
<i>Vantage</i>	Philippines	Retail electricity supplier	100	–	100	–
Meralco Financial Services Corporation (“ <i>Finserve</i> ”)	Philippines	Property management and leasing	100	–	100	–
Lighthouse Overseas Insurance Limited (“ <i>LOIL</i> ”)	Bermuda	Insurance	100	–	100	–
MRail, Inc. (“ <i>MRail</i> ”)	Philippines	Engineering, construction and maintenance of mass transit system	100	–	100	–
eSakay, Inc. (“ <i>eSakay</i> ”)	Philippines	Maintenance and operation of transport service networks	100	–	100	–
MIESCOR ²	Philippines	Engineering, construction and consulting services	100	–	99	–
Miescor Builders Inc. (“ <i>MBI</i> ”)	Philippines	Electric transmission and distribution operation and maintenance services	–	100	–	99
Miescor Logistics Inc. (“ <i>MLP</i> ”)	Philippines	General services, manpower/maintenance	–	100	–	99
Miescor Infrastructure Development Corporation (“ <i>MIDC</i> ”) ³	Philippines	Construction and leasing of communication towers and other infrastructure	–	51	–	99
Clark Electric	Philippines	Power distribution	65	–	65	–
Clarion Energy Management Inc. (“ <i>Clarion</i> ”) ¹	Philippines	Retail electricity supplier	–	65	–	65
Comstech	Philippines	Management of power distribution	60	–	60	–
MeridianX Inc.	Philippines	Retail electricity supplier	–	60	–	60
Meridian Power Ventures Limited (“ <i>MPV Limited</i> ”) ¹	Hongkong	Investment holdings	100	–	100	–
Shin Clark	Philippines	Holding company	60	–	60	–
Shin Clark Power	Philippines	Power distribution	–	54	–	–
Phoenix Power ¹	Philippines	Retail electricity supplier	100	–	100	–

¹ Has not started commercial operations.

² MIESCOR Retirement Fund has less than 1% equity interest in MIESCOR.

³ On April 8, 2022, MIESCOR signed a 51%-49% joint venture agreement with Connect Infrastructure (Philippines) Pte. Limited, to develop a common tower business and use MIDC as the vehicle.

The *MERALCO Group* controls an investee if and only if it has (a) power over the investee; (b) exposure, or rights, to variable returns from its involvement with the investee; and (c) the ability to use its power over the investee to affect its returns.

When the *MERALCO Group* has less than majority of the voting or similar rights of an investee, it considers all relevant facts and circumstances in assessing whether it has power over an investee, including (a) the contractual arrangement with the other vote holders of the investee; (b) rights arising from other contractual arrangements; and (c) the *MERALCO Group*’s voting rights and potential voting rights.

The *MERALCO Group* re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one (1) or more of the three (3) elements of control. Consolidation of a subsidiary begins when the *MERALCO Group* obtains control over the subsidiary and ceases when it loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date it gains control until the date it ceases to control the subsidiary.



The consolidated financial statements are prepared using uniform accounting policies for like transactions and other events with similar circumstances. All intra-group balances, income and expenses, unrealized gains and losses and dividends resulting from intra-group transactions are eliminated in full.

Non-controlling interests represent the portion of profit or loss and net assets of subsidiaries not attributed, directly or indirectly, to *MERALCO*.

Non-controlling interests is presented separately in the consolidated statement of income, consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from equity attributable to equity holders of the parent.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if such results in a deficit.

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

If the *MERALCO Group* loses control over a subsidiary, it: (a) derecognizes the assets (including goodwill) and liabilities of the subsidiary; (b) derecognizes the carrying amount of any non-controlling interest; (c) derecognizes the cumulative translation adjustments deferred in equity; (d) recognizes the fair value of the consideration received; (e) recognizes the fair value of any investment retained; (f) recognizes any surplus or deficit in profit or loss; and (g) reclassifies *MERALCO*'s share of components previously recognized in the consolidated statement of comprehensive income to the consolidated statement of income.

Business Combination

Effective March 31, 2021, *MGen* has a 100% interest in *GBPC* upon the acquisition of the combined 86% interests of Beacon Powergen Holdings Inc. ("*BPHI*"), a wholly owned subsidiary of *Metro Pacific* and *JG Summit* in *GBPC* to *MGen* for consideration of ₱21,212 million and ₱11,363 million, respectively, net of adjustments in accordance with the terms of the respective Share Purchase Agreements ("*SPA*").

In 2022, *MGen* settled 100% of the total purchase price consideration in accordance with the terms of *SPA*.

The details of the purchase consideration are as follows:

	Amounts In millions
Cash paid	₱19,545
Liability	13,030
Total purchase consideration	₱32,575



The net assets recognized in the December 31, 2021 financial statements were based on a provisional assessment of their fair values while *MERALCO* sought an independent valuation for the land and buildings owned by *GBPC*. The valuation had not been completed on the date the 2021 consolidated financial statements were approved for issue by the *BOD*.

In March 2022, the valuation was completed and the 2021 comparative information was restated to reflect the adjustments to the provisional amounts. The fair values of the assets and liabilities of *GBPC* as at the date of acquisition are as follow (amounts in millions):

	As previously reported	As restated
Generation plant and others	₱47,218	₱46,765
Investment in associates	10,447	10,314
Intangible assets	13,833	13,500
Deferred tax assets	765	682
Cash and cash equivalents	9,584	9,584
Trade and other receivables	5,247	5,247
Inventories	2,197	2,197
Other assets	2,153	3,288
Interest-bearing long-term financial liabilities	(28,323)	(28,323)
Deferred tax liabilities	(5,265)	(5,502)
Retirement benefits liability	(1,055)	(1,055)
Trade and other payables	(7,518)	(7,529)
Other liabilities	(1,932)	(1,932)
Net identifiable assets acquired	47,351	47,236
Less:		
Non-controlling interests	9,474	9,359
Fair value of pre-existing 14% ownership in <i>GBPC</i>	5,302	5,302
Net assets acquired	₱32,575	₱32,575

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

The remeasurement of the fair value of *MGen's* existing 14% ownership in *GBPC* resulted in a gain of ₱228 million. This amount has been recognized as part of "Other income" account in the 2021 consolidated statement of income.

From the date of acquisition, *GBPC* contributed ₱18,191 million of revenue and ₱306 million net income in *MERALCO Group's* revenues and net income, respectively, in 2021. If the acquisition had taken place at the beginning of 2021, the *MERALCO Group's* consolidated revenues and net income would have been ₱323,559 million and ₱24,666 million, respectively.



4. Significant Accounting Policies, Changes and Improvements

Changes in Accounting Policies and Disclosures

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those of previous year except with respect to the adoption of the following new standards and amendments and improvements to existing standards, which were effective beginning January 1, 2022.

Amendments to PFRS 3, Reference to the Conceptual Framework

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

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

The amendments are effective for annual reporting years beginning on or after January 1, 2022 and apply prospectively. The amendments do not have material effect on the consolidated financial statements of the *MERALCO Group*.

Amendments to PAS 16, Plant and Equipment: Proceeds before Intended Use

The amendments prohibit entities from deducting the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting years beginning on or after January 1, 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest year presented when the entity first applies the amendment.

The amendments do not have impact on the consolidated financial statements of the *MERALCO Group*.

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

The amendments specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a “directly related cost approach”. The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.



The amendments are effective for annual reporting years beginning on or after January 1, 2022. The amendments do not have material impact on the consolidated financial statements of the *MERALCO Group*.

Annual Improvements to PFRSs 2018-2020 Cycle

Amendments to PFRS 1, First-time Adoption of Philippines Financial Reporting Standards, Subsidiary as a first-time adopter

The amendment permits a subsidiary that elects to apply paragraph D16(a) of *PFRS 1* to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to *PFRS*. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of *PFRS 1*.

The amendment is effective for annual reporting years beginning on or after January 1, 2022 with earlier adoption permitted. The amendments do not have material impact on the consolidated financial statements of the *MERALCO Group*.

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

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

The amendment is effective for annual reporting years beginning on or after January 1, 2022 with earlier adoption permitted. The amendments do not have material impact on the consolidated financial statements of the *MERALCO Group*.

Amendments to PAS 41, Agriculture, Taxation in fair value measurements

The amendment removes the requirement in paragraph 22 of *PAS 41* that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of *PAS 41*.

An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting year beginning on or after January 1, 2022 with earlier adoption permitted. The amendments do not have material impact on the consolidated financial statements of the *MERALCO Group*.



Effective beginning on or after January 1, 2023

Amendments to PAS 12, Deferred Tax related to Assets and Liabilities arising from a Single Transaction

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

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

An entity applies the amendments to transactions that occur on or after the beginning of the earliest comparative year presented for annual reporting periods on or after January 1, 2023. The amendments are not expected to have a material impact on the consolidated financial statements of the *MERALCO Group*.

Amendments to PAS 8, Definition of Accounting Estimates

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

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

Amendments to PAS 1 and PFRS Practice Statement 2, Disclosure of Accounting Policies

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

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

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



Effective beginning on or after January 1, 2024

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

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

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

The amendments are effective for annual reporting years beginning on or after January 1, 2024 and must be applied retrospectively.

The *MERALCO Group* is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

Effective beginning on or after January 1, 2025

PFRS 17, Insurance Contracts

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

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

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

On December 15, 2021, the *FRSC* amended the mandatory effective date of *PFRS 17* from January 1, 2023 to January 1, 2025. This is consistent with Circular Letter No. 2020-62 issued by the Insurance Commission which deferred the implementation of *PFRS 17* by two (2) years after its effective date as decided by the *IASB*.

PFRS 17 is effective for reporting periods beginning on or after January 1, 2025, with comparative figures required. Early application is permitted. The *MERALCO Group* is currently assessing the impact the amendments will have on current practice and whether existing insurance contract may require renegotiation.



Deferred Effectivity

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

The amendments address the conflict between *PFRS 10* and *PAS 28* in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in *PFRS 3*. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

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

The *MERALCO Group* is currently assessing the impact of adopting the amendments.

Significant Accounting Policies

The principal accounting policies adopted in the preparation of the consolidated financial statements are as follows:

Utility Plant, Generation Plant and Others

Utility plant, generation plant and others, except land, are stated at cost, net of accumulated depreciation, amortization and impairment losses, if any. Costs include the cost of replacing part of such utility plant, generation plant and other properties when such cost is incurred, if the recognition criteria are met. All other repair and maintenance costs are recognized as incurred in the consolidated statement of income. The present value of the expected cost for the decommissioning of the asset after use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Land is stated at cost less any impairment in value.

The *MERALCO Group's* utility plant, generation plant and others acquired before January 1, 2004 are stated at deemed cost. The revalued amount recorded as at January 1, 2004 was adopted as deemed cost as allowed by the transition provisions of *PFRS 1*. The balance of revaluation increment was closed to the retained earnings account.

See *Note 16 – Equity* for the related discussion.



Depreciation and amortization of utility plant, generation plant and others are computed using the straight-line method over the following estimated useful lives:

Asset Type	Estimated Useful Lives
Subtransmission and distribution	10-40 years, depending on the life of the significant parts
Boilers and powerhouse	3-25 years
Communication towers, buildings and improvements	15-40 years
Data transmission cables and communication equipment	5-15 years
Office furniture, fixtures and other equipment	5-20 years
Transportation equipment	5-10 years
Others	2-20 years

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

The asset's residual values, useful lives and methods of depreciation and amortization are reviewed, and adjusted prospectively, if appropriate, at each reporting year to ensure that the residual values, periods and methods of depreciation and amortization are consistent with the expected pattern of economic benefits from items of utility plant, generation plant and others.

Construction in Progress

Construction in progress is stated at cost, which includes cost of construction, plant and equipment, capitalized borrowing costs and other direct costs. Construction in progress is not depreciated until such time that the relevant assets are substantially completed and available for their intended use.

Borrowing Costs

Borrowing costs are capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Capitalization of borrowing costs commences when the activities necessary to prepare the qualifying asset for its intended use or sale have been undertaken and expenditures and borrowing costs have been incurred. Borrowing costs are capitalized until the asset is substantially completed and available for its intended use.

Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds, as well as any exchange differences arising from any foreign currency denominated borrowings used to finance the projects, to the extent that they are regarded as an adjustment to interest costs.

All other borrowing costs are expensed as incurred.



Investments in Associates and Interests in Joint Ventures

An associate is an entity where *MERALCO Group* has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but has no control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

Investments in associates and interests in joint ventures are accounted for using the equity method of accounting and are initially recognized at cost.

Under the equity method, the investment in an associate or interest in a joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

If the *MERALCO Group's* share of losses of an associate or a joint venture equals or exceeds its interest in the associate or joint venture, the *MERALCO Group* discontinues recognizing its share of further losses. The interest in an associate or joint venture is the carrying amount of the investment or joint venture determined using the equity method together with any long-term interest that in substance forms part of the *MERALCO Group's* net investment in associate or joint venture. After the *MERALCO Group's* interest is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the *MERALCO Group* has incurred legal or constructive obligation or made payments in behalf of the associate or joint venture. If the associate or joint venture subsequently reports profits, the *MERALCO Group* resumes recognizing its share of their profits only after its share of the profit equals the share of loss not recognized.

The consolidated statement of income reflects the *MERALCO Group's* share in the results of operations of the associate or joint venture. Any change in the other comprehensive income ("OCI") of those investees is presented as part of the *MERALCO Group's* OCI. In addition, when there has been a change recognized directly in the equity of the associate or joint venture, the *MERALCO Group* recognizes its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealized gains and losses resulting from transactions between the *MERALCO Group* and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the *MERALCO Group's* share in the profit or loss of its associates and joint ventures is shown on the face of the consolidated statement of income and represents profit or loss after tax.

The financial statements of the associate or joint venture are prepared for the same reporting year as the *MERALCO Group*. When necessary, adjustments are made to bring the accounting policies in line with those of the *MERALCO Group*.



After application of the equity method, the *MERALCO Group* determines whether it is necessary to recognize an impairment loss on its investment in associate or interest in joint venture. At each reporting date, the *MERALCO Group* determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the *MERALCO Group* calculates the amount of impairment as the difference between the recoverable amount of the investment in associate or interest in joint venture and its carrying value, then recognizes the loss as part of equity in net earnings of an associate or a joint venture in the consolidated statement of income.

Upon loss of significant influence over the associate or joint control over the joint venture, the *MERALCO Group* measures and recognizes any remaining investment at its fair value. Any difference between the carrying amount of the investment in associate or interest in joint venture upon loss of significant influence or joint control and the fair value of the remaining investment and proceeds from disposal is recognized in profit or loss.

Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition-date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the *MERALCO Group* elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs in a business combination are recognized as expense.

When a business is acquired, an assessment is made of the identifiable assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic and other pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquirer's previously held equity interest in the acquiree is remeasured at fair value as at acquisition date and any resulting gain or loss is recognized in profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration, which is deemed to be an asset or liability will be recognized in accordance with *PFRS 9* in profit or loss. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred, any non-controlling interest in the acquiree and, in a business combination achieved in stages, the acquisition-date fair value of the previously held equity interest in the acquiree, over the fair value of net identifiable assets acquired. If the difference is negative, such difference is recognized as gain in the consolidated statement of income.

If the initial accounting for a business combination is incomplete by the end of the reporting date in which the business combination occurs, the provisional amounts of the items for which the accounting is incomplete are reported in the consolidated financial statements. During the measurement period, which shall be no longer than one (1) year from the acquisition date, the provisional amounts recognized at acquisition date are retrospectively adjusted to reflect new facts and circumstances obtained that existed as at the acquisition date and, if known, would have affected the measurement of the amounts recognized as of that date. During the measurement period,



additional assets or liabilities are also recognized if new information is obtained about facts and circumstances that existed as at the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as at that date.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from acquisition date, allocated to each of the cash generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units, beginning on the acquisition date.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of, is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in such circumstance is measured based on relative values of the operation disposed and the portion of the cash-generating unit retained.

Business combinations involving entities under common control are accounted for similar to the pooling-of-interests method. The assets and liabilities of the combining entities are reflected at their carrying amounts reported in the consolidated financial statements of the controlling company. Any difference between the consideration paid and the share capital of the “acquired” entity is reflected within equity as additional paid-in capital. The consolidated statement of income reflects the results of the combining entities for the full year, irrespective of when the combination takes place. Comparatives are presented as if the entities had always been combined since the date the entities were under common control.

Investment Properties

Investment properties, except land, are stated at cost, net of accumulated depreciation and accumulated impairment loss, if any. The carrying amount includes transaction costs and costs of replacing part of an existing investment property at the time such costs are incurred if the recognition criteria are met and excludes the costs of day-to-day servicing of an investment property.

Investment properties include properties that are being constructed or developed for future use.

Land classified as investment property is carried at cost less any impairment in value.

The *MERALCO Group*’s investment properties acquired before January 1, 2004 are stated at deemed cost.

See *Note 16 – Equity* for the related discussions.

Investment properties, except land, are being depreciated on a straight-line basis over the useful life of 40 years.

Investment properties are derecognized either when they have been disposed of or when these are permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss from the derecognition of the investment properties is recognized in the consolidated statement of income in the year these are disposed or retired.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner-occupation or the commencement of an operating lease to another party. If owner-occupied property becomes an investment property, the *MERALCO Group* accounts for such



property in accordance with the policy stated under utility plant, generation plant and others up to the date of the change in use. Transfers are made from investment property when, and only when, there is a change in use, evidenced by the commencement of owner-occupation or the commencement of development with a view to sale. Transfers from investment property are recorded using the carrying amount of the investment property as at the date of change in use.

Intangible Assets

Intangible assets acquired separately are initially measured at cost. Following initial recognition, intangible assets are carried at cost less accumulated amortization and any accumulated impairment loss. The useful lives of intangible assets are assessed at the individual asset level as having either finite or indefinite useful lives.

Intangible assets with finite lives are amortized over the useful economic lives of five (5) to 30 years using the straight-line method and assessed for impairment whenever there is an indication that the intangible assets may be impaired. At a minimum, the amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at each reporting date. Changes in the expected useful life or the expected consumption pattern of future economic benefit embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and treated as change in accounting estimates. The amortization expense of intangible assets with finite lives is recognized in the consolidated statement of income.

Intangible assets with indefinite useful lives are not amortized, but are assessed for impairment annually either individually or at the cash-generating unit level. The assessment of intangible assets with indefinite useful life is done annually at every reporting date to determine whether such indefinite useful life continues to exist. Otherwise, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

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

Intangible assets generated within the business are not capitalized and expenditures are charged to profit or loss in the year these are incurred.

Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either (a) in the principal market for the asset or liability, or (b) in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible to the *MERALCO Group*.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a nonfinancial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.



The *MERALCO Group* uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the *MERALCO Group* determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting date.

For the purpose of fair value disclosures, the *MERALCO Group* has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy.

Impairment of Nonfinancial Assets

The *MERALCO Group* assesses at each reporting date whether there is an indication that a nonfinancial asset [utility plant, generation plant and others, intangible assets, investment properties, investments in associates and interests in joint ventures and receivable from the Bureau of Internal Revenue (“BIR”)] other than goodwill and intangible assets with indefinite useful life, may be impaired. If any such indication exists, the *MERALCO Group* makes an estimate of the asset’s recoverable amount. An asset’s recoverable amount is the higher of an individual asset’s or a cash generating unit’s fair value less costs to sell and its value in use. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. The fair value is the amount obtainable from the sale of the asset in an arm’s-length transaction. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation factors/parameters, quoted share prices for publicly traded securities or other available fair value indicators. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses are recognized in the consolidated statement of income.

An assessment is also made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If any such indication exists, the *MERALCO Group* estimates the individual asset’s or cash generating unit’s recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset’s recoverable amount since the last impairment loss was recognized. If a reversal of impairment loss is to be recognized, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined had no impairment loss has been recognized for the asset in prior year. Such reversal is recognized in the consolidated statement of income. After such reversal, the



depreciation and amortization expense are adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Intangible assets with indefinite useful lives are tested for impairment annually at every reporting date or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired, either individually or at the cash generating unit level, as appropriate. The amount of impairment is calculated as the difference between the recoverable amount of the intangible asset and its carrying amount. The impairment loss is recognized in the consolidated statement of income. Impairment losses relating to intangible assets may be reversed in future years.

Goodwill is reviewed for impairment annually at every reporting date or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of the cash generating unit or group of cash generating units, to which the goodwill relates. Where the recoverable amount of the cash generating unit or group of cash generating units is less than the carrying amount of the cash generating unit or group of cash generating units to which goodwill has been allocated, an impairment loss is recognized. Impairment losses relating to goodwill shall not be reversed in future years.

If the allocation of goodwill acquired in a business combination to cash generating units or group of cash generating units is incomplete, an impairment testing of goodwill is only carried out when impairment indicators exist. Where impairment indicators exist, impairment testing of goodwill is performed at a level at which the acquirer can reliably test for impairment.

Financial Instruments - Initial Recognition and Subsequent Measurement

Financial Assets

Initial Recognition and Measurement

At initial recognition, financial assets are classified and measured at amortized cost, *FVOCI*, and fair value through profit or loss ("*FVPL*").

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the *MERALCO Group's* business model for managing them. With the exception of trade receivables that do not contain a significant financing component, the *MERALCO Group* initially measures a financial asset at its fair value, and in the case of a financial asset not at *FVPL*, plus transaction costs.

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

The *MERALCO Group's* business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.



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

Subsequent Measurement

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

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

Financial Assets at Amortized Cost (Debt Instruments)

This category is the most relevant to the *MERALCO Group*. The *MERALCO Group* measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective 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 *SPPI* on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured using the effective interest rate (“*EIR*”) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired. The *MERALCO Group*’s financial assets at amortized cost include cash and cash equivalents, trade and other receivables, short-term investments, debt securities at amortized cost and advance payments to a supplier.

Financial Assets at FVOCI (Debt Instruments)

The *MERALCO Group* measures debt instruments at *FVOCI* if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are *SPPI* on the principal amount outstanding.

For debt instruments at *FVOCI*, interest income, foreign exchange revaluation and impairment losses or reversals are recognized in the consolidated statement of profit or loss and computed in the same manner as for financial assets measured at amortized cost. The remaining fair value changes are recognized in *OCI*. Upon derecognition, the cumulative fair value change recognized in *OCI* is recycled to profit or loss. The *MERALCO Group*’s debt instruments at *FVOCI* include investments in government securities and investments in corporate bonds.



Financial Assets Designated at FVOCI (Equity Instruments)

Upon initial recognition, the *MERALCO Group* can elect to classify irrevocably its equity investments as equity instruments designated at *FVOCI* when they meet the definition of equity under *PAS 32, Financial Instruments: Presentation*, and are not held for trading. The classification is determined on an instrument by instrument basis. Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognized as other income in the consolidated statement of income when the right to receive payment has been established, except when the *MERALCO Group* benefits from such proceeds as a partial recovery of the cost of the financial asset, in which case, such gains are recorded in *OCI*. Equity instruments designated at *FVOCI* are not subject to impairment assessment.

The *MERALCO Group* elected to classify irrevocably its non-listed equity investments and investment in club shares under this category.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the *MERALCO Group*'s consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired;
- The *MERALCO Group* has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the *MERALCO Group* has transferred substantially all the risks and rewards of the asset, or (b) the *MERALCO Group* has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the *MERALCO Group* has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership.

When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the *MERALCO Group* continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the *MERALCO Group* also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the *MERALCO Group* has retained. 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 *MERALCO Group* could be required to repay.

Modification of Financial Assets

The *MERALCO Group* derecognizes a financial asset when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new asset, with the difference between its carrying amount and the fair value of the new asset recognized as a derecognition gain or loss in profit or loss, to the extent that an impairment loss has not already been recorded.

The *MERALCO Group* considers both qualitative and quantitative factors in assessing whether a modification of financial asset is substantial or not. When assessing whether a modification is substantial, the *MERALCO Group* considers the following factors, among others:



- Change in currency
- Introduction of an equity feature
- Change in counterparty
- If the modification results in the asset no longer considered “solely payment for principal and interest”

The *MERALCO Group* also performs a quantitative assessment similar to that being performed for modification of financial liabilities. In performing the quantitative assessment, the *MERALCO Group* considers the new terms of a financial asset to be substantially different if the present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the present value of the remaining cash flows of the original financial asset.

When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset, the *MERALCO Group* recalculates the gross carrying amount of the financial asset as the present value of the renegotiated or modified contractual cash flows discounted at the original *EIR* (or credit-adjusted *EIR* for purchased or originated credit-impaired financial assets) and recognizes a modification gain or loss in the statement of comprehensive income.

When the modification of a financial asset results in the derecognition of the existing financial asset and the subsequent recognition of a new financial asset, the modified asset is considered a 'new' financial asset. Accordingly, the date of the modification shall be treated as the date of initial recognition of that financial asset when applying the impairment requirements to the modified financial asset. The newly recognized financial asset is classified as Stage 1 for *ECL* measurement purposes, unless the new financial asset is deemed to be purchased or originated credit-impaired financial assets (“*POCI*”).

Impairment of Financial Assets

The *MERALCO Group* recognizes an allowance for expected credit losses (“*ECLs*”) for all debt instruments not held at *FVPL*. *ECLs* are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the *MERALCO Group* expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are measured in a way that reflects the following:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition and that are not credit-impaired upon origination, *ECLs* are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month *ECL*). For those credit exposures for which there has been a significant increase in credit risk since initial recognition on an individual or collective basis but are not credit-



impaired, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime *ECL*).

Financial assets are credit-impaired when one (1) or more events that have a detrimental impact on the estimated future cash flows of those financial assets have occurred. For these credit exposures, lifetime *ECLs* are recognized and interest revenue is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the financial assets.

For trade receivables and contract assets, *MERALCO* applies a simplified approach in calculating *ECLs*. Therefore, *MERALCO* does not track changes in credit risk, instead recognizes a loss allowance based on lifetime *ECLs* of each customer segment (e.g. residential, commercial, industrial, etc.) at each reporting date. *MERALCO* has established a provision matrix that is based on its current credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. In determining the *ECLs* of trade receivables, the credit loss experience for each contract status of customers for the current year, adjusted for forwarding looking factors as well as the economic environment was considered.

For debt instruments, the *MERALCO Group* applies the low credit risk simplification. At every reporting date, the *MERALCO Group* evaluates whether the debt instrument is considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the *MERALCO Group* reassesses the internal credit rating of the debt instrument. In addition, the *MERALCO Group* considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The *MERALCO Group's* debt instruments at *FVOCI* comprise solely of quoted bonds that are graded in the top investment category and, therefore, are considered to be low credit risk investments. It is the *MERALCO Group's* policy to measure *ECLs* on such instruments on a 12-month basis. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the expected lifetime credit losses.

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

- the financial instrument has a low risk of default
- the borrower has a strong capacity to meet its contractual cash flow obligations in the near term
- 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.

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

Exposures that have not deteriorated significantly since origination, or where the deterioration remains within the *MERALCO Group's* investment grade criteria, are considered to have a low credit risk. The provision for credit losses for these financial assets is based on a 12-month *ECL*. The low credit risk exemption has been applied on debt investments that meet the investment grade criteria of the *MERALCO Group* from the time of origination.



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

MERALCO considers a financial asset in default when contractual payments are 300 days past due (average days to terminate customer contract). In certain cases, the *MERALCO Group* may also consider a financial asset to be in default when internal or external information indicates that the *MERALCO Group* is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the *MERALCO Group*. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial Liabilities

Initial Recognition and Measurement

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

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

The *MERALCO Group*'s financial liabilities include interest-bearing long-term financial liabilities, customer deposits and refunds, refundable service extension costs, notes payable and trade and other payables.

Subsequent Measurement

Financial liabilities at FVPL

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

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the *MERALCO Group* that are not designated as hedging instruments in hedge relationships as defined by *PFRS 9*. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognized in the consolidated statement of profit or loss. Financial liabilities designated upon initial recognition at *FVPL* are designated at the initial date of recognition, and only if the criteria in *PFRS 9* are satisfied. The *MERALCO Group* has not designated any financial liability as at *FVPL*.

Loans and borrowings

This is the category most relevant to the *MERALCO Group*. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the *EIR* method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the *EIR* amortization process.



Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the *EIR*. The *EIR* amortization is included as finance costs in the consolidated statement of income. This category generally applies to interest-bearing loans and borrowings.

Derecognition

A financial liability (or a part of a financial liability) is derecognized when the obligation under the liability is discharged, cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability or a part of it are substantially modified, such an exchange or modification is treated as a derecognition of the original financial liability and the recognition of a new financial liability, and the difference in the respective carrying amounts is recognized in the statement of comprehensive income.

Exchange or Modification of Financial Liabilities

The *MERALCO Group* considers both qualitative and quantitative factors in assessing whether a modification of financial liabilities is substantial or not. The terms are considered substantially different if the present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the present value of the remaining cash flows of the original financial liability. However, under certain circumstances, modification or exchange of a financial liability may still be considered substantial, even where the present value of the cash flows under the new terms is less than 10% different from the present value of the remaining cash flows of the original financial liability. There may be situations where the modification of the financial liability is so fundamental that immediate derecognition of the original financial liability is appropriate (e.g., restructuring a financial liability to include an embedded equity component).

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the fair value of the new liability is recognized in profit or loss.

When the exchange or modification of the existing financial liability is not considered as substantial, the *MERALCO Group* recalculates the gross carrying amount of the financial liability as the present value of the renegotiated or modified contractual cash flows discounted at the original *EIR* and recognizes a modification gain or loss in profit or loss.

If modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognized as part of the gain or loss on the extinguishment. If the modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the financial instrument and are amortized over the remaining term of the modified financial instrument.

The *MERALCO Group* has not availed of any reliefs and has not renegotiated the terms of its existing loan agreements with its lenders.



Offsetting of Financial Instruments

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

Redeemable Preferred Stock

MERALCO's peso-denominated redeemable preferred stock has characteristics of a liability and is thus recognized as a liability in the consolidated statement of financial position. The corresponding dividends on those shares are recognized as part of "Interest and other financial charges" account in the consolidated statement of income. Dividends no longer accrue when such shares have been called for redemption.

Inventories

Inventories are stated at the lower of cost and net realizable value. Costs of acquiring materials and supplies including costs incurred in bringing each item to their present location and condition are accounted using the moving average and weighted average cost method, as applicable. Net realizable value is the estimated selling price in the ordinary course of business less the estimated cost to sell or the current replacement cost of the asset.

Prepayments

Prepayments are expenses paid in advance and recorded as asset before they are utilized. Prepayments that are expected to be realized within 12 months from the reporting date are classified as current assets. Otherwise, these are classified as noncurrent assets.

Value-Added Tax ("VAT")

Input *VAT* pertains to the 12% indirect tax paid in the course of trade or business on purchases of goods or services.

Output *VAT* pertains to the 12% tax due on the local sale of goods or services.

If at the end of any taxable month, the output *VAT* exceeds the input *VAT*, the outstanding balance is included under "Trade payables and other current liabilities" account. If the input *VAT* exceeds the output *VAT*, the excess shall be carried over to the succeeding months and included under "Financial and other current assets" account.

Provisions

Provisions are recognized when the *MERALCO Group* has a present obligation, legal or constructive, as a result of a past event, and when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the *MERALCO Group* expects a provision, or a portion, to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statement of income, net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liabilities.



Retirement Benefits

MERALCO and certain subsidiaries have distinct, funded, noncontributory defined benefit retirement plans covering all permanent employees. *MERALCO*'s retirement plan provides for post-retirement benefits in addition to a lump sum payment to employees hired as at December 31, 2003. Retirement benefits for employees of *MERALCO* hired beginning January 1, 2004 were amended to provide for a defined lump sum payment only upon retirement of qualified employees. *MERALCO* also has a contributory provident plan introduced in January 2009 whereby employees hired beginning January 1, 2004 may elect to participate.

The net defined benefit liability or asset of the retirement plan is the aggregate of the present value of the defined benefit obligation at the end of the reporting date reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise of (i) service costs; (ii) net interest on the net defined benefit liability or asset; and (iii) remeasurements of the net defined benefit liability or asset.

Service costs, which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in the consolidated statement of income. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the year in the net defined benefit liability or asset that arises from the passage of time, which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in the consolidated statement of income.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in *OCI* in the year in which they arise. Remeasurements are not reclassified to profit or loss in subsequent year.

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 *MERALCO Group*, nor can they be paid directly to the *MERALCO Group*. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The *MERALCO Group*'s right to be reimbursed for 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.



The retirement costs under the defined contribution plan are recorded based on *MERALCO Group's* contribution to the defined contribution plan as services are rendered by the employee.

Termination Benefits

Termination benefits are provided in exchange for its severance as a result of either an entity's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment.

A liability and expense for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of those benefits and when the entity recognizes related restructuring costs. Initial recognition and subsequent changes to termination benefits are measured in accordance with the nature of the employee benefit, as either post-employment benefits, short-term employee benefits, or other long-term employee benefits.

Employee Leave Entitlements

Employee entitlements to annual leave are recognized as a liability when such accrues to the employees. The undiscounted liability for leave expected to be settled wholly before 12 months after the end of the reporting year is recognized for services rendered by employees up to the end of the reporting year.

Unused sick leaves are accumulated, up to a certain limit, and commuted to cash upon separation or retirement. An actuarial valuation of the obligations on the accumulated unused sick leaves is conducted periodically in accordance with the relevant accounting standards.

Long-term Incentive Plan

The liability relating to the long-term incentive plan comprises the present value of the obligation at the end of the reporting date.

Equity

Common stock is measured at par value for all shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown as a deduction from equity, net of any related tax. The amount of proceeds and/or fair value of consideration received, net of incremental costs incurred directly attributable to the issuance of new shares in excess of par value, is recognized as additional paid-in capital.

Employee stock purchase plan cost represents the cumulative compensation expense recognized based on the amount determined using an option pricing model.

Change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction and presented as "Equity Reserve" in the consolidated statement of financial position.

OCI comprises items of income and expense, which are not recognized in profit or loss as required or permitted by *PFRS*.

Cumulative translation adjustment represents the resulting exchange differences in the remeasurement of accounts due to change in functional currency.



Treasury shares are recognized at cost and deducted from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the *MERALCO Group*'s own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized in additional paid-in capital.

Retained earnings include net income attributable to the equity holders of the Parent, reduced by dividends declared on common stock. Dividends are recognized as liability and deducted from retained earnings when they are declared. Dividend declarations approved after the financial reporting date are disclosed as events after the financial reporting date.

Non-controlling interests represent the portion of profit or loss and net assets of subsidiaries not attributed, directly or indirectly, to *MERALCO*.

Revenue Recognition

Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the *MERALCO Group* expects to be entitled in exchange for those goods or services. The *MERALCO Group* assesses its revenue arrangements against specific criteria to determine if it is acting as a principal or as an agent. *MERALCO Group* has concluded that it is acting as principal in majority of its revenue arrangements.

The following specific recognition criteria must also be met before revenue from contracts with customers is recognized:

Sale of Electricity

As distribution utilities, revenues are recognized upon supply of power to the customers and are stated at amounts invoiced to customers, inclusive of pass-through components, and net of discounts and/or rebates. The Uniform Filing Requirements (“*UFR*”) on the rate unbundling released by the *ERC* on October 30, 2001 specified the following bill components: (a) generation charge, (b) transmission charge, (c) *SL* charge, (d) distribution charge, (e) supply charge, (f) metering charge, (g) Currency Exchange Rate Adjustment (“*CERA*”) I and II, where applicable and (h) inter-class rate and lifeline subsidies. *VAT*, business taxes such as *LFT*, *RPT* (beginning March 2021), the Power Act Reduction (for residential customers) adjustment, universal charges, and Feed-in-Tariff - Allowance (“*FiT-All*”) are also separately presented in the customer’s billing statement. Taxes billed and collected on behalf of the national governments and local government units, universal charges and *FiT-All* [billed and collected on behalf of Power Sector Assets and Liabilities Management Corporation (“*PSALM*”) and National Transmission Corporation (“*TransCo*”), respectively] do not form part of *MERALCO* and *Clark Electric*’s revenues. Revenues are adjusted for the over and/or under-recoveries of pass-through charges.

Revenue from Contracts with Customers - Recognized Over Time

The *MGen Group* has contracts with customers in the form of Electric Power Purchase Agreement (“*EPPAs*”), Ancillary Services Procurement Agreement (“*ASPAs*”), and sale of electricity to *WESM*.

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



Revenue from contracts with customers is consummated whenever the electricity generated by the *MGen Group* is transmitted through the transmission line designated by the buyer, for a consideration.

Revenue from sale of electricity is recognized monthly based on the actual energy delivered and made available to customers or minimum energy off take or contracted capacity, adjusted by actual days of downtime, whichever is higher.

Revenue from sale of electricity through ancillary services to the National Grid Corporation of the Philippines (“*NGCP*”) is recognized monthly based on the capacity scheduled and/or dispatched and provided.

Energy fees derived from trading operations are recognized based on actual delivery of such electricity supplied and made available to customers multiplied by the applicable tariff rate as agreed with its customers.

Revenue from Contracts with Customers - Recognized at the Point in Time

Revenues from the following are recognized at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods:

Coal Sales

Coal sales are recognized at point in time when the coal is delivered, the legal title has passed to the customer. Coal sales are presented as part of sale of electricity in the consolidated statement of income.

Service Fees

Service fee pertains to fees charged to customers and clients for coal transaction related services. The service fee is recognized at point in time. Service fees are presented as part of sale of other services in the consolidated statement of income.

Sale of Services

The *MERALCO Group* recognizes revenue from construction contracts over time on the basis of direct measurements of the value to customers of the goods or services transferred to date, relative to the remaining goods or services promised under the contract (output method). Progress is measured based on the monthly project accomplishment which integrates the performance to date of the construction activities.

Construction contracts are generally accounted for as a single performance obligation and are not segmented between types of services. For engineering and construction contracts, these two (2) are combined into one performance obligation since these are not distinct within the context of the contract. The combined performance obligation qualifies as a good or service (or a bundle of goods or services) that is distinct.



Interest Income

Interest income is recognized as interest accrues, using the *EIR* method. The *EIR* is the rate that discounts estimated future cash receipts through the expected life of the financial instrument.

Lease Income

Income arising from lease of investment properties, communication tower assets and pole positions is accounted for on a straight-line basis over the lease term.

Lease income is included under “Revenues – Sale of other services” account in the consolidated statement of income.

Receivables

Receivables represent the *MERALCO Group*’s right to all amounts of consideration that are unconditional (i.e., only the passage of time is required before payment of the consideration is due).

Contract Assets

A contract asset is the right to consideration in exchange for goods and services transferred to the customer. If the *MERALCO Group* performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognized for the earned consideration that is conditional.

The *MERALCO Group*’s contract assets include unbilled receivables and under-recoveries of pass-through charges.

Contract Liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the *MERALCO Group* has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the *MERALCO Group* transfers good or services to the customer, a contract liability is recognized when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognized as revenue when the *MERALCO Group* performs under the contract.

The following are considered as contract liabilities:

Assets Funded by Customers

In accordance with the Distribution Services and Open Access Rule (“*DSOAR*”), the costs of non-standard connection facilities to connect the customers to *MERALCO*’s distribution network and to provide the customers with ongoing access to the supply of electricity are funded by the customers. *MERALCO* assesses whether the constructed or acquired non-standard connection facilities meet the definition of an asset in accordance with *PAS 16*. If the definition of an asset is met, *MERALCO* recognizes such asset at its acquisition or construction cost with an equivalent credit to the liability account. Such liability to the customers is included under “Other noncurrent liabilities” account in the consolidated statement of financial position, and is recognized as income over the average duration of relationship with the customer. Assets funded by customers do not form part of *MERALCO*’s regulatory asset base until amounts are refunded.



Net Over-recoveries of Pass-through Charges

Generation, transmission and *SL* over-recoveries which resulted from the difference in the power suppliers' billings and recovery of such pass-through costs from consumers are included in "Other noncurrent liabilities" account in the consolidated statement of financial position.

Cost and Expense Recognition

Expenses are decreases in economic benefits during the financial reporting date in the form of outflows or decrease of assets or incurrence of liabilities that result in decrease in equity, other than those relating to distributions to equity participants. These are recognized when incurred.

MERALCO Group recognizes contract costs relating to satisfied performance obligations as these are incurred. Contract costs principally include all direct materials, labor costs and indirect costs related to contract performance. Project mobilization costs and incremental costs of obtaining a contract with a customer are recognized as an asset if the *MERALCO Group* expects to recover them and the contract term is for more than one year. The project mobilization costs and costs of obtaining a contract are amortized over the expected construction period following the pattern of revenue recognition. Costs incurred prior to obtaining a contract with a customer are not capitalized but are expensed as incurred. Expected losses on contracts are recognized immediately when it is probable that the total contract costs will exceed total contract revenues. The amount of such loss is determined irrespective of whether or not work has commenced on the contract, based on the stage of completion of the contract activity, or the amount of profits expected to arise on other contracts which are not treated as a single construction contract.

Total contract costs incurred and estimated earnings recognized in excess of total billings are recognized as an asset.

Lease Liabilities

At the commencement date of the lease, the *MERALCO Group* recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the *MERALCO Group* and payments of penalties for terminating a lease, if the lease term reflects the *MERALCO Group* exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the year which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the *MERALCO Group* uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term Leases and Leases of Low-value Assets

The *MERALCO Group* applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the leases of low-value



assets recognition exemption to leases of office equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

Leases

The *MERALCO Group* considers whether a contract is, or contains a lease at the inception of a contract. A lease is a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange of a consideration.

Company as Lessee

At commencement date of the lease, the *MERALCO Group* recognizes a right-of-use (“*ROU*”) asset and a corresponding lease liability on the statements of financial position, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the *MERALCO Group* recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Lease liability is measured at the present value of the unpaid lease payments, discounted using the interest rate implicit in the lease (if readily available) or the *MERALCO Group*’s incremental borrowing rate. Incremental borrowing rate is the rate of interest that the *MERALCO Group* would have to pay to borrow over a similar term and with a similar security the funds necessary to obtain an asset of a similar value to the right-of-use-asset in a similar economic environment.

Lease payments included in the measurement of the lease liability consists of fixed payments, variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee, and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, lease liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in the fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the *ROU* asset, or profit and loss if the *ROU* asset is already reduced to zero.

ROU asset is measured at cost, which consist of the initial measurement of the lease liability, any initial direct costs incurred, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date.

The *MERALCO Group* depreciates *ROU* assets on a straight-line basis using the expected useful life or lease term whichever is shorter. The *MERALCO Group* also assesses the *ROU* asset for impairment when such indicators exist.

Company as Lessor

Leases where the *MERALCO Group* does not transfer substantially all the risk and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the year in which these are earned.



Foreign Currency-Denominated Transactions and Translations

The consolidated financial statements are presented in Philippine peso, which is also *MERALCO*'s functional and presentation currency. The Philippine peso is the currency of the primary economic environment in which the *MERALCO Group* operates, except for *LOIL* and *MPG Asia*. This is also the currency that mainly influences the revenue from and cost of rendering services. Each entity in the *MERALCO Group* determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

The functional currency of *LOIL* and *MPG Asia* is the United States ("U.S.") dollar.

Transactions in foreign currencies are initially recorded in the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are re-translated using functional currency closing rate of exchange prevailing at the end of the reporting date. All differences are recognized in the consolidated statement of income except for foreign exchange differences that relate to capitalizable borrowing costs on qualifying assets. Nonmonetary items that are measured in terms of historical cost in foreign currency are translated using the exchange rate as at the date of the initial transactions.

As at the reporting date, the monetary assets and liabilities of subsidiaries, *LOIL* and *MPG Asia* whose functional currency is other than Philippine peso, are translated into Philippine peso at the rate of exchange prevailing at the end of the reporting date, and income and expenses are translated monthly using the weighted average exchange rate for the month. The exchange differences arising on translation are recognized as a separate component of *OCI* as cumulative translation adjustments. On the disposal of a subsidiary, the amount of cumulative translation adjustments recognized in *OCI* is recognized in the consolidated statement of income.

Income Taxes

Current Income Tax

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

Deferred Income Tax

Deferred income tax is provided on all temporary differences at the reporting date between the income tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.



Deferred income tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply when the assets are realized or the liabilities are settled, based on tax rates and tax laws that are enacted or substantively enacted as at the reporting date.

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

Deferred income tax items are recognized in correlation to the underlying transaction either in profit or loss or directly in equity.

Earnings per Share

Basic earnings per share is calculated by dividing the net income for the year attributable to equity holders of the parent by the weighted average number of common shares outstanding during the year.

Diluted earnings per share is calculated by dividing the net income for the year attributable to equity holders of the parent by the weighted average number of shares outstanding, adjusted for the effects of any dilutive potential common shares.

Contingencies

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



Events After the Reporting Date

Post reporting date events that provide additional information about the *MERALCO Group*'s financial position at the reporting date (adjusting events) are reflected in the consolidated financial statements. Post reporting date events that are non-adjusting events are disclosed in the notes to consolidated financial statements, when material.

5. Significant Judgments, Accounting Estimates and Assumptions

The preparation of the *MERALCO Group*'s consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the accompanying disclosures, and the disclosure of contingent assets and liabilities, at the end of the reporting date. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amounts of the assets or liabilities affected in future years.

Judgments

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

Determination of Functional Currency

The functional currencies of the entities under the *MERALCO Group* are the currencies of the primary economic environment in which each entity operates. It is the currency that mainly influences the revenue and cost of rendering services.

Based on the economic substance of the underlying circumstances, the functional and presentation currency of *MERALCO* and its subsidiaries, except *LOIL* and *MPG Asia*, is the Philippine peso. The functional and presentation currency of *LOIL* and *MPG Asia* is the U.S. dollar.

Uncertain Tax Position

The *MERALCO Group* assesses whether it has any uncertain tax position in accordance with *IFRIC 23*. The *MERALCO Group* applies significant judgement in identifying uncertainties over its income tax treatments. The *MERALCO Group* determined, based on its review and assessment of its income tax computations and filings, in consultation with external tax expert, that it is not probable that its uncertain tax treatments will be accepted by the taxation authorities. The *MERALCO Group* quantified the effect of each uncertain tax treatment using the most likely amount which the *MERALCO Group* expects to better predict the resolution of the uncertainty.

Operating Lease Commitments

As Lessor

The *MERALCO Group* has several lease arrangements as a lessor. Based on the terms and conditions of the arrangements, it has evaluated that the significant risks and rewards of ownership of such properties are retained by the *MERALCO Group*. The lease agreements do not transfer ownership of the assets to the lessees at the end of the lease term and do not give the lessees a bargain purchase option over the assets. Consequently, the lease agreements are accounted for as operating leases.



As Lessee

The *MERALCO Group* has entered into various operating lease agreements used for its operations.

For the *MERALCO Group*'s lease under *PFRS 16*, the *MERALCO Group* recognizes *ROU* assets and lease liabilities measured at the present value of lease payments to be made over the lease term using the *MERALCO Group*'s incremental borrowing rate.

The *MERALCO Group* availed exemption of *PFRS 16* for its short-term lease with the term of 12 months or less and low value assets. Accordingly, lease payments on these leases are recognized as expense on a straight-line basis over the lease term.

Arrangement that Contains a Lease

Based on *MERALCO*'s assessment, the *PPAs* and *PSAs* do not qualify to be accounted for as lease and are accounted for as ordinary service contracts, since *MERALCO* does not have the right to direct the use, operate and was not involved in the design of the identified assets.

Principal versus Agent

The *MERALCO Group*'s revenue recognition requires the *MERALCO Group* to make certain judgments on its arrangements with power generation companies such as *PPAs* and *PSAs*. The *MERALCO Group* has concluded that it is acting as a principal in its revenue arrangements.

Revenue from sale of electricity requires *MERALCO* and *Clark Electric* to bill customers based on various billing cycle cut-off dates, while recording of related purchased power cost is based on calendar month as provided in the terms of the *PPAs* and *PSAs*. The difference between the amounts initially billed to customers and the settlement of the actual billings with power generation companies is adjusted to revenue at month end based on *ERC Resolution No. 16, A Resolution Adopting the Rules Governing the Automatic Cost Adjustment and True-up Mechanisms and Corresponding Confirmation Process for Distribution Utilities*.

Moreover, *MERALCO* and *Clark Electric* assessed that revenues from electricity, re-connection and other non-standard connection services arise from a single performance obligation which will be satisfied over the period when the services are expected to be provided.

Entity in which the MERALCO Group Holds more than the Majority of the Voting Rights Accounted for as a Joint Venture

MERALCO, through *MGen*, has a 51% interest in *SBPL*. While *MERALCO* owns majority of the voting rights in *SBPL*, it does not have sole control of *SBPL*. *MERALCO*'s investment in *SBPL* is accounted for as a joint venture since key operating and financial decisions of *SBPL* require the unanimous vote and consent of the parties sharing control.

Entity in which the MERALCO Group Holds more than the Majority of the Voting Rights Accounted for as an Associate

MERALCO, through *MGen*, has a total of 58% direct and indirect interest in *PacificLight*. *MERALCO*'s investment in *PacificLight* is accounted for as an associate since the relevant and significant activities and policies of *PacificLight* require the majority votes of the *BOD* and *MGen* does not hold the majority of the *BOD*.



*Entity in which the MERALCO Group Holds less than 20% of the Voting Rights
Accounted for as an Associate*

MERALCO, through *Finserve*, has 10% interest in AF Payments, Inc. (“AF Payments”). AF Payments is considered an associate and, thus, MERALCO/*Finserve*’s interest in AF Payments is accounted for using the equity method as MERALCO/*Finserve* is deemed to have significant influence as evidenced by its representation in the BOD which guarantees MERALCO’s participation in the decision making and policy making process of AF Payments.

Acquisitions

The MERALCO Group evaluates each investment under PFRS 3 to determine whether to treat an acquisition as an asset acquisition or a business combination. For those transactions treated as asset acquisitions, the purchase price is allocated to the assets acquired, with no recognition of goodwill. For those acquisitions that meet the definition of a business combination, MERALCO Group apply the acquisition method of accounting where assets acquired and liabilities assumed are recorded at fair value at the date of each acquisition, and the results of operations are included with our results from the dates of the respective acquisitions. When determining the fair value of tangible assets acquired, age, condition and the economic useful life of the asset are taken into consideration to determine the estimated cost to replace the asset. When determining the fair value of intangible assets acquired, the applicable discount rate and the timing and amount of future cash flows, including rate and terms of renewal and attrition are considered.

Contingencies

The MERALCO Group has possible claims from or obligation to other parties from past events and whose existence may only be confirmed by the occurrence or non-occurrence of one (1) or more uncertain future events not wholly within its control. Management has determined that the present obligations with respect to contingent liabilities and claims with respect to contingent assets do not meet the recognition criteria, and therefore has not recorded any such amounts.

See Note 29 – *Contingencies and Legal Proceedings*.

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty as at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial reporting date are discussed as follows:

*Estimating Useful Lives of Utility Plant, Generation Plant and Others, Intangible Assets
with Finite Lives and Investment Properties*

The MERALCO Group estimates the useful lives of utility plant, generation plant and others, intangible assets with finite lives and, investment properties based on the periods over which such assets are expected to be available for use. The estimate of the useful lives of the utility plant, generation plant and others, intangible assets with finite lives and investment properties is based on management’s collective assessment of industry practice, internal technical evaluation and experience with similar assets. The estimated useful lives are reviewed at least at each financial reporting date and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limitations on the use of such assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in the factors mentioned in the foregoing. The amounts and timing of



recorded expenses for any year would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of utility plant, generation plant and others, intangible assets with finite lives and investment properties would increase recorded operating expenses and decrease noncurrent assets.

The total depreciation and amortization expense of utility plant, generation plant and others amounted to ₱14,117 million, ₱10,846 million and ₱8,065 million for the years ended December 31, 2022, 2021 and 2020, respectively. Total carrying values of utility plant, generation plant and others, net of accumulated depreciation and amortization, amounted to ₱243,323 million and ₱225,326 million as at December 31, 2022 and 2021, respectively.

Total depreciation of investment properties amounted to ₱4 million for each of the years ended December 31, 2022, 2021 and 2020. Total carrying values of investment properties, net of accumulated depreciation, amounted to ₱1,495 million and ₱1,496 million as at December 31, 2022 and 2021, respectively.

Total amortization of intangible assets with finite lives amounted to ₱1,910 million, ₱1,649 million and ₱486 million for the years ended December 31, 2022, 2021 and 2020, respectively. Total carrying values of intangible assets with finite lives, net of accumulated amortization, amounted to ₱21,691 million and ₱15,054 million as at December 31, 2022 and 2021, respectively.

See *Note 7 – Utility Plant, Generation Plant and Others*, *Note 9 – Investment Properties* and *Note 10 – Intangible Assets*.

Impairment of Nonfinancial Assets

PFRS requires that an impairment review be performed when certain impairment indicators are present. These conditions include obsolescence, physical damage, significant changes in the manner by which an asset is used, worse than expected economic performance, drop in revenues or other external indicators, among others. In the case of goodwill, at a minimum, such asset is subject to an annual impairment test and more frequently whenever there is an indication that such asset may be impaired. This requires an estimation of the value in use of the cash generating unit to which the goodwill is allocated. Estimating the value in use requires preparation of an estimate of the expected future cash flows from the cash generating unit and choosing an appropriate discount rate in order to calculate the present value of those cash flows.

Determining the recoverable amount of utility plant, generation plant and others, intangible assets, investment properties, investments in associates and interests in joint ventures, goodwill and financial and other noncurrent assets, requires (i) the determination of future cash flows expected to be generated from the continued use as well as ultimate disposition of such assets and (ii) making estimates and assumptions that can materially affect the consolidated financial statements. Future events may cause management to conclude that utility plant, generation plant and others, intangible assets, investment properties, investments in associates and interests in joint ventures, goodwill and financial and other noncurrent assets are impaired. Any resulting impairment loss or reversal of previously recognized impairment loss could have material adverse impact on the *MERALCO Group's* consolidated financial position and financial performance.

The preparation of estimated future cash flows involves significant estimations and assumptions. While management believes that the assumptions are appropriate and reasonable, significant changes in the assumptions may materially affect the assessment of recoverable values and may lead to future impairment charges under *PFRSs*.



The carrying values of nonfinancial assets subject to impairment review are as follows:

Account	2022	2021
	<i>(Amounts in millions)</i>	
Utility plant, generation plant and others	₱243,323	₱225,326
Investments in associates and interests in joint ventures	31,888	23,317
Intangible assets	21,691	15,054
Investment properties	1,495	1,496
Receivable from the BIR	181	181
Goodwill	35	35

See Note 7 – *Utility Plant, Generation Plant and Others*, Note 8 – *Investments in Associates and Interests in Joint Ventures*, Note 9 – *Investment Properties* and Note 10 – *Intangible Assets*.

Realizability of Deferred Income Tax Assets

The *MERALCO Group* reviews the carrying amounts of deferred income tax assets at the end of each reporting year and reduces these to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax assets to be utilized.

Assessment on the recognition of deferred income tax assets on deductible temporary differences is based on the level and timing of forecasted taxable income for the subsequent reporting date. This forecast is based on past results and future expectations on revenues and expenses as well as future tax planning strategies. Management believes that sufficient taxable profit will be generated to allow all or part of the recorded or recognized deferred tax assets to be utilized. The amounts of the deferred income tax assets considered realizable could be adjusted in the future if estimates of taxable income are revised.

Based on the foregoing assessment, following are the relevant consolidated information with respect to deferred income tax assets:

	2022	2021
	<i>(Amounts in millions)</i>	
Recognized deferred income tax assets	₱32,032	₱34,660
Unrecognized deferred income tax assets	2,694	1,444

See Note 28 – *Income Taxes and Local Franchise Taxes*.

Provision for ECL of Receivables and Contract Assets

The *MERALCO Group* applies the *PFRS 9* simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all trade and other receivables and contract assets.

The economic impact of *COVID-19* pandemic to *MERALCO* consumers together with advisories and issuances from the *DOE* and *ERC* directing *MERALCO* and other *DUs* to extend payment terms and suspend service disconnection activities necessitated reassessment of *MERALCO*'s *ECL* model in 2020. *MERALCO* considered resegmentation of all its customer bills starting from the *ECQ* period with the objective of identifying customer groups which were significantly affected by *COVID-19* pandemic based on accumulated number of unpaid bills and measured the expected credit losses considering the deferred payment arrangements and expected default upon resumption of service disconnection activities. In 2021, *MERALCO* continued to extend the suspension of disconnection



activities in areas under *ECQ*, *MECQ* and granular lockdowns, and extended installment payment arrangements to certain customers. In 2022, *MERALCO* provided *ECL* on certain identified trade receivables which have been the subject of disputes from customers. In determining the *ECLs* of trade receivables, *MERALCO* considered the credit loss experience for each contract status of customers for the current year, adjusted for forwarding looking factors, and taking into account the economic environment. The contract assets relate to unbilled receivables and have substantially the same risk characteristics as the trade and other receivables. The *MERALCO Group* has concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for contract assets.

The *MERALCO Group* incorporates forward-looking information in its assessments whether the credit risk has increased significantly since its initial recognition and its measurement of *ECL*. The *MERALCO Group* has considered a range of relevant forward-looking macroeconomic assumptions such as inflation rate, gross domestic product and unemployment rate for the determination of unbiased general industry adjustments and any related specific industry adjustments that support the calculation of *ECLs*.

ECLs for trade and other receivables amounted to ₱2,311 million, ₱551 million and ₱1,933 million for the years ended December 31, 2022, 2021 and 2020, respectively. Trade and other receivables, net of allowance for expected credit losses, amounted to ₱54,683 million and ₱45,013 million as at December 31, 2022 and 2021, respectively.

See *Note 13 – Trade and Other Receivables*.

Estimating Net Realizable Value of Inventories

Inventories consist of materials and supplies used in the electricity distribution, power generation and services segments, and are valued at the lower of cost or net realizable value. The cost of inventories is written down whenever the net realizable value of inventories becomes lower than the cost due to damage, physical deterioration, obsolescence, and change in price levels or other causes (i.e., pre-termination of contracts). The lower of cost or net realizable value of inventories is reviewed on a periodic basis. Inventory items identified to be obsolete and no longer usable are written off and charged as expense in the consolidated statement of income.

The carrying values of inventories amounted to ₱10,629 million and ₱9,817 million as at December 31, 2022 and 2021, respectively.

See *Note 14 – Inventories*.

Estimation of Retirement Benefit Costs

The cost of defined benefit retirement plans and other post-employment benefits as well as the present value of the retirement obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates and future retirement benefits increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. Retirement and other post-employment benefits expense amounted to ₱1,686 million, ₱2,241 million and ₱1,610 million for the years ended December 31, 2022, 2021 and 2020, respectively. Retirement and other post-employment benefit liabilities as at December 31, 2022 and 2021 amounted to ₱2,887 million and ₱7,716 million, respectively.



In determining the appropriate discount rate, management considers the interest rates of government bonds in the respective currencies, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The underlying bonds are further reviewed for quality, and those having excessive credit spreads are removed from the population of bonds on which the discount rate is based, on the basis that they do not represent high quality bonds.

The mortality rate is based on publicly available mortality tables for the Philippines and is modified accordingly with estimates of mortality improvements. Future salary increases and retirement benefits increases are based on expected future inflation rates for the Philippines.

See *Note 25 – Expenses and Income* and *Note 26 – Long-term Employee Benefits*.

Provisions

The *MERALCO Group* has various claims, assessments and cases as discussed in *Note 29 – Contingencies and Legal Proceedings* and *Note 2 – Rate Regulations*. The *MERALCO Group's* estimate for probable costs for the resolution of these claims, assessments and cases has been developed in consultation with external counsel, if any, and internal counsels handling the defense in these claims, assessments and cases and is based upon thorough analysis of potential outcome.

The *MERALCO Group*, in consultation with its external and internal legal counsels, does not believe that these claims and legal proceedings will have a material adverse effect on the consolidated financial statements. It is possible, however, that future financial performance could be materially affected by changes in the estimates or the effectiveness of management's strategies and actions relating to these proceedings.

The *MERALCO Group* recognized net provisions on various claims and assessments amounting to ₱5,831 million, ₱10,175 million and ₱15,526 million for the years ended December 31, 2022, 2021 and 2020, respectively.

Provisions are measured at the present value of management's best estimate of the expenditures required to settle the present obligation at the end of the reporting year. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the liability. As at December 31, 2022 and 2021, provisions and other noncurrent liabilities are presented net of the effect of the time value of money amounting to ₱5,147 million and ₱860 million, respectively.

See *Note 19 – Provisions* and *Note 22 – Trade Payables and Other Current Liabilities*.

Revenue Recognition

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

Revenues from sale of electricity by *MERALCO* and *Clark Electric* are billed based on customer-specific billing cycle cut-off date for each customer, while recording of related purchased power cost is based on calendar month as provided in the terms of the *PPAs* and *PSAs*. The recognition of unbilled revenues for billing cycles with earlier than month-end cut-off dates requires the use of estimates. The difference between the amounts initially recognized based on provisional invoices and the settlement of the actual billings by power generation companies is taken up in the subsequent period. Also, revenues from sale of electricity are adjusted for the estimated over and/or under-



recoveries of pass-through charges, which are subject of various applications for recovery and approval by the *ERC*.

Management believes that such use of estimates will not result in material adjustments in future years.

Revenues and costs from construction contracts of *MIESCOR* are recognized based on the output method. This is measured principally on the basis of the estimated completion of a physical proportion of the contract work.

Revenue from Contracts with Customers

The *MGen* Group applied the following judgements that significantly affect the determination of the amount and timing of revenue from contracts with customers:

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

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

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

For revenue contracts under *EPPAs*, *ASPA*, and spot market sales to *WESM*, these are combined and considered as one (1) performance obligation since these are not distinct within the context of *PFRS 15* as the buyer cannot benefit from the contracted capacity without the corresponding energy and the buyer cannot obtain energy without contracting a capacity.

- 2) *Determining Method to Estimate Variable Consideration and Assessing the Constraint.* The *MGen* Group includes some or all the amounts of variable consideration estimated but only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. The *MGen* Group considers both the likelihood and magnitude of the revenue reversal in evaluating the extent of variable consideration the *MGen* Group will be subjected to constraint.

Factors such as the following are considered:

- a. high susceptibility to factors outside the Group's influence;
- b. timing of the resolution of the uncertainty; and
- c. having a large number and broad range of possible outcomes.

Some contracts with customers provide for volume and prompt payment discounts that give rise to variable consideration. In estimating the variable consideration, the *MGen* Group is required to use either the expected value method or the most likely amount method based on which method better predicts the amount of consideration to which it will be entitled. The expected value method of estimation takes into account a range of possible outcomes while the most likely amount is used when the outcome is binary.



The *MGen* Group determined that the expected value method is the appropriate method to use in estimating the variable consideration given the number of contracts with customers that have similar characteristics and the range of possible outcomes.

- 3) *Allocation of Variable Consideration.* Variable consideration may be attributable to the entire contract or to a specific part of the contract. For revenue contracts under *EPPAs*, *ASPA* and spot market sales to *WESM*, revenue streams which are considered as series of distinct services that are substantially the same and have the same pattern of transfer, the *MGen* Group allocates the variable amount that is no longer subject to constraint to the satisfied portion (i.e., month or actual electricity delivery) which forms part of the single performance obligation and the monthly billing of the *MGen* Group.
- 4) *Revenue Recognition.* The *MGen* Group recognizes revenue when it satisfies an identified performance obligation by transferring a promised good or service to a customer. A good or service is considered to be transferred when the customer obtains control. The *MGen* Group determines, at contract inception, whether it will transfer control of a promised good or service over time. If the *MGen* Group does not satisfy a performance obligation over time, the performance obligation is satisfied at a point in time.

The *MGen* Group concluded that revenue from sale of electricity from contracts with customers are to be recognized over time, since customers simultaneously receive and consume the benefits as the *MGen* Group supplies power.

- 5) *Identifying Methods for Measuring Progress of Revenue Recognized Over Time.* The *MGen* Group determines the appropriate method of measuring progress which is either through input or output methods. Input method recognizes revenue on the basis of the efforts or inputs to the satisfaction of a performance obligation while output method recognizes revenue on the basis of direct measurements of the value to the customer of the goods or services transferred to date.

The *MGen* Group determined that the output method is the more appropriate way of measuring progress as actual electricity is supplied to customers.

6. Segment Information

Each operating segment of the *MERALCO Group* engages in business activities from which revenues are earned and expenses are incurred (including intercompany transactions with other business segments within the *MERALCO Group*). The operating results of each of the operating segments are regularly reviewed by *MERALCO*'s Management Committee to evaluate how resources are to be allocated to the operating segments and to assess their performances for which discrete financial information is available.

For management purposes, the *MERALCO Group*'s operating businesses are organized and managed separately according to the nature of services provided, with each segment representing a strategic business unit that offers different products and/or services, as follows:

- Power

The Power segment consists of (a) electricity distribution, (b) power generation and (c) *RES*.

Electricity distribution – This is principally electricity distribution and supply of power on a pass-through basis covering all captive customers in the *MERALCO* and the *Clark Electric* franchise



areas in Luzon. Electricity distribution within the *MERALCO* franchise area accounts for approximately 50% of the power requirements of the country. *Clark Electric*'s franchise area covers Clark Special Economic Zone and the sub-zones.

Shin Clark manages the development, operation, and maintenance of the electric power distribution system in the 9,450-hectare New Clark City located within the Clark Special Economic Zone in the towns of Capas and Bamban, Tarlac, through a Joint Venture Agreement with the *BCDA*. On May 10, 2022, Shin Clark Power Corporation ("Joint Venture Company") has been incorporated and registered with the Securities and Exchange Commission ("*SEC*") and is awaiting *ERC*'s approval of its *CPCN* to be able to operate as a distribution utility.

Power generation – The *MERALCO Group* has a combined group generating capacity of 2,251 *MW* (net) of coal, liquid natural gas, and oil and diesel plants in the Philippines and Singapore.

MGen owns 51% interest in *SBPL* which operates a 455 *MW* (net) supercritical coal-fired plant in Mauban, Quezon. For the year ended December 31, 2022, it delivered a total of 2,765 *GWh* to *MERALCO* under an *ERC*-approved *PSA*.

GBPC owns 970 *MW* (net) of operating coal and diesel-fired power plants in the Visayas and Mindoro Island. *GBPC* also has a 50% interest in *Alsons Thermal Energy Corporation* ("*ATEC*"), which holds a 75% interest in *Sarangani Energy Corporation* ("*Sarangani Energy*"). *Sarangani Energy* operates a 2 x 105 *MW* (net) *CFB* plant in Maasim, Sarangani.

MGen Renewable Energy, Inc. ("*MGreen*") is a wholly owned subsidiary of *MGen* engaged in the development, construction and operation of solar-powered generation facilities. It has a 60% equity in *First Bulacan*. *First Bulacan* owns and operates a 80 *MWdc*/50 *MWac* utility scale solar facility located in San Miguel, Bulacan, the largest single operating solar plant in the country, which began commercial operations on May 12, 2021 and has since delivered solar energy to *MERALCO* under an *ERC*-approved *PSA*. The *PSA* is for a period of 20 years.

MGreen is in the final stages of the construction of its 75 *MWac* solar plant in Baras, Rizal through *PHRI*, a joint venture with Mitsui's local unit Mit-Renewables Philippine Corporation. In August 2022, the project company secured a ₱2,650 million, 15-year term project financing facility to fund the ongoing construction of the solar plant. Also under construction is a 68 *MWac* solar plant in Ilocos Norte in partnership with Pasuquin Energy Holdings, Inc. of Vena Energy Solar PH B.V. ("*Vena Energy*") These two (2) projects are expected to commence operations in the first quarter of 2023.

MGen also has a combined 58% (direct and indirect interests) in *PacificLight Power Pte Ltd.* ("*PacificLight Power*"). *PacificLight Power* owns and operates a 2 x 400 *MW* combined cycle turbine power plant mainly fueled by liquefied natural gas ("*LNG*") in Jurong Island, Singapore.

See Note 8 – *Investments in Associates and Interests in Joint Ventures*.

RES – covers the sourcing and supply of electricity to qualified contestable customers. *MERALCO* and *Clark Electric* also operate as local retail electricity suppliers within their respective franchise area under a separate business unit, *MPower* and *Cogent Energy*, respectively. Under Retail Competition and Open Access ("*RCOA*"), qualified contestable customers who opt for contestability and elect to be among contestable customers may source their electricity supply from any retail electricity suppliers, including *MPower* and *Cogent Energy*.



The *ERC* granted the following subsidiaries distinct *RES* licenses to operate as retail electricity suppliers within Luzon and Visayas: *Vantage* and *Phoenix Power*, wholly owned subsidiaries of *MERALCO*; *MeridianX*, a wholly owned subsidiary of *Comstech*, and *GESC*, a wholly owned subsidiary of *GBPC*. *Vantage* and *MeridianX*'s *RES* licenses which were issued by the *ERC* are valid for five (5) years up to January 10, 2022 and February 9, 2022, respectively. The validity of their *RES* licenses was extended until July 9, 2023 pending final evaluation by the *ERC* of the renewal applications. *Clarion*, a wholly owned subsidiary of *Clark Electric*, submitted the requirements for its *RES* licensing to *ERC* on November 17, 2017. As at February 27, 2023, the approval of its *RES* licensing is pending with the *ERC*. *GESC* is a wholly owned subsidiary of *GBPC*. On September 10, 2021, *GESC*'s *RES* license was renewed for another five (5) years beginning September 13, 2021.

▪ Other Services

The other services segment is involved principally in electricity-related services, such as, electro-mechanical engineering, construction, consulting and related manpower services, e-transaction and bills collection, telecommunications services, rail-related operations and maintenance services, insurance and re-insurance, e-business development, power distribution management, energy systems management and harnessing renewable energy, construction and leasing of communication towers and electric vehicle and charging infrastructure solutions. These services are provided by *MIESCOR*, *MBI*, *MLI* and *MIDC* (collectively known as “*MIESCOR Group*”), *CIS*, *Bayad* and *CFSI* (collectively referred to as “*CIS Group*”), *e-MVI*, *Paragon* and *Radius* (collectively referred to as “*e-MVI Group*”), *Comstech*, *MRail*, *LOIL*, *Finserve*, *MServ*, *Spectrum* and *eSakay*.

The Management Committee evaluates the performance of the business segments based on (i) net income attributable to equity holders of the parent for the year, (ii) consolidated core earnings before interest, taxes, and depreciation and amortization (“consolidated core *EBITDA*”); and (iii) consolidated core net income (“*CCNI*”). Net income is measured consistent with reported net income in the consolidated statement of income.

Consolidated core *EBITDA* is measured as *CCNI* excluding depreciation and amortization, interest and other financial charges, interest and other financial income and provision for income tax.

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

Billings between operating segments are at an arm's-length basis in a manner similar to transactions with third parties. Segment revenues, segment expenses and segment results include transfers among business segments. Those transfers are eliminated upon consolidation.



The *MERALCO Group* operates and generates substantially all of its revenues in the Philippines (i.e., one (1) geographical location). Thus, geographical segment information is not presented. None of its revenues from transactions with a single external customer accounts for 10% or more of its revenues from external customers.

	Note	Power			Other Services			Inter-segment Transactions			Total		
		2022	2021	2020	2022	2021	2020	2022	2021	2020	2022	2021	2020
(Amounts in millions)													
Revenues		₱413,950	₱309,238	₱267,946	₱17,012	₱15,250	₱10,382	(₱4,433)	(₱5,941)	(₱3,024)	₱426,529	₱318,547	₱275,304
Segment results		₱44,946	₱50,912	₱42,074	₱4,411	₱3,161	₱2,460	₱—	₱—	₱—	₱49,357	₱54,073	₱44,534
Provision for probable losses and expenses from claims		(5,799)	(10,120)	(15,511)	(32)	(55)	(15)	—	—	—	(5,831)	(10,175)	(15,526)
Impairment loss		(2,603)	—	—	—	—	—	—	—	—	(2,603)	—	—
Depreciation and amortization	7, 9 and 10	(15,084)	(11,913)	(8,003)	(947)	(586)	(552)	—	—	—	(16,031)	(12,499)	(8,555)
Interest and other financial income	24	1,942	2,145	2,282	121	52	41	—	—	—	2,063	2,197	2,323
Equity in net earnings (losses) of associates and joint ventures	8	12,053	3,162	1,276	(18)	(35)	(43)	—	—	—	12,035	3,127	1,233
Interest and other financial charges	24	(3,554)	(3,633)	(1,490)	(200)	(95)	(104)	—	—	—	(3,754)	(3,728)	(1,594)
Provision for income tax - net	27	(5,841)	(8,158)	(5,569)	(807)	(754)	(697)	—	—	—	(6,648)	(8,912)	(6,266)
Net income (loss) attributable to non-controlling interests		—	—	—	—	—	—	(157)	(585)	167	(157)	(585)	167
Net income attributable to equity holders of the Parent		₱26,060	₱22,395	₱15,059	₱2,528	₱1,688	₱1,090	(₱157)	(₱585)	₱167	₱28,431	₱23,498	₱16,316

The inter-segment revenues mainly represent revenues of other services segment earned from the power segment.



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

	2022	2021	2020
	<i>(Amounts in millions)</i>		
<i>EBITDA</i>	₱51,947	₱46,538	₱31,080
Add (deduct):			
Depreciation and amortization	(16,031)	(12,499)	(8,555)
Interest and other financial income net of charges and foreign exchange gains and losses	(680)	(1,044)	(110)
Income before income tax	35,236	32,995	22,415
Provision for income tax - net	(6,648)	(8,912)	(6,266)
Net income	₱28,588	₱24,083	₱16,149

The following table shows the reconciliation of the *CCNI* to net income:

	2022	2021	2020
	<i>(Amounts in millions)</i>		
<i>CCNI</i>	₱27,105	₱24,608	₱21,711
Add (deduct) non-core items, net of tax:			
Non-core income (expenses)	591	(1,487)	(4,556)
Foreign exchange gains (losses)	735	377	(839)
Net income for the year attributable to equity holders of the Parent	28,431	23,498	16,316
Net income for the year attributable to non-controlling interests	157	585	(167)
Net income	₱28,588	₱24,083	₱16,149



7. Utility Plant, Generation Plant and Others

The movements in utility plant, generation plant and others are as follows:

2022

	Note	Sub-transmission and Distribution	Boilers and Powerhouse	Land	Communication towers, buildings and improvements	Data transmission cables and communication Equipment	Office Furniture, Fixtures and Other Equipment	Transportation Equipment	Others	Construction in Progress	Total
<i>(Amounts in millions)</i>											
Cost:											
Balance at beginning of year		₱214,967	₱43,337	₱17,699	₱12,946	₱4,611	₱4,326	₱4,144	₱7,113	₱25,166	₱334,309
Additions		520	108	1,108	2,894	188	578	830	2,527	27,133	35,886
Transfers from construction in progress		14,659	–	–	198	370	222	7	157	(15,613)	–
Disposals/retirements		(7,306)	(1,298)	–	(147)	(57)	(3)	(36)	(192)	(54)	(9,093)
Reclassifications	10	38	(812)	–	(184)	(105)	255	(26)	(141)	(74)	(1049)
Balance at end of year		222,878	41,335	18,807	15,707	5,007	5,378	4,919	9,464	36,558	360,053
Less accumulated depreciation and amortization:											
Balance at beginning of year		91,182	2,355	–	3,585	2,050	3,100	2,799	3,912	–	108,983
Depreciation and amortization		9,004	2,754	–	607	551	466	267	468	–	14,117
Disposals/retirements		(7,277)	(502)	–	(61)	(14)	(2)	(37)	(9)	–	(7,902)
Reclassifications		–	(1,073)	–	(48)	44	(18)	(34)	(282)	–	(1,411)
Balance at end of year		92,909	3,534	–	4,083	2,631	3,546	2,995	4,089	–	113,787
Less allowance for impairment loss		–	292	–	–	–	–	–	–	2,651	2,943
Net book value		₱129,969	₱37,509	₱18,807	₱11,624	₱2,376	₱1,832	₱1,924	₱5,375	₱33,907	₱243,323



2021 (As restated – see Note 3)

2021 (As Restated – see Note 5)											
	Note	Sub-transmission and Distribution	Boilers and Powerhouse	Land	Communication towers, buildings and improvements	Data transmission cables and communication Equipment	Office Furniture, Fixtures and Other Equipment	Transportation Equipment	Others	Construction in Progress	Total
(Amounts in millions)											
Cost:											
Balance at beginning of year		₱196,793	₱–	₱15,752	₱7,401	₱3,339	₱4,079	₱3,973	₱5,755	₱25,822	₱262,914
Effect of consolidation of GBPC	3	–	39,901	1,436	4,708	26	10	43	51	590	46,765
Additions		946	3,409	511	493	1,069	206	276	618	19,031	26,559
Transfers from construction in progress		19,302	–	–	344	175	31	2	384	(20,238)	–
Disposals/retirements		(1,969)	–	–	(1)	–	(1)	(151)	(66)	–	(2,188)
Reclassifications	10	(105)	27	–	1	2	1	1	371	(39)	259
Balance at end of year		214,967	43,337	17,699	12,946	4,611	4,326	4,144	7,113	25,166	334,309
Less accumulated depreciation and amortization:											
Balance at beginning of year		85,913	–	–	3,237	1,896	2,738	2,673	3,448	–	99,905
Depreciation and amortization		7,238	2,069	–	325	174	363	247	430	–	10,846
Disposals/retirements		(1,969)	–	–	(1)	–	(1)	(121)	(17)	–	(2,109)
Reclassifications		–	286	–	24	(20)	–	–	51	–	341
Balance at end of year		91,182	2,355	–	3,585	2,050	3,100	2,799	3,912	–	108,983
Net book value		₱123,785	₱40,982	₱17,699	₱9,361	₱2,561	₱1,226	₱1,345	₱3,201	₱25,166	₱225,326



As at December 31, 2022 and 2021, the net book values of customer-funded assets included in “Utility plant, generation plant and others” account amounted to ₱5,861 million and ₱5,764 million, respectively. The corresponding liabilities to customers in the same amounts as at December 31, 2022 and 2021 are included in “Other noncurrent liabilities” account in the consolidated statements of financial position.

The power plant complex of *PHRI* and the generation plant and equipment of *First Bulacan*, with aggregate carrying value of ₱6,288 million as at December 31, 2022 are pledged as securities for their long-term debt.

In 2022, *MIDC* recognized ROU assets and corresponding lease liabilities amounting to ₱1,824 million, covering the lease agreements transferred from Globe and for the agreements entered by *MIDC* for built-to-suit sites.

See Note 17 – *Interest-bearing Long-term Financial Liabilities*.

As at December 31, 2022, the capitalized site preparation expenses for the development of ultra-supercritical pulverized coal-fired power generation plant of *AIE* amounted to ₱12,492 million. In 2022, *AIE* recognized a provision for impairment loss amounting to ₱2,651 million, related to the design and materials for a coal technology, given the planned change in plant configuration from coal to liquified natural gas power plant.

Construction in progress pertains to both electric capital projects (“*ECPs*”) and non-*ECPs*. *ECPs* are capital projects involving construction of new electric distribution-related facilities and the upgrade and major rehabilitation of existing electrical facilities. Non-*ECPs* mainly represent construction of *MGen*’s power plant projects, *MIDC*’s communication towers and *Radius*’ network expansion projects. Total interest capitalized amounted to ₱398 million, ₱299 million and ₱275 million based on average capitalization rate of 5% for the years ended December 31, 2022, 2021 and 2020, respectively.

8. Investments in Associates and Interests in Joint Ventures

This account consists of the following:

	Place of Incorporation	Principal Activity	2022 Percentage of Ownership	2021
Associates				
FPM Power Holdings Limited (“ <i>FPM Power</i> ”)/ <i>PacificLight Power</i>	British Virgin Islands/ Singapore	Investment and holding company/ Power generation	58	58
Alsons Thermal Energy Corporation (“ <i>ATEC</i> ”)	Philippines	Power generation	50	50
Redondo Peninsula Energy Inc. (“ <i>RP Energy</i> ”)	Philippines	Power generation	47	47
Buang Private Power Corporation (“ <i>BPPC</i> ”) ⁽¹⁾	Philippines	Power generation	38	38
Aclara Meters Philippines, Inc. (“ <i>Aclara Meters</i> ”)	Philippines	Sale of metering products and services	35	35
Power Distribution Services Ghana Limited (“ <i>PDS Ghana</i> ”)	Ghana	Distribution of power	30	30

(Forward)



			2022	2021
	Place of Incorporation	Principal Activity	Percentage of Ownership	
Indra Philippines, Inc. (“ <i>Indra Philippines</i> ”)	Philippines	Management and <i>IT</i> consultancy	25	25
<i>Greenenergy</i>	Philippines	Renewable energy	57	28
<i>AF Payments</i>	Philippines	Electronic payment clearing and settlement system operator	10	10
Joint Ventures				
<i>SBPL</i>	Philippines	Power generation	51	51
Pure Meridian Hydropower Corporation (“ <i>Pure Meridian</i> ”)	Philippines	Renewable energy	50	50
(Forward)				
MRail-DESCO Joint Venture (“ <i>MDJV</i> ”)	Philippines	Maintenance of mass transit system	51	51
Nuevo Solar Energy Corporation (“ <i>NSEC</i> ”)	Philippines	Power generation	50	50
First Balfour-MRail Joint Venture (“ <i>FBMJV</i> ”)	Philippines	Maintenance of mass transit system	49	49
MPioneer Insurance Inc. (“ <i>MPioneer</i> ”)	Philippines	Insurance	35	35
Rockwell Business Center Joint Venture (“ <i>RBC JV</i> ”)	Philippines	Real estate	30	30

⁽¹⁾ Corporate life was shortened to until June 30, 2019.

The movements in investments in associates and interests in joint ventures are as follows:

	Note	2022	2021 (As restated – see Note 3)
<i>(Amounts in millions)</i>			
Acquisition cost:			
Balance at beginning of year		₱27,247	₱21,447
Additions		504	779
Effect of consolidation of <i>GBPC</i>	3	–	10,314
Reclassification ⁽¹⁾	11 and 23	5,713	(5,293)
Balance at end of year		33,464	27,247
Accumulated equity in net earnings (losses):			
Balance at beginning of year		(4,199)	(5,752)
Equity in net earnings		12,035	3,127
Reclassification ⁽¹⁾		93	206
Dividends received		(4,039)	(1,780)
Balance at end of year		3,890	(4,199)
Share in remeasurement adjustments on retirement liabilities			
Balance at beginning of year		(25)	(13)
Share in actuarial gains (losses)		9	(12)
Balance at end of year		(16)	(25)
Share in other comprehensive income and cumulative translation adjustments:			
Balance at beginning of year		306	6
Cumulative translation adjustments		(336)	300
Balance at end of year		(30)	306
(Forward)			



	Note	2022	2021 (As restated – see Note 3)
(Amounts in millions)			
Allowance for impairment loss			
Balance at beginning of year		(P12)	P–
Reclassification	23	(5,748)	–
Provisions		(467)	(12)
Reversal		807	–
Balance at end of year		(5,420)	(12)
		P31,888	P23,317

⁽¹⁾ Refer to Note 23 to the consolidated financial statements for the nature of reclassification in 2022.

Reclassification in 2021 pertains to the carrying amount of MERALCO's 14% investment in GBPC, which was accounted using equity method and presented as part of investments in associates and interests in joint ventures in 2020.

The carrying values of investments in associates and interests in joint ventures follow:

	Note	2022	2021 (As restated – see Note 3)
(Amounts in millions)			
Associates:			
ATEC	3	P10,057	P10,053
FPM Power/PacificLight Power		9,627	2,434
Indra Philippines		382	416
Aclara Meters		87	59
RP Energy		119	706
Greenenergy		–	35
Joint ventures:			
SBPL		9,523	8,138
RBC JV		1,063	907
NSEC		595	64
MPioneer		369	354
Pure Meridian		–	123
MDJV		66	28
		P31,888	P23,317

ATEC

ATEC has the following equity interests: (i) 75% of *Sarangani Energy* which operates a 2 x 118.5 MW (gross capacity) baseload coal-fired plant in Maasim, Sarangani Province; (ii) 100% of San Ramon Power, Inc. which is developing a 120 MW baseload coal-fired plant in Zamboanga City; and (iii) 100% ACES Technical Services Corporation, which provides operations and maintenance services to ATEC's power plants.

FPM Power/PacificLight Power

FPM Power is 40%-owned by MERALCO through MPG Asia (a wholly-owned subsidiary of MGen) and 60%-owned by First Pacific Company Limited ("First Pacific"). FPM Power has a 70% equity interest in PacificLight Power, which owns and operates a 2 x 400 MW LNG-fired power plant in



Jurong Island, Singapore. *PacificLight Power*'s wholly owned subsidiary, PacificLight Energy Pte. Ltd., is engaged in energy trading.

On July 1, 2021, *MGen* acquired Petronas International Power Corporation's 30% stake in *PacificLight Power* bringing its combined direct and indirect interest to 58%.

The fair values of the identifiable assets and liabilities of *PacificLight Power* as at July 1, 2021, which were based on a provisional assessment, are as follow:

	Amounts in millions
Generation plant and others	₱22,651
Cash and cash equivalents	1,165
Trade and other receivables	4,174
Other assets	4,632
Interest-bearing long-term financial liabilities	(22,187)
Trade and other payables	(5,581)
Other liabilities	(2,424)
Net assets	2,430
Less: <i>FPM Power</i> 's 70% interest	1,701
Net assets acquired	₱729

Refer to Note 3 to the consolidated financial statements for the comparative information reflecting the adjustments to the provisional amounts.

In 2022, *MGen* re-assessed the estimated recoverable amount of its investment in *FPM Power* in view of the improvement in market condition in Singapore resulting in *PacificLight Power*'s positive operating results. The recoverable amount of *MGen*'s investment in *FPM Power* as at December 31, 2022 amounting to ₱6,071 million was based on its value in use, calculated using the cash flow projections of *PacificLight Power*. Consequently, *MGen* reversed previously recognized provision for impairment loss of ₱807 million in 2022.

See Note 15 – Financial and Other Current Assets and Note 22 – Related Party Transactions.

RP Energy

RP Energy is a joint venture among *MGen*, Therma Power, Inc. ("*TPP*") and Taiwan Cogeneration International Corporation – Philippine Branch ("*TCIC*") for the construction and operation of a power plant in the Subic Bay Freeport Zone.

In 2022, *MGen* re-assessed the estimated recoverable amount of its investment in *RP Energy* with the continuing suspension of power plant development. A provision for impairment loss of ₱368 million was recognized in 2022.

Aclara Meters

Aclara Meters is 35% owned by *MERALCO* and 65% owned by Aclara Technology LLC. *Aclara Meters* serves the Philippine market for American National Standard Institute ("*ANSI*")-type Watt-hour meters.



Greenery

On February 3, 2021, *GBPC*, through its subsidiary *CACI Power Corporation* (“*CACI Power*”), acquired 28% equity interest in *Greenery*, which is developing a 40 *MWac* solar power plant in Cordon, Isabela. In December 2021, *GBPC* transferred its 60% ownership in *CACI Power* to *MGreen*.

In 2022, *CACI Power* increased its ownership in *Greenery* to 95%.

SBPL

SBPL, which is a joint venture between *MGen* (51%) and New Growth B.V. (49%), a 100% subsidiary of Electricity Generating Public Company Limited of Thailand (“*EGCO*”), owns and operates a new 455 *MW* (net) supercritical coal-fired power plant in Mauban, Quezon.

SBPL delivers all its plant output to *MERALCO* under a 20-year *PSA* approved by the *ERC*.

RBC JV

RBC JV is a joint venture between Rockwell Land Corporation (“*Rockwell Land*”) and *MERALCO* for a pre-agreed cooperation period, pursuant to which *Rockwell Land* built and managed three (3) Business Process Outsourcing-enabled buildings on a non-regulatory asset base property of *MERALCO*. Investment in *RBC JV* represents *MERALCO*’s 30% interest in the joint venture, while *Rockwell Land* has 70% interest in *RBC JV*.

Indra Philippines

Indra Philippines is an *IT* service provider in the country and in the Asia Pacific region, with a wide range of services across various industries. *Indra Philippines* provides services which meet certain of *MERALCO*’s *IT* requirements in the area of system development, outsourcing of Information Systems (“*IS*”) and *IT* operations and management consulting.

MPioneer

MPioneer is 35% owned by *MERALCO* and 65% owned by Pioneer Insurance and Surety Company. It is engaged in non-life insurance business.

Pure Meridian

On January 7, 2016, *MERALCO* and Repower Energy Development Corporation (“*REDC*”) entered into a joint venture through, *Pure Meridian*, for the development of mini-hydroelectric power projects. As of December 31, 2022, the development of the mini-hydroelectric power projects is suspended.

As at December 31, 2022, *MERALCO* recognized impairment on the carrying amount of its investment in *Pure Meridian* with the suspension of the development of its projects.

NSEC

NSEC, a joint venture between *MGreen* and *Vena Energy*, is engaged in the development of an approximately 68 *MWac* solar energy project in Currimaos, Ilocos Norte.



MDJV

On June 2, 2014, *MRail* and Desco, Inc. entered into a Joint Venture Agreement for the general overhaul and rehabilitation of three (3) units of diesel electric locomotives by the Philippine National Railways. The project including its warranty period was completed on April 19, 2019. The *MDJV* is in the process of liquidation.

AF Payments

MERALCO, through *Finserve*, has a 10% equity interest in *AF Payments*. *AF Payments* operates and maintains an electronic payment clearing and settlement system through a contactless automated fare collection system for public utility, including generic contactless micropayment solution. It supplies and issues fare media and store value cards or reloadable cards for use in transport and non-transport facilities and operates and maintains the related hardware and software.

Due to the lower than expected penetration rate into the micropayments business, *MERALCO* recognized impairment on the carrying amount of its investment in *AF Payments*. The recoverable amount of the investment in *AF Payments* was measured using the estimate of the value in use of the investment. The valuation analysis involved discounting estimates of free cash flows using the discount rate of 11.9%. The estimated cash flows were based on the most recent financial budgets and forecasts representing best estimate of ranges of economic conditions that will exist over the forecast period. The forecast period covers the remaining service concession agreement term until December 2025. As at December 31, 2022 and 2021, the investment in *AF Payments* is fully impaired.

The condensed statements of financial position of material associates follow:

	2022		
	<i>FPM Power / PacificLight</i>		
	<i>ATEC</i>	<i>Power</i>	<i>RP Energy</i>
	<i>(Amounts in millions)</i>		
Current assets	₱4,494	₱12,853	₱241
Noncurrent assets	35,258	41,112	773
Current liabilities	(4,533)	(13,035)	(6)
Noncurrent liabilities	(11,558)	(14,533)	(22)
Non-controlling interests	(3,281)	–	–
Net assets	₱20,380	₱26,397	₱986

	2021		
	<i>FPM Power / PacificLight</i>		
	<i>ATEC</i>	<i>Power</i>	<i>RP Energy</i>
	<i>(Amounts in millions)</i>		
Current assets	₱5,665	₱31,570	₱251
Noncurrent assets	33,600	15,140	1,176
Current liabilities	(5,698)	(9,499)	(6)
Noncurrent liabilities	(13,461)	(23,724)	(25)
Net assets	₱20,106	₱13,487	₱1,396



The condensed statements of comprehensive income of material associates are as follows:

	2022			2021			2020		
	<i>FPM Power / PacificLight Power</i>			<i>FPM Power / PacificLight Power</i>			<i>FPM Power Energy</i>		
	<i>ATEC</i>	<i>Power</i>	<i>Energy</i>	<i>ATEC</i>	<i>Power</i>	<i>Energy</i>	<i>GBPC⁽¹⁾</i>	<i>Power</i>	<i>Energy</i>
	<i>(Amounts in millions)</i>								
Revenues	₱10,077	₱99,168	₱2	₱8,270	₱61	₱-	₱21,926	₱19,981	₱4
Costs and expenses	(8,270)	(86,598)	(469)	(6,826)	(59)	(21)	(19,447)	(20,181)	(18)
Net income (loss)	1,807	12,570	(467)	1,444	2	(21)	2,479	(200)	(14)
Non-controlling interests	(429)	-	-	(354)	-	-	(831)	-	-
Net income (loss) attributable to equity holders of the parent	1,378	12,570	(467)	1,090	2	(21)	1,648	(200)	(14)
Other comprehensive income	-	-	-	-	-	-	-	-	-
Total comprehensive income (loss)	₱1,378	₱12,570	(₱467)	₱1,090	₱2	(₱21)	₱1,648	(₱200)	(₱14)
Dividends received	₱412	₱2,988	₱-	₱1,455	₱-	₱-	₱308	₱-	₱-

⁽¹⁾ On March 31, 2021, MERALCO, through MGen, acquired 86% combined equity in GBPC from MPIC and JG Summit, increasing MGen's equity to 100%. The transaction resulted in accounting for the investment in GBPC as a subsidiary. In 2020, investment in GBPC was accounted as investment in an associate.

The reconciliation of the net assets of the foregoing material associates to the carrying amounts of investments and advances in these associates recognized in the consolidated statements of financial position is as follows:

	2022		
	<i>FPM Power / PacificLight Power</i>		
	<i>ATEC</i>	<i>Power</i>	<i>RP Energy</i>
	<i>(Amounts in millions, except % of ownership)</i>		
Net assets of associates	₱20,380	₱26,397	₱986
Proportionate ownership in associates (%)	50	58	47
	10,190	15,310	463
Fair value adjustment and impairment	(133)	(5,563)	(368)
Goodwill	-	-	24
	₱10,057	₱9,747	₱119

	2021		
	<i>FPM Power / PacificLight Power</i>		
	<i>ATEC</i>	<i>Power</i>	<i>RP Energy</i>
	<i>(Amounts in millions, except % of ownership)</i>		
Net assets of associates	₱20,106	₱13,487	₱1,396
Proportionate ownership in associates (%)	50	58	47
	10,053	7,822	656
Fair value adjustment and impairment	-	(5,388)	-
Goodwill	-	-	50
	₱10,053	₱2,434	₱706



The following is the aggregate information of associates that are considered as not individually material:

	2022	2021	2020
	<i>(Amounts in millions)</i>		
Share in net income	₱81	₱54	₱20
Share in other comprehensive income (loss)	9	(12)	(1)
Share in total comprehensive income	₱90	₱42	₱19
Dividends received	₱100	₱13	₱19

Joint Ventures

The condensed statements of financial position of material joint ventures follow:

	2022	
	<i>RBC JV</i>	<i>SBPL</i>
	<i>(Amounts in millions)</i>	
Cash and cash equivalents	₱849	₱3,141
Current assets, excluding cash and cash equivalents	364	8,758
Noncurrent assets	2,766	45,366
Trade payables	(3)	(2,278)
Current liabilities, excluding trade payables	(431)	(4,091)
Noncurrent liabilities	(2)	(32,223)
Net assets	₱3,543	₱18,673

	2021	
	<i>RBC JV</i>	<i>SBPL</i>
	<i>(Amounts in millions)</i>	
Cash and cash equivalents	₱849	₱3,141
Current assets, excluding cash and cash equivalents	143	6,230
Noncurrent assets	2,507	46,407
Trade payables	(117)	(1,169)
Current liabilities, excluding trade payables	(358)	(3,328)
Noncurrent liabilities	(1)	(35,324)
Net assets	₱3,023	₱15,957

The condensed statements of comprehensive income of material joint ventures are as follows:

	2022		2021		2020	
	<i>RBC JV</i>	<i>SBPL</i>	<i>RBC JV</i>	<i>SBPL</i>	<i>RBC JV</i>	<i>SBPL</i>
	<i>(Amounts in millions)</i>					
Revenues	₱835	₱27,113	₱821	₱15,700	₱782	₱12,954
Costs and expenses	(180)	(24,090)	(172)	(13,178)	(167)	(10,971)
Other income – net	122	433	3	54	24	7
Provision for (benefit from) income tax - net	(93)	15	(92)	23	(84)	(23)
Net income	₱684	₱3,471	₱560	₱2,599	₱555	₱1,967
Dividends received	₱155	₱385	₱172	₱1,123	₱143	₱—



The foregoing condensed statements of comprehensive income include the following:

	2022		2021		2020	
	<i>RBC JV</i>	<i>SBPL</i>	<i>RBC JV</i>	<i>SBPL</i>	<i>RBC JV</i>	<i>SBPL</i>
	<i>(Amounts in millions)</i>					
Depreciation	₱208	₱1,478	₱212	₱1,478	₱209	₱1,467
Interest income	(7)	(4)	(2)	(4)	(24)	(7)

The reconciliation of the net assets of the foregoing material joint ventures to the carrying amounts of investments in these joint ventures recognized in the consolidated statements of financial position is as follows:

	2022	
	<i>RBC JV</i>	<i>SBPL</i>
	<i>(Amounts in millions, except % of ownership)</i>	
Net assets of joint ventures	₱3,543	₱18,673
Proportionate ownership in joint ventures (%)	30	51
	₱1,063	₱9,523

	2021	
	<i>RBC JV</i>	<i>SBPL</i>
	<i>(Amounts in millions, except % of ownership)</i>	
Net assets of joint ventures	₱3,023	₱15,957
Proportionate ownership in joint ventures (%)	30	51
	₱907	₱8,138

The following is the condensed financial information of joint ventures which are considered immaterial:

	2022	2021	2020
	<i>(Amounts in millions)</i>		
Share in net income (loss)	₱37	₱33	(₱113)
Share in other comprehensive loss	—	—	—
Share in total comprehensive income (loss)	₱37	₱33	(₱113)
Dividends received	₱—	₱—	₱5



9. Investment Properties

The movements in investment properties are as follows:

	2022		
	Land	Buildings and Improvements	Total
	<i>(Amounts in millions)</i>		
Cost:			
Balance at beginning of year	₱1,428	₱206	₱1,634
Additions	–	3	3
Balance at end of year	1,428	209	1,637
Less accumulated depreciation:			
Balance at beginning of year	–	138	138
Depreciation	–	4	4
Balance at end of year	–	142	142
	₱1,428	₱67	₱1,495

	2021		
	Land	Buildings and Improvements	Total
	<i>(Amounts in millions)</i>		
Cost:			
Balance at beginning of year	₱1,427	₱206	₱1,633
Additions	1	–	1
Balance at end of year	1,428	206	1,634
Less accumulated depreciation:			
Balance at beginning of year	–	134	134
Depreciation	–	4	4
Balance at end of year	–	138	138
	₱1,428	₱68	₱1,496

Investment properties consist of real properties held for capital appreciation, former substation sites and other non-regulatory asset base real properties. Some of these investment properties are being leased out.

The aggregate fair values of the investment properties are as follows:

	2022	2021
	<i>(Amounts in millions)</i>	
Land	₱5,589	₱4,653
Buildings and improvements	136	126

Land pertains primarily to properties where the *Rockwell JV* buildings and “Strip” mall are located. and other non-regulated asset base properties.

The fair values of investment properties were determined by independent, professionally qualified appraisers. The fair value represents the price that would be received to sell an investment property in an orderly transaction between market participants at the measurement date.



The fair value disclosures of the investment properties are categorized as Level 3 as there is no active market for identical or similar properties. The inputs include price per square meter ranging from ₱100 to ₱170,000. There have been no changes in the valuation techniques used.

In conducting the appraisal, the independent professional appraisers used one (1) of the following approaches:

a. Market Data or Comparative Approach

Under this approach, the value of the property is based on sales and listings of comparable property registered within the vicinity. This approach requires the establishment of a comparable property by reducing comparative sales and listings to a common denominator with the subject property. This is done by adjusting the differences between the subject property and those actual sales and listings regarded as comparables. The properties used are either situated within the immediate vicinity or at different floor levels of the same building, whichever is most appropriate to the property being valued. Comparison was premised on the following: location, size and physical attributes, selling terms, facilities offered and time element.

b. Depreciated Replacement Cost Approach

This method of valuation considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets, with allowance for accrued depreciation based on physical wear and tear and obsolescence.

10. Intangible Assets

The movements of intangible assets are as follows:

2022							
	Software	Franchise	Land and Leasehold Rights	Customer Contracts	Acquired network location	Build-to-suit contracts	Total
<i>(Amounts in millions)</i>							
Cost:							
Balance at beginning of year	₱6,873	₱63	₱570	₱13,869	₱—	₱—	₱21,375
Additions	801	—	28	—	5,661	2,058	8,548
Retirement	(23)	—	(16)	—	—	—	(39)
Reclassification	(140)	—	(24)	6	—	—	(158)
Balance at end of year	7,511	63	558	13,875	5,661	2,058	29,726
Less accumulated amortization:							
Balance at beginning of year	5,051	—	377	893	—	—	6,321
Amortization	418	—	40	1,402	36	14	1,910
Retirement	(23)	—	(16)	—	—	—	(39)
Reclassification	(138)	—	—	(19)	—	—	(157)
Balance at end of year	5,308	—	401	2,276	36	14	8,035
	₱2,203	₱63	₱157	₱11,599	₱5,625	₱2,044	₱21,691



2021 (As restated – see Note 3)						
	Note	Software	Franchise	Land and Leasehold Rights	Customer Contracts	Total
(Amounts in millions)						
Cost:						
Balance at beginning of year		₱5,969	₱49	₱932	₱–	₱6,950
Additions		865	–	75	–	940
Effect of consolidation of <i>GBPC</i>	3	6	–	–	13,494	13,500
Disposals/retirements		(5)	–	(31)	–	(36)
Reclassification	7	38	14	(406)	375	21
Balance at end of year		6,873	63	570	13,869	21,375
Less accumulated amortization:						
Balance at beginning of year		4,343	–	374	–	4,717
Amortization		719	–	37	893	1,649
Disposals/retirements		(5)	–	(31)	–	(36)
Reclassification		(6)	–	(3)	–	(9)
Balance at end of year		5,051	–	377	893	6,321
		₱1,822	₱63	₱193	₱12,976	₱15,054

On August 11, 2022, *MIDC* entered into a Sale and Leaseback Agreement with Globe Telecom, Inc. (“*Globe*”) where *MIDC* shall acquire 2,180 telecom towers and related passive infrastructure for a total consideration of ₱26.2 billion. Under the Master Lease Agreement, *Globe* will be the anchor tenant of the towers for an initial period of 15 years. In addition, *Globe* has commissioned *MIDC* to construct 900 additional build-to-suit towers over the next four years on which *Globe* will be the anchor tenant.

As of December 31, 2022, *MIDC* acquired 860 towers from *Globe* for a total price of ₱10.3 billion and recognized the following identifiable assets:

	Amounts in millions
Telecommunication towers and passive equipment	₱2,601
Acquired network location intangibles	5,661
Build-to-suit contract intangibles	2,058
Total assets acquired	₱10,320

Acquired network location intangibles represent the value to *MIDC* of the incremental revenue growth that could potentially be obtained from leasing the excess capacity on acquired towers to other mobile network operators. The build-to-suit contract intangibles pertain to the contractual commitment of *Globe* to engage *MIDC* in building additional towers to be leased by *Globe*.



11. Financial and Other Noncurrent Assets

This account consists of:

	<i>Note</i>	2022	2021
		<i>(Amounts in millions)</i>	
Financial assets:			
Debt securities at amortized cost	<i>15 and 27</i>	₱19,503	₱24,340
Restricted cash	<i>27</i>	4,478	4,698
Financial assets at <i>FVOCI</i>	<i>27</i>	4,140	8,467
Advance payments to a supplier	<i>27 and 30</i>	361	523
Nonfinancial assets:			
Under-recoveries of pass-through charges - net	<i>2 and 24</i>	11,407	10,597
Finance lease		973	565
Rental deposits		779	643
Deferred input <i>VAT</i>		457	1,585
Receivable from the <i>BIR</i>		181	181
Goodwill		35	35
Others		1,606	1,491
		₱43,920	₱53,125

Debt Securities at Amortized Cost

The details of debt securities at amortized cost are as follows:

	2022			2021		
	Current Portion (see Note 15)	Noncurrent Portion	Total	Current Portion (see Note 15)	Noncurrent Portion	Total
	<i>(Amounts in millions)</i>					
Government securities	₱16,793	₱11,444	₱28,237	₱11,873	₱21,136	₱33,009
Private debt securities	1,000	8,059	9,059	5,248	3,204	8,452
	₱17,793	₱19,503	₱37,296	₱17,121	₱24,340	₱41,461

This account represents investments in government securities issued by the Republic of Philippines and private debt securities issued by Philippine listed corporations.

Financial Assets at FVOCI

The details of financial assets at *FVOCI* are as follows:

	2022	2021
	<i>(Amounts in millions)</i>	
Investments in debt securities:		
Corporate bonds and other investments	₱2,200	₱6,569
Government securities	—	3
Investments in shares of stock and club shares	1,940	1,895
	₱4,140	₱8,467

Interest income from debt and equity securities amounted to ₱1,150 million, ₱1,316 million and ₱1,580 million for the years ended December 31, 2022, 2021 and 2020, respectively.



The rollforward of unrealized fair value gains on quoted *FVOCI* financial assets, net of tax, included in the consolidated statements of financial position follows:

	2022	2021
	<i>(Amounts in millions)</i>	
Balance at beginning of year	₱502	₱324
Unrealized fair value gains (losses) on fair value changes on:		
Debt securities	(280)	139
Equity securities	89	39
Balance at end of year	₱311	₱502

Net Under-Recoveries of Pass-through Charges

This account represents generation, transmission and other pass-through costs incurred by *MERALCO* and *Clark Electric* as *DUs* determined based on *ERC*-approved recovery mechanism, which shall be billed to customers, upon confirmation by the *ERC*. The balance also includes other net under-recoveries of generation, transmission and other pass-through charges of current and prior years, which are the subject of various applications for recovery and approval by the *ERC*. The amount of net under-recoveries of pass-through charges that will be collected within a year amounted to ₱957 million as at December 31, 2021. This is shown as part of “Trade and other receivables” account in the consolidated statement of financial position. As at December 31, 2022, net under-recoveries of pass-through charges was already recovered.

Allowance for *ECL* on net under -recoveries of pass-through charges amounted to ₱2,925 million and ₱3,078 million as at December 31, 2022 and 2021, respectively.

See *Note 13 - Trade and Other Receivables*.

Deferred Input VAT

The amount includes portion of input *VAT* incurred and paid in connection with purchase of capital assets in excess of ₱1 million per month. As provided for under *RA* No. 9337 (“*EVAT Law*”), said portion of input *VAT* shall be deferred and credited evenly over the estimated useful lives of the related capital assets or 60 months, whichever is shorter, against the output *VAT* due. Under the Tax Reform for Acceleration and Inclusion (“*TRAIN*”) Law that was signed by President Duterte on December 19, 2017, input *VAT* on capital goods purchased after December 31, 2021 shall be fully recognized outright and may be claimed as input tax credits against output tax. The deferred input *VAT* as of December 31, 2021 will continue to be amortized.

Finance Lease

Spectrum entered into bilateral *PSAs* to lease out solar power generation systems to its customers under a finance lease arrangement for a period of 25 years.

Spectrum recognized finance lease receivables equivalent to its net investments under the lease. Net investment in the lease is the fair value of the asset and the present value of the minimum lease payments, whichever is lower. The average implicit interest rate of the lease arrangements ranges from 7.07% to 12.52% per annum at the inception of the lease.

Minimum lease payment pertains to the price of estimated energy output that the asset can produce and deliver to the lessee. The difference of actual and minimum lease payments from finance lease



arrangements is recognized under “Other income (expense)” account in the consolidated statement of income.

The lease payments made by the lessees consist of interest and principal determined using the effective interest rate method. The lease receivable is reduced by the principal received.

12. Cash and Cash Equivalents

This account consists of:

	2022	2021
	<i>(Amounts in millions)</i>	
Cash on hand and in banks	₱17,198	₱20,888
Cash equivalents	38,634	34,119
	₱55,832	₱55,007

Cash in banks earn interest at prevailing bank deposit rates. Cash equivalents are temporary cash investments, which are made for varying periods up of to three (3) months depending on *MERALCO Group*’s immediate cash requirements and earn interest at the prevailing short-term investment rates.

Interest income on cash in banks and cash equivalents amounted to ₱765 million, ₱515 million and ₱595 million for the years ended December 31, 2022, 2021 and 2020, respectively.

13. Trade and Other Receivables

This account consists of:

	Note	2022	2021
		<i>(Amounts in millions)</i>	
Trade:			
Electricity sold	23 and 27	₱41,695	₱35,264
Energy generated	27	7,594	5,087
Service contracts		3,183	3,814
Unbilled receivables	24	3,118	2,647
Nontrade	23 and 27	6,208	4,125
		61,798	50,937
Less allowance for expected credit losses		7,115	5,924
		₱54,683	₱45,013



Movements in allowance for expected credit losses for trade and other receivables are as follows:

		2022			
		Balance at Beginning of Year	Provisions	Write-offs	Balance at End of Year
(Amounts in millions)					
Trade:					
Electricity sold		₱3,751	₱2,137	(₱1,119)	₱4,769
Energy generated		1,120	(11)	(1)	1,108
Other trade receivables		785	1	–	786
Nontrade receivables		268	184	–	452
		₱5,924	₱2,311	(₱1,120)	₱7,115

2021						
		Balance at Beginning of Year	Provisions	Write-offs	Effect of Consolidation of GBPC	Balance at End of Year
(Amounts in millions)						
Trade:						
Electricity sold		₱3,492	₱259	₱–	₱–	₱3,751
Energy generated		–	52	(34)	1,102	1,120
Other trade receivables		783	2	–	–	785
Nontrade receivables		30	238	–	–	268
		₱4,305	₱551	(₱34)	₱1,102	₱5,924

2022						2021				
	Trade – Electricity Sold	Trade – Energy Generated	Other Trade Receivables	Nontrade Receivables	Total	Trade – Electricity Sold	Trade – Energy Generated	Other Trade Receivables	Nontrade Receivables	Total
(Amounts in millions)										
Individually impaired	₱2,420	₱–	₱786	₱452	₱3,658	₱1,086	₱–	₱785	₱268	₱2,139
Collectively impaired	2,349	1,108	–	–	3,457	2,665	1,120	–	–	3,785
	₱4,769	₱1,108	₱786	₱452	₱7,115	₱3,751	₱1,120	₱785	₱268	₱5,924

Trade Receivables – Electricity Sold

Trade receivables of *MERALCO* and *Clark Electric* include charges for pass-through costs. Pass-through costs of *MERALCO* as *DU* consist of generation, transmission and *SL* charges, which represent 66%, 9% and 5%, respectively, of the total billed amount in 2022 and 58%, 9% and 4%, respectively, of the total billed amount in 2021. Billed receivables are due 10 days after bill date. *MERALCO*'s and *Clark Electric*'s trade receivables are noninterest-bearing and are substantially secured by bill deposits. Electricity consumed after the meter reading cut-off dates, which will be billed to customers in the immediately following billing period, is included as part of trade receivables.

See Note 27 – Financial Assets and Financial Liabilities.



Trade Receivables – Energy Generated

Trade receivables – Energy generated represent non-interest-bearing outstanding billings for energy fees and pass-through fuel costs arising from the delivery of electricity to customers and energy sales to the *WESM* by power generation subsidiaries. Normal credit term is 15 to 30 days from the date of receipt of billing.

Trade Receivables – Service Contracts

Service contracts receivable arise from contracts entered into by the *MIESCOR Group, e-MVI Group, CIS Group, MRail, MServ, Finserve, Comstech, eSakay* and *Spectrum* for construction, engineering, consulting and related manpower, light rail maintenance, telecommunications and data transport, e-transactions and bills collection, tellering and e-business development, energy systems management and harnessing renewable energy to third parties.

Receivables from service contracts and others are noninterest-bearing and are generally on 30- to 90-day terms.

See *Note 11 – Financial and Other Noncurrent Assets*.

14. Inventories

	2022	2021
	<i>(Amounts in millions)</i>	
Materials and supplies:		
At cost	₱10,867	₱10,057
At net realizable value (“ <i>NRV</i> ”)	10,629	9,817
Materials and supplies at <i>NRV</i>	₱10,629	₱9,817

The net realizable value of inventories is net of allowance for inventory obsolescence of ₱238 million and ₱240 million as at December 31, 2022 and 2021, respectively. No item of inventory has been written off for the years ended December 31, 2022, 2021 and 2020.

See *Note 25 – Expenses and Income*.



15. Financial and Other Current Assets

	Note	2022	2021 (As restated – see Note 3)
<i>(Amounts in millions)</i>			
Financial assets:			
Debt securities at amortized cost	11 and 27	₱17,793	₱17,121
Short-term investments		204	444
Current portion of advance payments to a supplier	27	199	182
Nonfinancial assets:			
Prepayments		3,962	4,101
Input VAT		6,057	2,570
Prepaid tax		3,714	1,511
Others		1,214	2,388
		₱33,143	₱28,317

Short-term investments are temporary cash placements for varying periods beyond three (3) months but not exceeding 12 months and earn interest at the prevailing short-term placement investment rates.

16. Equity

<i>Common Stock</i>	2022	2021
	<i>(In millions, except par value)</i>	
Authorized number of shares- ₱10 par value per share	1,250	1,250
Issued and outstanding - number of shares	1,127	1,127

There was no movement in the number of shares of *MERALCO*'s common stock.

The common shares of *MERALCO* were listed on the *PSE* on January 8, 1992. There are 41,338 and 41,689 shareholders of *MERALCO*'s common shares as at December 31, 2022 and 2021, respectively.

Unappropriated Retained Earnings

The unappropriated retained earnings include accumulated earnings of subsidiaries, associates and joint ventures, the balance of *MERALCO*'s revaluation increment in utility plant, generation plant and others and investment properties carried at deemed cost, deferred tax assets and unrealized foreign exchange gains totaling to ₱64,389 million and ₱57,591 million as at December 31, 2022 and 2021, respectively. These amounts are restricted for dividend declaration purposes as of the close of the respective reporting year.



The following are the cash dividends declared on common shares for the years ended December 31, 2022, 2021 and 2020:

Declaration Date	Record Date	Payment Date	Dividend Per Share	Amount
				(In millions)
July 25, 2022	August 23, 2022	September 14, 2022	₱5.81	₱6,544
February 28, 2022	March 30, 2022	April 26, 2022	10.23	11,526
July 26, 2021	August 23, 2021	September 15, 2021	5.06	5,700
March 1, 2021	March 30, 2021	April 26, 2021	7.82	8,818
July 27, 2020	August 20, 2020	September 15, 2020	4.70	5,294
February 24, 2020	March 20, 2020	April 15, 2020	10.40	11,716

The *BOD*-approved dividend policy of *MERALCO* consists of (i) regular cash dividends equivalent to 50% of *CCNI* for the year, and (ii) special dividend determined on a “look-back” basis. Declaration and payment of special dividend are dependent on the availability of unrestricted retained earnings and free cash. The declaration, record and payment dates shall be consistent with the guidelines and regulations of the Philippine *SEC*.

Treasury Shares

Treasury shares represent 172,412 subscribed shares and the related rights of employees who have opted to withdraw from the *ESPP* in accordance with the provisions of the *ESPP* and which *MERALCO* purchased.

17. Interest-bearing Long-term Financial Liabilities

This account consists of the following:

	2022	2021
(Amounts in millions)		
Long-term portion of interest-bearing financial liabilities - long-term debt	₱68,757	₱52,720
Current portion of interest-bearing financial liabilities:		
Long-term debt	4,118	7,644
Redeemable preferred stock	1,467	1,470
	5,585	9,114
	₱74,342	₱61,834

All of the redeemable preferred shares have been called as at June 30, 2011, consistent with the terms of the Preferred Shares Subscription Agreement. Accrued interests amounted to ₱249 million as at December 31, 2022 and 2021. Interest is no longer accrued from the time such preferred shares were called for redemption.



The details of interest-bearing long-term financial liabilities are as follows:

	2022	2021
	<i>(Amounts in millions)</i>	
<i>MERALCO</i>		
₱10.0 Billion Term Loan	₱10,000	₱—
12-year Puttable Bonds	7,000	7,000
₱7.2 Billion Note	4,320	4,680
<i>MGen Group</i>		
₱18.0 Billion Term Loan	17,460	17,910
₱11.6 Billion Term Loan	11,099	—
₱16.0 Billion Term Loan	4,930	5,510
₱4.5 Billion Term Loan	3,860	4,150
₱3.5 Billion Term Loan	3,338	—
₱3.0 Billion Term Loan	2,907	2,841
₱2.0 Billion Term Loan	2,000	—
₱1.5 Billion Term Loan	460	614
₱7.0 Billion Term Loan	—	3,869
₱11.0 Billion Term Loan	—	7,829
₱14.0 Billion Term Loan	—	4,200
<i>Radius</i>		
₱700 Million Term Loan	700	—
\$2.9 Million Medium-Term Loan	108	—
<i>MServ</i>		
₱600 Million Term Loan	450	480
₱350 Million Note	70	140
<i>MIESCOR</i>		
₱4,444 Million Term Loan	4,444	—
₱375 Million Term Loan	295	383
<i>eSakay</i>		
₱27 Million Term Loan	19	23
Total long-term debt	73,460	59,629
Less unamortized debt issue costs	934	357
	72,526	59,272
Redeemable Preferred Stock	1,467	1,470
Fair value adjustment in relation to the purchase of		
<i>GBPC</i>	3	1,092
	74,342	61,834
Less current portion	5,585	9,114
Long-term portion of interest-bearing financial liabilities	₱68,757	₱52,720



The scheduled maturities of the outstanding long-term debt at nominal values as at December 31, 2022 are as follows:

	Amount
	(In millions)
Less than one (1) year	₱4,195
One (1) year up to two (2) years	7,820
More than two (2) years up to three (3) years	11,118
More than three (3) years up to four (4) years	4,482
More than four (4) years up to five (5) years	4,648
More than five (5) years	41,197
	<u>₱73,460</u>

MERALCO

₱10.0 Billion Term Loan

In December 2022, *MERALCO* obtained a ₱10,000 million, 10-year floating rate loan due in December 2032. The related interest is payable quarterly. The principal is payable in nominal annual amortizations with a balloon payment upon final maturity.

12-year Puttable Bonds

The ₱7,000 million 12-year Puttable Bond is the balance of the total ₱18,000 million Puttable Bonds issued in December 2013, puttable in 10 years. This also includes a call option, whereby *MERALCO* may redeem (in whole but not in part only) the outstanding bonds on the 7th year from issue date at the early redemption price of 101.0%. The call option was not exercised. The put and call options are clearly and closely related to the host instruments, and thus, were not recognized separately.

₱7.2 Billion Note

MERALCO's ₱7,200 million, 10-year Fixed Rate Note Facility is due in February 2024. The principal is payable in nominal annual amortizations with a balloon payment upon final maturity.

MGen Group

₱18 Billion Term Loan

GBPC has a ₱18,000 million, 15-year term loan due in May 2036. Interest rate is subject to repricing on the 5th year. The principal is payable semi-annually until maturity.

₱11.6 Billion Term Loan

On April 28, 2022, *PEDC* obtained a ₱11,580 million, 12-year term loan due in April 2034. The principal and related interest are payable semi-annually. The proceeds of this loan were used to refinance its ₱11.0 billion and ₱14.0 billion term loans, that were to mature in 2027 and 2022, respectively.

₱16.0 Billion Term Loan

CEDC's ₱5.8 Billion Term Loan represents a restructured loan from the original project financing obligation. This restructured loan is payable over 10 years until June 2031.



₱4.5 Billion Term Loan

This bilateral term loan with a consortium of banks was used to finance the acquisition of a 50% less one share in *ATEC*. The loan is a fixed rate 12-year facility with quarterly principal repayment commencing three (3) years from the drawdown date.

₱3.5 Billion Term Loan

On July 18, 2022, *TPC* obtained a ₱3,500 million, 5-year term loan due in July 2027. The principal and related interest are payable quarterly. The proceed of this loan was used to pre-terminate the ₱7.0 billion term loan due in 2025.

₱3.0 Billion Term Loan

First Bulacan obtained a ₱3,039 million, 15-year term loan with interest repricing on the 10th year and the principal amount payable until November 2034.

₱2.0 Billion Term Loan

On September 1, 2022, *PHRI* obtained a ₱2,000 million, 15-year term loan due in September 2037. The principal and related interest are payable semi-annually.

₱1.5 Billion Term Loan

This ₱1,500 million loan of *CEDC* was used for general financing and other corporate requirements. The principal and related interest are payable semi-annually until December 2025.

Radius

₱700 Million Term Loan

On August 9, 2022, *Radius* obtained a ₱700 million, 7-year term loan. The principal and interest are payable quarterly until August 2029.

\$2.9 Million Medium-Term Loan

In 2022, *Radius* obtained a \$2.9 million, medium-term loan. The principal and interest are payable quarterly until July 2024.

MServ

₱600 Million Term Loan

MServ obtained a ₱600 million, 10-year fixed rate term loan. The principal is payable annually until January 2027 while the related interest is payable semi-annually.

₱350 Million Note

MServ has a ₱350 million fixed rate note payable to a local bank. The principal is payable semi-annually until July 2023.



MIESCOR

MIDC drew ₱4,444 million out of the total ₱27,000 million floating rate term loan facility. The principal and related interest are payable quarterly until October 2037.

₱375 Million Term Loan

On June 17, 2021, *MIESCOR* obtained a ₱375 million, fixed rate term loan, payable semi-annually until June 2028.

eSakay

₱27 Million Term Loan Facility

On November 8, 2019, *eSakay* obtained a ₱27 million, seven (7)-year fixed rate term loan, with principal amount payable until November 2026.

The annual interest rates of the interest-bearing financial liabilities range from 4.50% to 6.90% and 4.50% to 10.81% as at December 31, 2022 and 2021, respectively.

Debt Covenants

MERALCO's loan agreements require compliance with debt service coverage of 1.1 times calculated on specific measurement dates. The agreements also contain restrictions with respect to the creation of liens or encumbrances on assets, issuance of guarantees, mergers or consolidations, disposition of a significant portion of its assets and related party transactions.

Under their respective loan agreements, *MERALCO*'s subsidiaries are required to meet certain pre-agreed financial ratios at all times until full payment of the obligation. *GBPC* is prohibited from entering into merger or consolidation, unless *GBPC* is the surviving entity.

As at December 31, 2022 and 2021, the *MERALCO Group* is in compliance with all of the covenants of the loan agreements.

Interest expense on interest-bearing long-term financial liabilities amounted to to ₱2,760 million, ₱2,265 million and ₱473 million for the years ended December 31, 2022, 2021 and 2020, respectively.

Unamortized Debt Issue Costs

The following presents the changes to the unamortized debt issue costs:

	<i>Note</i>	2022	2021
		<i>(Amounts in millions)</i>	
Balance at beginning of year		₱357	₱78
Additions		705	205
Effect of consolidation of <i>GBPC</i>	3	—	125
Amortization charged to interest and other financial charges	24	(128)	(51)
Balance at end of year		₱934	₱357



Redeemable Preferred Stock

The movements in the number of shares of the redeemable preferred stock, which have all been called, are as follows:

	2022	2021
Balance at beginning of year	147,015,281	147,158,808
Redemptions	(352,940)	(143,527)
Balance at end of year	146,662,341	147,015,281

The original “Terms and Conditions” of *MERALCO*’s Special Stock Subscription Agreement, which required an applicant to subscribe to preferred stock with 10% dividend to cover the cost of extension of, or new, distribution facilities, have been amended by the *Magna Carta* and the *DSOAR*, effective June 17, 2004 and January 18, 2006, respectively. The amendment sets forth the guidelines for the issuance of preferred stock, only if such instrument is available.

18. Customers’ Deposits

This account consists of:

	2022			2021		
	Current Portion (see Note 22)	Noncurrent Portion	Total	Current Portion (see Note 22)	Noncurrent Portion	Total
<i>(Amounts in millions)</i>						
Bill deposits	₱2,925	₱31,590	₱34,515	₱2,460	₱30,901	₱33,361
Meter deposits	316	–	316	315	–	315
	₱3,241	₱31,590	₱34,831	₱2,775	₱30,901	₱33,676

Bill Deposits

Bill deposits serve to guarantee payment of bills by a customer.

As provided in the *Magna Carta* and *DSOAR*, all captive customers of the *DU* are required to pay a deposit, equivalent to the estimated monthly bill calculated based on applied load. Such deposit shall be updated annually based on the historical 12-month average bill. A captive customer who has paid his electric bills on or before due date for three (3) consecutive years may apply for the full refund of the bill deposit, together with the accrued interests, prior to the termination of his service; otherwise bill deposits and accrued interests shall be refunded within one (1) month from the termination of service, provided all bills have been paid.

Under the amended *DSOAR*, which became effective on April 1, 2010, interest on bill deposits for both residential and non-residential customers shall be computed using the equivalent peso savings account interest rate of the Land Bank of the Philippines (“*Land Bank*”) or other government banks, on the first working day of the year, subject to the confirmation by the *ERC*.

As provided for under *ERC* Resolution No. 1, Series of 2011, *A Resolution Adopting the Revised Rules for the Issuance of Licenses to Retail Electricity Suppliers*, a local *RES* may require security deposits from its contestable customers, which shall earn interest equivalent to the actual interest earnings of the total amount of deposits received from the customers.



On May 10, 2019, *MERALCO* received a copy of the Petition dated April 27, 2019 filed by various partylist representatives which questioned the imposition of bill deposits by the *DU* for its captive customers.

The Petition prayed that the provisions on bill deposits in the Magna Carta be declared as illegal and void and that *MERALCO* and other *DUs* be permanently prohibited from imposing and collecting bill deposit from the captive market. The Petition further prayed that the bill deposit be refunded and/or that combining the bill deposits with the general funds of *MERALCO* be disallowed. Lastly, the Petition prayed for the conduct of an audit of the bill deposits collected by *MERALCO*.

MERALCO filed its Comment to the Petition on October 18, 2019. On October 28, 2019, the *OSG* filed a Manifestation and Motion to drop *COA* as a respondent in the case. In a Resolution dated February 4, 2020, the *SC* required *COA* to file their comments on the Petition. On July 27, 2020, *MERALCO* received a copy of the Comment filed by the *COA*, through the *OSG*.

On September 8, 2020, the *SC* issued a Notice of Resolution noting the Comment filed by the *OSG* and requiring petitioners to file a consolidated reply within ten (10) days from notice. On November 24, 2020, *MERALCO* received the petitioners' Consolidated Reply to the Separate Comment/Opposition of the *ERC*, *MERALCO*, and *COA* dated November 10, 2020.

The following are the movements of the bill deposits account:

	Note	2022	2021
		<i>(Amounts in millions)</i>	
Balance at beginning of year		₱33,361	₱32,105
Additions		3,212	3,002
Refunds		(2,058)	(1,746)
Balance at end of year		34,515	33,361
Less portion maturing within one year	22	2,925	2,460
Noncurrent portion of bill deposits and related interests		₱31,590	₱30,901

Interest expense on bill deposits amounted to ₱21 million, ₱21 million and ₱35 million for the years ended December 31, 2022, 2021 and 2020, respectively.

Meter Deposits

Meter deposits were intended to guarantee the cost of meters installed.

The *Magna Carta* for residential customers (effective July 19, 2004) and *DSOAR* (effective February 2, 2006) for non-residential customers exempt all customer groups from payment of meter deposits beginning July 2004 for residential customers and February 2006 for non-residential customers.

MERALCO implemented refund of said deposits to its customers based on the *ERC* Resolution No. 8, Series of 2008, otherwise known as “Rules to Govern the Refund of Meter Deposits to Residential and Non-Residential Customers” (“*Rules*”) which required the refund of meter deposits from the effectivity of said *Rules* on July 5, 2008.

The total amount of refund shall be equivalent to the meter deposit paid by the customer plus the total accrued interest earned from the time the customer paid the meter deposit until the day prior to the start of refund.



In July 2016, *MERALCO* deposited the amount equivalent to the unclaimed meter deposits in a single savings account. As at February 27, 2023, the matter is still pending with the *ERC*.

19. Provisions

Provisions consist of amounts recognized related to certain proceedings and claims against *MERALCO Group*, among others. The movements follow:

	Note	2022	2021
<i>(Amounts in millions)</i>			
Balance at beginning of year		₱37,036	₱38,992
Provisions for the year – net		11,439	4,432
Settlements		(24,776)	(6,388)
Reclassification from other noncurrent liabilities and other payables	22	39,622	—
Balance at end of year		63,321	37,036
Less current portion	22	50,664	23,482
Noncurrent portion of provisions		₱12,657	₱13,554

The balance of provisions substantially represents the amounts of claims related to a commercial contract which remains unresolved and local taxes being contested as discussed in *Note 29 – Contingencies and Legal Proceedings*, consistent with the limited disclosure as allowed in *PFRS*.

20. Customers' Refund

This account represents the balance of the refund related to the *SC* decision promulgated on April 30, 2003, which is continuously being refunded based on documents presented by qualified claimants. The unclaimed amount is deposited in a separate interest-bearing bank account.

MERALCO implemented the *SC* ruling which ordered the refund of ₱0.167 per *kWh* for billings made from February 1994 to April 2003 in four (4) phases. *MERALCO* continues to process refunds as the eligible customers present their required supporting documents until the *ERC* directs otherwise and approves *MERALCO*'s proposed scheme on how the unclaimed refund shall be utilized for purposes of reducing the distribution rates of consumers.

In 2021, the *ERC* through its appointed consultant conducted an audit and verification of *MERALCO*'s refunds, which included *MERALCO*'s *SC* refund. The audit has been completed and as at February 27, 2023, *MERALCO* is awaiting further action of the *ERC* on the matter.

See *Note 2 – Rate Regulations*.

21. Notes Payable

Notes payable represent unsecured interest-bearing working capital loans obtained from local banks. Annual interest rates were up to 4.00% and 5.40% as at December 31, 2022 and 2021, respectively.



Interest expense on notes payable amounted to ₱1,187 million, ₱1,238 million and ₱994 million for the years ended December 31, 2022, 2021 and 2020, respectively.

22. Trade Payables and Other Current Liabilities

This account consists of the following:

	Note	2022	2021 (As restated – see Note 3)
<i>(Amounts in millions)</i>			
Trade accounts payable	23 and 24	₱72,121	₱54,489
Provisions	2, 19 and 29	50,664	23,482
Taxes		17,299	15,071
Accrued expenses:			
Employee benefits		2,151	2,095
Interest	17	299	264
Others		3,279	4,840
Current portions of:			
Bill deposits and related interests	18	2,925	2,460
Deferred income		1,126	961
Meter deposits and related interests	18	316	315
Refundable service extension costs		1,772	1,660
Dividends payable on:			
Common stock	16	2,878	2,021
Redeemable preferred stock	17	249	249
Payable to customers		5,468	6,731
Universal charges payable	32	2,227	2,373
<i>FiT-All</i> payable	32	358	957
Regulatory fees payable		290	263
Other current liabilities		480	836
		₱163,902	₱119,067

Trade Accounts Payable

Trade accounts payable mainly represent obligations to power generating companies, *NGCP* and *IEMOP* for cost of power purchased and transmission services. In addition, this account includes liabilities due to local and foreign suppliers for purchases of goods and services, consisting of transformers, poles, coal, materials and supplies, and contracted services, among others.

Trade payables are non-interest-bearing and are generally settled within 15 to 30 days from the receipt of invoice. Other payables are non-interest-bearing and due within one (1) year from incurrence.

See *Note 23 – Related Party Transactions*, *Note 24 – Revenue and Purchased Power* and *Note 30 – Significant Contracts and Commitments*.



Refundable Service Extension Costs

Article 14 of the *Magna Carta*, specifically, “Right to Extension of Lines and Facilities”, requires a customer requesting for an extension of lines and facilities beyond 30-meter service distance from the nearest voltage facilities of the *DU* to advance the cost of the project. The amended *DSOAR*, which became effective April 1, 2010, requires such advances from customers to be refunded at the rate of 75% of the distribution revenue generated from the extension lines and facilities until such amounts are fully refunded. The related asset shall form part of the rate base only as the refund is paid out. Customer advances are non-interest-bearing.

As at December 31, 2022 and 2021, the noncurrent portion of refundable service extension costs of ₱4,653 million and ₱5,334 million, respectively, is presented as “Refundable service extension costs - net of current portion” account in the consolidated statements of financial position.

Universal Charges Payable

Universal charges are amounts passed on and collected from customers on a monthly basis by *DUs*. These are charges imposed to recover stranded debts, stranded contract costs of *NPC*, stranded contract costs of eligible contracts of *DUs*, missionary electrification and environment charges. *DUs* remit collections monthly to *PSALM* who administers the fund generated from universal charges and disburses the said funds in accordance with the intended purposes.

Payable to Customers

Payable to customers represents amounts credited to customers’s bills or paid by customers in advance and which are being applied to their current consumption.

Taxes

Taxes represent pass-through *VAT*, output *VAT*, withholding taxes and energy taxes payable. Pass-through *VAT* pertains to *VAT* on generation and transmission costs billed to the *DU*, which are in turn billed to the customers. Remittance of such pass-through *VAT* to the generation companies is based on collection of billed receivables from the customers.

23. Related Party Transactions

The *MERALCO Group* has approval process and limits on the amount and extent of related party transactions.

The following summarizes the total amount of transactions, which have been provided and/or contracted by the *MERALCO Group* to/with related parties for the relevant year. The outstanding balances are unsecured, non-interest-bearing and settled in cash.

Pole Attachment Contract with PLDT, Inc. (“PLDT”)

MERALCO has a pole attachment contract with *PLDT* similar to pole attachment contracts of *MERALCO* with third parties/ telecommunication companies. Under the pole attachment contract, *PLDT* shall use the contracted cable positions exclusively for its telecommunication cable network facilities.



Sale of Electricity under Various Service Contracts

MERALCO sells electricity to its subsidiaries, associates, joint ventures and related party shareholder groups with operations within the franchise area, namely, *PLDT*, *Metro Pacific* and *JG Summit* and their respective subsidiaries and affiliates. The rates charged to related parties are the same *ERC*-mandated rates applicable to all customers within the franchise area. Also, rate charges of *RES* for generation charge uses the same rate model for other customers.

Purchase of Telecommunication Services from PLDT and Subsidiaries

The *MERALCO Group*'s telecommunications carriers include *PLDT* for its wireline and Smart Communications, Inc. and Digitel Mobile Philippines, Inc., for its fixed and wireless services. Such services are covered by standard service contracts between the telecommunications carriers and each legal entity within the *MERALCO Group*.

Lease Agreement with Robinsons Land Corporation ("RLC")

In 2022, *MERALCO* entered into various lease agreements with *RLC* for its temporary office premises for period ranging from 12 months to 15 months.

Purchase of Goods and Services

In the ordinary course of business, the *MERALCO Group* purchases goods and services from its affiliates and sells power and renders services to such affiliates.

PSA with SBPL

As discussed in Note 30, *MERALCO* has a long-term *PSA* with *SBPL*.

Following is a summary of related party transactions in 2022, 2021 and 2020 and the outstanding balances as at December 31, 2022 and 2021:

Category	Amount of Transactions			Outstanding Receivable (Liability)		Terms	Conditions
	2022	2021	2020	2022	2021		
(Amounts in millions)							
Sale of electricity:							
<i>JG Summit Group</i>	₱3,919	₱2,704	₱2,542	₱2,257	₱387	10-day; noninterest-bearing	Unsecured, no impairment
<i>PLDT Group</i>	1,224	1,233	1,192	86	85	10-day; noninterest-bearing	Unsecured, no impairment
<i>Metro Pacific Group</i>	391	410	415	40	158	10-day; noninterest-bearing	Unsecured, no impairment
Purchases of IT services - <i>Indra Philippines</i>	940	922	1,228	(377)	(362)	30-day; noninterest-bearing	Unsecured
(Forward)							



Category	Amount of Transactions			Outstanding Receivable (Liability)		Terms	Conditions
	2022	2021	2020	2022	2021		
	<i>(Amounts in millions)</i>						
Purchases of meters and devices – <i>Aclara Meters</i>	₱147	₱248	₱157	₱–	(₱23)	30-day; noninterest-bearing	Unsecured
Purchases of medical services - <i>Colinas Verdes Hospital Managers</i>	192	238	143	(7)	–	30-day; noninterest-bearing	Unsecured
Revenue from pole attachment - <i>PLDT</i>	689	599	541	5	73	Advance payment	Unsecured, no impairment
Lease of office premises - <i>RLC</i>	48	–	–	–	–	30-day; noninterest-bearing	Unsecured
Purchases of wireline and wireless services - <i>PLDT Group</i>	103	90	105	(13)	(11)	30-day; noninterest-bearing	Unsecured
Purchases of insurance premium - <i>MPioneer</i>	451	412	449	(2)	(3)	30-day; noninterest-bearing	Unsecured
Donations to One Meralco Foundation	99	71	76	–	–	None	None
Purchases of power:							
<i>SBPL</i>	26,795	15,973	12,902	(1,773)	(746)	30-day; noninterest-bearing	Unsecured
<i>PEDC</i> ¹	–	372	1,812	–	–	30-day; noninterest-bearing	Unsecured

¹ On March 31, 2021, MERALCO, through MGen, acquired 86% combined equity in GBPC from MPIC and JG Summit, increasing MGen's equity to 100%.

Advances to FPM Power

As at December 31, 2021, *FPM Power's* non-interest-bearing loan from *MPG Asia* amounting to US\$110 million (₱5,748 million) as at December 31, 2021 was fully impaired. On November 25, 2022, *MPG Asia* converted the loan to additional equity investment in *FPM Power*.

See Note 15 – Financial and other Current Assets and Note 8 – Investments in Associates and Interests in Joint Ventures.

Transaction with MERALCO Retirement Benefits Fund (“Retirement Fund”)

MERALCO's Retirement Fund holds 6,000 common shares of *RP Energy* at par value of ₱100 per share, with total carrying amount of ₱600,000 or an equivalent 3% equity interest in *RP Energy*. The fair value of *RP Energy's* common shares cannot be reliably measured as these are not traded in the financial market. As at December 31, 2022 and 2021, the fair value of the total assets being managed by the *Fund* amounted to ₱31.6 billion and ₱34.6 billion, respectively.

See Note 25 – Long-Term Employee Benefits.



Compensation of Key Management Personnel

The compensation of key management personnel of the *MERALCO Group* by benefit type is as follows:

	2022	2021	2020
	<i>(Amounts in millions)</i>		
Short-term employee benefits	₱643	₱549	₱559
Long-term employee incentives and retirement benefits	280	280	137
Total compensation to key management personnel	₱923	₱829	₱696

All directors are entitled to a reasonable per diem for their attendance in meetings of the *BOD* and Board Committees plus an additional compensation, provided that the total value of such additional compensation, in whatever form so given, shall not exceed one (1) percent of the income before income tax of *MERALCO* during the preceding year.

Each of the directors is entitled to a per diem of ₱140,000 for every *BOD* meeting attended. Each member of the Audit, Risk Management, Remuneration and Leadership Development, Finance, Related Party Transactions and Nomination and Governance Committees is entitled to a fee of ₱24,000 for every committee meeting attended. Also, the members of the *BOD* are entitled to a stock grant based on a pre-approved number of shares for each director which was implemented beginning May 2013 as approved by the stockholders. The directors have the option to receive the number of shares granted or the equivalent cash value.

As at December 31, 2022, there are no agreements between the *MERALCO Group* and any of its key management personnel providing for benefits upon termination of employment or retirement, except with respect to benefits provided under (i) a defined benefit retirement plan, (ii) a program which aims to address capability refresh and organizational optimization requirements, and (iii) a contributory provident plan. Post-retirement benefits under the defined benefit retirement plan cover employees hired up to December 31, 2003 only. The provident plan, which is implemented on a voluntary basis, covers employees hired beginning January 1, 2004.

24. Revenues and Purchased Power

Revenues

The *MERALCO Group* disaggregates its revenue information in the same manner as it reports its segment information.

See *Note 6 – Segment Information*.



Contract Assets and Contract Liabilities

The *MERALCO Group*'s contract balances are as follows:

	2022	2021
	<i>(Amounts in millions)</i>	
Contract assets:		
Unbilled receivables	₱3,118	₱2,647
Under-recoveries of pass-through charges - net	11,407	10,597
Contract liabilities:		
Non-refundable liability related to asset funded by customers	869	866
Over-recoveries from transmission, lifeline subsidy and <i>SL</i> charges	559	597

Income recognized from the non-refundable liability related to assets funded by customers amounted to ₱203 million, ₱114 million and ₱94 million for the years ended December 31, 2022, 2021 and 2020, respectively.

Purchased Power

The details of purchased power are as follows:

	2022	2021	2020
	<i>(Amounts in millions)</i>		
Generation costs	₱279,328	₱190,416	₱167,241
Transmission costs	43,317	34,499	37,179
	₱322,645	₱224,915	₱204,420

Purchased power costs for the captive customers are pass-through costs and are revenue-neutral to *MERALCO* and *Clark Electric*, as *DUs*.

Generation costs include any line rentals, market fees and must-run unit charges billed by *IEMOP*.

The details of purchased power follow:

	2022	2021	2020
	<i>(Amounts in millions)</i>		
“ <i>FGPC</i> ” and FGP Corp. (“ <i>FGP</i> ”)	₱76,145	₱51,164	₱43,659
<i>NGCP</i>	43,356	34,539	37,230
<i>IEMOP</i>	40,655	21,721	14,523
<i>QPPL</i>	28,793	16,289	13,990
<i>SBPL</i>	26,795	15,973	12,902
South Premiere Power Corporation (“ <i>SPPC</i> ”)	25,679	25,643	24,166
San Miguel Energy Corporation (“ <i>SMEC</i> ”)	21,625	15,535	16,639
Masinloc Power Partners Co. Ltd. (“ <i>MPPCL</i> ”)	18,712	8,522	8,056
First NatGas Power Corp. (“ <i>FNPC</i> ”)	14,971	9,309	8,456
<i>(Forward)</i>			



	2022	2021	2020
	<i>(Amounts in millions)</i>		
AC Energy Philippines, Inc. (“AC Energy”)	₱10,562	₱10,790	₱9,023
Therma Luzon, Inc. (“TLP”)	4,161	2,219	7,033
Southwest Luzon Power Generation Corporation	2,672	1,982	34
First Gen Hydro Power Corporation (“FGHPC”)	1,378	2,507	723
Energy Development Corporation (“EDC”)	1,015	—	—
PEDC	969	2,264	1,812
Sem-Calaca Power Corporation (“Sem-Calaca”)	644	4,933	3,650
Solar Philippines Tarlac Corporation (“Solar Philippines Tarlac”)	370	425	338
Therma Mobile, Inc. (“TMO”)	—	—	516
Millenium Energy, Inc. (“MEI”)	—	—	307
Others	4,143	1,100	1,363
	₱322,645	₱224,915	₱204,420

Generation and transmission costs are net of company use amounting to ₱480 million, ₱353 million and ₱321 million for the years ended December 31, 2022, 2021 and 2020, respectively.

Generation and transmission costs over- or under-recoveries result from the lag in the billing and recovery of generation and transmission costs from consumers. As at December 31, 2022 and 2021, the total transmission costs and *SL* charge over-recoveries included in “Other noncurrent liabilities” account in the consolidated statements of financial position amounted to ₱484 million and ₱532 million, respectively.

25. Expenses and Income

<i>Salaries, Wages and Employee Benefits</i>	<i>Note</i>	2022	2021	2020
		<i>(Amounts in millions)</i>		
Salaries, wages and related employee benefits		₱14,150	₱13,651	₱10,691
Retirement benefits	26	1,531	2,140	1,496
Other post-employment benefits	26	155	101	114
		₱15,836	₱15,892	₱12,301



Depreciation and Amortization

	<i>Note</i>	2022	2021	2020
<i>(Amounts in millions)</i>				
Utility plant, generation plant and others	7	₱14,117	₱10,846	₱8,065
Intangible assets	10	1,910	1,649	486
Investment properties	9	4	4	4
		₱16,031	₱12,499	₱8,555

Other Expenses

	<i>Note</i>	2022	2021	2020
<i>(Amounts in millions)</i>				
Materials used	14	₱4,104	₱2,792	₱1,712
Rent and utilities		1,314	971	732
Transportation and travel		597	390	255
Insurance		483	459	391
Advertising		278	200	222
Communication	22	190	157	148
Others		1,486	1,343	807
		₱8,452	₱6,312	₱4,267

26. Long-term Employee Benefits

Liabilities for long-term employee benefits consist of the following:

	2022	2021
<i>(Amounts in millions)</i>		
Retirement benefits liability	₱1,571	₱5,625
Other post-employment benefits	1,316	2,091
Long-term incentives	3,756	2,541
	6,643	10,257
Less current portion	3,750	—
	₱2,893	₱10,257

Defined Benefit Retirement Plans

The features of the *MERALCO Group's* defined benefit plans are discussed in *Note 4 – Significant Accounting Policies, Changes and Improvements*.

Actuarial valuations are prepared annually by the respective independent actuaries engaged by *MERALCO* and its subsidiaries.



Expense recognized for defined benefit plans (included in “Salaries, wages and employee benefits” account in the consolidated statements of income)

	2022	2021	2020
	<i>(Amounts in millions)</i>		
Current service costs	₱1,197	₱1,579	₱1,194
Net interest costs	273	509	255
Net retirement benefits expense	₱1,470	₱2,088	₱1,449

Retirement Benefits Liability

	2022	2021
	<i>(Amounts in millions)</i>	
Defined benefit obligation	₱33,143	₱40,192
Fair value of plan assets	(31,572)	(34,567)
Net retirement benefits liability	₱1,571	₱5,625

Changes in the net retirement benefits liability are as follows:

	2022	2021
	<i>(Amounts in millions)</i>	
Retirement benefits liability at beginning of year	₱5,625	₱12,013
Net retirement benefits expense	1,470	2,088
Amounts recognized in <i>OCI</i>	(5,274)	(8,766)
Effect of consolidation of <i>GBPC</i>	—	1,055
Contributions by employer	(250)	(765)
Net retirement benefits liability at end of year	₱1,571	₱5,625

Changes in the present value of the defined benefits obligation are as follows:

	2022	2021
	<i>(Amounts in millions)</i>	
Defined benefit obligation at beginning of year	₱40,192	₱45,918
Interest costs	1,853	1,735
Current service costs	1,197	1,579
Benefits paid	(2,515)	(2,603)
Effect of consolidation of <i>GBPC</i>	—	1,595
Actuarial gains due to:		
Changes in financial assumptions	(9,336)	(8,451)
Experience adjustments	1,752	419
Defined benefit obligation at end of year	₱33,143	₱40,192



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

	2022	2021
	<i>(Amounts in millions)</i>	
Fair value of plan assets at beginning of year	₱34,567	₱33,905
Interest income	1,580	1,226
Contributions by employer	250	765
Return on plan assets, excluding amount included in net interest on the net defined benefit obligation and interest income	(2,310)	734
Effect of consolidation of <i>GBPC</i>	—	540
Benefits paid	(2,515)	(2,603)
Fair value of plan assets at end of year	₱31,572	₱34,567

The Board of Trustees (“*BoT*”) of the *Retirement Fund* is chaired by the Chairman of *MERALCO*, who is neither an executive nor a beneficiary. The other members of the *BoT* are (i) an executive member of the *BOD*; (ii) two (2) senior executives; (iii) an independent member of the *BOD*; and (iv) a member of the *BOD* who represents the largest shareholder group, none of whom are beneficiaries of the plan.

The *Retirement Fund* follows a conservative approach of investing in fixed income, money market and equity assets to diversify the portfolio in order to minimize risk while maintaining an adequate rate of return. The assets of the *Retirement Fund* are managed by four (4) local and one (1) foreign trustee banks whose common objective is to maximize the long-term expected return of plan assets. The *BoT* periodically reviews and approves the strategic mandate of the portfolio to ensure the ability of the *Retirement Fund* to service its short-term and long-term obligations.

The major categories of plan assets are as follows:

	2022	2021
	<i>(Amount in millions)</i>	
Investments quoted in active markets:		
Quoted equity investments:		
Holding firms	₱2,388	₱2,912
Banks	846	954
Property	607	894
Telecommunication	420	601
Electricity, energy, power and water	372	446
Food, beverages and tobacco	366	572
Transportation services	264	284
Retail	88	199
Construction, infrastructure and allied services	—	9
Others	1,859	2,233
Quoted debt investments:		
“AAA” rated securities	9,359	9,886
Government securities	9,364	9,780
Cash and cash equivalents	2,268	2,183
Receivables	1,517	1,760
Real property	1,853	1,853
Others	1	1
Fair value of plan assets	₱31,572	₱34,567



Marketable equity securities, government securities, bonds and commercial notes are investments held by the trustee banks.

Other Long-term Post-employment Benefits (included as part of "Salaries, wages and employee benefits" account in the consolidated statements of income)

	2022	2021	2020
	<i>(Amounts in millions)</i>		
Interest costs	₱104	₱74	₱88
Current service costs	51	27	26
	₱155	₱101	₱114

Other Long-term Post-employment Benefits Liability

Changes in the present value of other long-term post-employment benefits liability are as follows:

	2022	2021
	<i>(Amounts in millions)</i>	
Balance at beginning of year	₱2,091	₱2,007
Interest costs	104	74
Current service costs	51	27
Benefits paid	(60)	(112)
Actuarial losses (gains) due to change in assumptions	(870)	95
Balance at end of year	₱1,316	₱2,091

Actuarial Assumptions

The principal assumptions used in determining retirement benefits and other long-term post-employment benefits obligations are shown below:

	2022	2021
Annual discount rate	7.12%	4.96%
Future range of annual salary increases	4.00%-10.00%	4.00%-10.00%

Sensitivity Analysis

The sensitivity analysis below has been determined based on a method that extrapolates the impact on the defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting year. The calculation of the defined benefit obligation is sensitive to the assumptions set above. The following table summarizes how the impact on the defined benefit obligation at the end of the reporting year would have increased (decreased) as a result of a change in the respective assumptions, keeping all other assumptions constant. There have been no changes in the method and assumptions used in the sensitivity analysis from prior year.



The sensitivity analysis may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation from one another.

	% Change	Effect on Present Value of Defined Benefit Obligation	
		2022	2021
<i>(Amounts in millions)</i>			
Annual discount rate	+1.0%	(₱3,335)	(₱4,450)
	-1.0%	3,955	5,672
Future range of annual salary increases	+1.0%	1,210	1,634
	-1.0%	(1,077)	(1,442)

Funding

MERALCO contributes to the *Retirement Fund* from time to time such amounts of money required under accepted actuarial principles to maintain the *Retirement Fund* in a sound condition, subject to the provisions of the *Plan*.

The amount of the annual contributions to the *Retirement Fund* is determined through an annual valuation report performed by an independent actuary.

The following is the maturity profile of the undiscounted benefit obligation (amounts in millions):

Less than one (1) year	P3,889
One (1) year up to five (5) years	16,439
More than five (5) years up to 10 years	17,313
More than 10 years up to 15 years	13,481
More than 15 years up to 20 years	16,066
More than 20 years	34,964

Risk

The *Retirement Fund* is exposed to the following risks:

Credit Risk

The *Retirement Fund*'s exposure to credit risk arises from its financial assets which comprise of cash and cash equivalents, investments and receivables. The credit risk results from the possible default of the issuer of the financial instrument, with a maximum exposure equivalent to the carrying amounts of the instruments.

The credit risk is minimized by ensuring that the exposure to the various chosen financial investment structures is limited primarily to government securities and bonds or notes duly recommended by the Trust Committees of the appointed fund managers of the *Retirement Fund*.



Share Price Risk

The *Retirement Fund*'s exposure to share price risk arises from the shares of stock it holds and are traded at the *PSE*. The share price risk emanates from the volatility of the stock market.

The policy is to limit investment in shares of stock to blue chip issues or issues with good fair values or those trading at a discount to its net asset value so that in the event of a market downturn, the *Retirement Fund* may still consider to hold on to such investments until the market recovers.

By having a balanced composition of holdings in the equities portfolio, exposure to industry or sector-related risks is reduced. The mix of various equities in the portfolio reduces volatility and contributes to a more stable return over time. Equity investments are made within the parameters of the investment guidelines approved by the *BoT*. The *BoT* also meets periodically to review the investment portfolio based on financial market conditions. Share prices are also monitored regularly.

Liquidity Risk

Liquidity risk is the risk that the *Retirement Fund* is unable to meet its payment obligations associated with its financial liabilities as they fall due and to replace funds when they are withdrawn. Liquidity risk is being managed to ensure that adequate fixed income and cash deposits are available to service the financial obligations of the *Retirement Fund*. The schedule of the maturities of fixed income investment assets are staggered by tenure or term. Policies are established to ensure that all financial obligations are met, wherein the timing of the maturities of fixed income investments are planned and matched to the due date of various obligations. Thus, for this investment class, maturities are classified into short-, medium- and long-term. A certain percentage of the portfolio is kept as cash to manage liquidity and settle all currently maturing financial obligations.

Defined Contribution Provident Plan

MERALCO has a defined contributory Provident Plan effective January 1, 2009, intended to be a supplemental retirement benefit for employees hired beginning 2004, the participation of which is voluntary. Each qualified employee-member who chooses to participate in the plan shall have the option to contribute up to a maximum of 25% of his base salary. *MERALCO* shall match the member's contribution up to 100% of employee's contribution or 10% of the member's monthly base salary, subject to a certain threshold. Upon resignation, the member shall be entitled to the total amount credited to his personal retirement account immediately preceding his actual retirement date, subject to provisions of the Provident Plan. *MERALCO*'s contribution to the Provident Plan amounted to ₱61 million, ₱52 million and ₱47 million for the years ended December 31, 2022, 2021 and 2020, respectively.

Consolidated Retirement Benefits Cost (included in "Salaries, wages and employee benefits" account in the consolidated statements of income)

	2022	2021	2020
	<i>(Amounts in millions)</i>		
Expense recognized for defined benefit plans	₱1,470	₱2,088	₱1,449
Expense recognized for defined contribution plan	61	52	47
Retirement benefits expense	₱1,531	₱2,140	₱1,496



Long-term Incentive Plan (“LTIP”)

MERALCO’s LTIP covers qualified employees and is based on *MERALCO Group’s* achievement of specified level of *CCNI* approved by the *BOD* and determined on an aggregate basis for a three (3)-year period as well as employees’ attainment of a minimum level of performance rating. Employees invited to *LTIP* must serve a minimum uninterrupted period to be entitled to an award. Further, the employee should be on active employment at the time of pay-out.

27. Financial Assets and Financial Liabilities

Financial assets consist of cash and cash equivalents, short-term investments and trade and other receivables, which are generated directly from operations, advance payments to a supplier, financial assets at *FVOCI* and debt securities at amortized cost. The principal financial liabilities consist of bank loans, redeemable preferred shares, trade and nontrade payables, which are incurred to finance operations in the normal course of business. Accounting policies related to financial assets and financial liabilities are set out in *Note 4 – Significant Accounting Policies, Changes and Improvements*.

The following table sets forth the financial assets and financial liabilities:

	Financial Assets at Amortized Cost	<i>FVOCI</i> Financial Assets	Liabilities Carried at Amortized Cost	Total Financial Assets and Liabilities
<i>(Amounts in millions)</i>				
Assets as at December 31, 2022				
<i>Noncurrent</i>				
Financial and other noncurrent assets	₱24,342	₱4,140	₱–	₱28,482
<i>Current</i>				
Cash and cash equivalents	55,832	–	–	55,832
Trade and other receivables	51,589	–	–	51,589
Financial and other current assets	18,196	–	–	18,196
Total Financial Assets	₱149,959	₱4,140	₱–	₱154,099
Liabilities as at December 31, 2022				
<i>Noncurrent</i>				
Interest-bearing long-term financial liabilities - net of current portion	₱–	₱–	₱68,757	₱68,757
Customers’ deposits - net of current portion	–	–	31,590	31,590
Refundable service extension costs - net of current portion	–	–	4,653	4,653
<i>Current</i>				
Notes payable	–	–	29,491	29,491
Trade payables and other current liabilities	–	–	91,739	91,739
Customers’ refund	–	–	2,905	2,905
Current portion of interest-bearing long-term financial liabilities	–	–	5,585	5,585
Total Financial Liabilities	₱–	₱–	₱234,720	₱234,720



	Financial Assets at Amortized Cost	<i>FVOCI</i> Financial Assets	Liabilities Carried at Amortized Cost	Total Financial Assets and Liabilities
<i>(Amounts in millions)</i>				
Assets as at December 31, 2021				
<i>Noncurrent</i>				
Financial and other noncurrent assets	₱29,561	₱8,467	₱—	₱38,028
<i>Current</i>				
Cash and cash equivalents	55,007	—	—	55,007
Trade and other receivables	42,386	—	—	42,386
Financial and other current assets	17,747	—	—	17,747
Total Financial Assets	₱144,701	₱8,467	₱—	₱153,168
Liabilities as at December 31, 2021				
<i>Noncurrent</i>				
Interest-bearing long-term financial liabilities - net of current portion	₱—	₱—	₱52,720	₱52,720
Customers' deposits - net of current portion	—	—	30,901	30,901
Refundable service extension costs - net of current portion	—	—	5,334	5,334
<i>Current</i>				
Notes payable	—	—	28,834	28,834
Trade payables and other current liabilities	—	—	71,602	71,602
Customers' refund	—	—	2,929	2,929
Current portion of interest-bearing long-term financial liabilities	—	—	9,114	9,114
Total Financial Liabilities	₱—	₱—	₱201,434	₱201,434
<i>Fair Values</i>				

The fair values of the financial assets and financial liabilities are amounts that would be received to sell the financial assets or paid to transfer the financial liabilities in orderly transactions between market participants at the measurement date. Set out below is a comparison of carrying amounts and fair values of the *MERALCO Group's* financial instruments:

	2022		2021	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<i>(Amounts in millions)</i>				
Financial assets				
Debt securities at amortized cost	₱37,296	₱36,122	₱41,461	₱42,856
Financial assets at <i>FVOCI</i>	4,140	4,140	8,467	8,467
Financial assets at amortized cost -				
Restricted cash	4,478	4,478	4,698	4,698
Advance payments to a supplier	560	596	705	768
	₱46,474	₱45,336	₱55,331	₱56,789
Financial liabilities				
Financial liabilities carried at amortized cost -				
Interest-bearing-long-term financial liabilities	₱72,875	₱73,600	₱60,364	₱61,135



The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value.

Cash and Cash Equivalents, Trade and Other Receivables, Short-term Investments, Trade Payables and Other Current Liabilities and Notes Payable

Due to the short-term nature of transactions, the fair values of these instruments approximate their carrying amounts as at reporting date.

Advance Payments to a Supplier

The fair values of advance payments to a supplier were computed by discounting the instruments' expected future cash flows using the rates of 6.39% and 4.31% as at December 31, 2022 and 2021, respectively.

Financial Assets at FVOCI

The fair values were determined by reference to market bid quotes as at reporting date.

Debt Securities at Amortized Cost

The fair values were determined by discounting the expected future cash flows using the interest rate as at reporting date.

Meter Deposits and Customers' Refund

Meter deposits and customers' refund are due and demandable. Thus, the fair values of these instruments approximate their carrying amounts.

Bill Deposits

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

Interest-bearing Long-term Financial Liabilities

The fair values of interest-bearing long-term debt (except for redeemable preferred stock) were computed by discounting the instruments' expected future cash flows using the rates ranging from 4.08% to 7.01% and 0.82% to 4.33% as at December 31, 2022 and 2021, respectively.

Redeemable Preferred Stock

The carrying amount of the preferred stock represents the fair value. Such preferred shares have been called and are payable anytime upon presentation by the shareholder of their certification. This is included under "Interest-bearing long-term financial liabilities" account.

Refundable Service Extension Costs

The fair values of refundable service extension costs cannot be reliably measured since the timing of related cash flows cannot be reasonably estimated and are accordingly measured at cost.



Fair Value Hierarchy

Below is the list of financial assets and financial liabilities that are classified using the fair value hierarchy:

	2022				2021			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<i>(Amounts in millions)</i>								
Financial assets								
Advance payments to a supplier	P–	P596	P–	P596	P–	P768	P–	P768
Restricted cash	–	4,478	–	4,478	–	4,698	–	4,698
Financial assets at <i>FVOCI</i>	2,673	–	1,467	4,140	6,935	–	1,532	8,467
Debt securities at amortized cost	36,122	–	–	36,122	42,856	–	–	42,856
	P38,795	P5,074	P1,467	P45,336	P49,791	P5,466	P1,532	P56,789
Financial liabilities								
Interest-bearing long-term financial liabilities	P–	P73,600	P–	P73,600	P–	P61,135	P–	P61,135

For the years ended December 31, 2022 and 2021, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurements.

Financial Risk Management Objectives and Policies

The main risks arising from the financial instruments are interest rate risk, foreign currency risk, commodity price risk, credit risk, and liquidity risk. The importance of managing these risks has significantly increased in light of the considerable change and volatility in the Philippine and international financial markets. The *BOD* reviews and approves policies for managing each of these risks. Management monitors the market price risk arising from all financial instruments. The policies for managing these risks are as follows:

Interest Rate Risk

The *MERALCO Group*'s exposure to the changes in market interest rates relate to changes of fair value of its long-term financial assets and to the fluctuation of future cash flows in relation to its long-term interest-bearing financial liabilities.

MERALCO's policy is to manage its interest rate risk exposure using a mix of fixed and variable rate debts. The strategy, which yields a reasonably lower effective cost based on market conditions, is adopted. Refinancing of fixed rate loans may also be undertaken to manage interest cost. All borrowings bear fixed interest rate as at December 31, 2022 and 2021.

The exposure of *GBPC* and its subsidiaries to the risk of changes in market interest rate relates primarily to its long-term debt obligations with variable interest rates. *GBPC* and its subsidiaries' loans bear fixed interest rates subject to repricing after a minimum of five years for *CEDC* and *PEDC* and seven years for *TPC*.

Foreign Currency Risk

The revaluation of any of foreign currency-denominated financial assets and financial liabilities as a result of the appreciation or depreciation of the Philippine peso is recognized as foreign exchange gains or losses as at the end of each reporting year. The extent of foreign exchange gains or losses is largely dependent on the amount of foreign currency-denominated financial instruments. While an insignificant percentage of the *MERALCO Group*'s revenues and liabilities is denominated in *U.S.* dollars, a substantial amount of the *MERALCO Group*'s expenditures for electricity capital projects



and a portion of the operating expenses are denominated in foreign currencies, mostly in *U.S.* dollars. As such, a strengthening or weakening of the Philippine peso against the *U.S.* dollar will decrease or increase in Philippine peso terms, the principal amount of the *MERALCO Group's* foreign currency-denominated liabilities and the related interest expense, foreign currency-denominated capital expenditures and operating expenses.

The following table shows the consolidated foreign currency-denominated financial assets and financial liabilities as at December 31, 2022 and 2021, translated to Philippine peso at ₱55.76 and ₱51.00 to US\$1, respectively.

	2022		2021	
	U.S. Dollar	Peso Equivalent	U.S. Dollar	Peso Equivalent
<i>(Amounts in millions)</i>				
Financial assets:				
Cash and cash equivalents	\$63	₱3,491	\$83	₱4,217
Debt securities at amortized cost	41	2,286	24	1,224
Financial assets at <i>FVOCI</i>	30	1,693	21	1,070
Advance payments to a supplier	11	596	14	727
Short-term investments	6	335	9	444
	151	8,401	151	7,682
Financial liabilities -				
Trade payables and other liabilities	(7)	(374)	(5)	(240)
	\$144	₱8,027	\$146	₱7,442

All of the *MERALCO Group's* long-term financial liabilities are denominated in Philippine peso. However, an insignificant portion of its trade payables are denominated in *U.S.* dollar. Thus, the impact of ₱1 movement of the Philippine peso against the *U.S.* dollar will not have a significant impact on the *MERALCO Group's* obligations.

The following table demonstrates the sensitivity to a reasonably possible change in the *U.S.* dollar exchange rate vis-a-vis the Philippine peso, with all other variables held constant, of the *MERALCO Group's* income before income tax due to changes in the fair value of financial assets and financial liabilities. There is no other impact on the *MERALCO Group's* equity other than those already affecting the consolidated statements of income.

	2022		2021	
	Appreciation (Depreciation) of U.S. Dollar	Effect on Income before Income Tax	Appreciation (Depreciation) of U.S. Dollar	Effect on Income before Income Tax
	<i>(In %)</i>	<i>(In millions)</i>	<i>(In %)</i>	<i>(In millions)</i>
<i>U.S.</i> dollar-denominated financial assets and financial liabilities	+5	₱401	+5	₱372
	-5	(401)	-5	(372)

Foreign exchange gain or loss for the year is computed based on management's best estimate of a +/- 5 percent change in the closing Philippine peso to *U.S.* dollar conversion rate using the balances as at financial reporting date of *U.S.* dollar-denominated cash and cash equivalents, receivables and other assets and liabilities. There has been no change in the methods and assumptions used by management in the above analysis.



Commodity Price Risk

Commodity price risk is the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in world prices or index of the commodity. The exposure of *MERALCO* and *Clark Electric* to price risk is minimal. The cost of fuel is part of *MERALCO*'s and *Clark Electric*'s generation costs that are recoverable through the generation charge in the billings to customers.

Credit Risk

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

Trade and Other Receivables and Contract Assets

MERALCO as a franchise holder serving public interest cannot refuse customer connection. To mitigate risk, the *DSOAR* allows *MERALCO* to collect bill deposit equivalent to one (1) month's consumption to secure credit. Also, as a policy, disconnection notices are sent three (3) days after the bill due date and disconnections are carried out beginning on the third day after receipt of disconnection notice.

Customer credit risk is managed by each business segment subject to *MERALCO Group*'s procedures and controls relating to customer credit risk management. The *MERALCO Group* manages and controls credit risk by setting limits on the amount of risk that it is willing to accept for individual counterparties and by monitoring exposures in relation to such limits.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss pattern (i.e. residential, industrial, commercial). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

The provision matrix is initially based on the *MERALCO Group* business segment's historical observed default rates. Each business segment of the *MERALCO Group* will calibrate the matrix to adjust the historical credit loss experience with forward-looking information.

At every reporting date, historical observed default rates are updated and changes in the forward-looking estimates are analyzed. The assumptions used in determining the historical default rates, forecast of economic conditions, economic impact of *COVID-19* pandemic to *MERALCO Group* customers and *ECLs* involved significant estimation. The amount of *ECLs* is sensitive to changes in circumstances and forecast of economic conditions. The historical credit loss experience, expected deferred payment arrangements, expected default upon resumption of service disconnection activities and forecast of economic conditions may also not be representative of customers' actual default in the future.

The subsidiaries of *MERALCO* trade only with recognized, creditworthy third parties. It is the *MERALCO Group*'s policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivables are monitored on an ongoing basis to reduce exposure to bad debt.



GBPC and its subsidiaries applied the simplified approach under *PFRS 9*, using a ‘provision matrix’, in measuring expected credit losses which uses a lifetime expected loss allowance for receivables. The expected loss rates are based on the payment profiles of revenues/sales over a period of at least 24 months before the relevant reporting date and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers/counterparties to settle the receivables. *GBPC* and its subsidiaries have identified the gross domestic product (“*GDP*”), consumer price index (“*CPI*”) and unemployment rate in the locations in which they sell their services to be the most relevant factors, and accordingly adjust the historical loss rates based on expected changes in these factors.

No impairment losses resulted from performing collective impairment test, due to the past experience of *GBPC* and its subsidiaries of realizing receivables within the credit period which help reduce the credit risk exposure in case of default by the customers.

Set out below is the information about the credit risk exposure of the *MERALCO Group*’s trade and other receivables and contract assets using a provision matrix:

2022								
	Trade – electlectricity distributed				Energy Generated	Other trade receivables	Nontrade receivables	Total
	Contract Status							
	Active	Active - Disconnected	Active – Pending to Terminate	Terminated				
(Amounts in millions, except ECL rate)								
ECL Rate	1.79%	2.46%	2.14%	81.28%	14.59%	12.47%	7.28%	
Estimated total gross carrying amount at default	₱32,714	₱1,993	₱1,951	₱5,037	₱7,594	₱6,301	₱6,208	₱61,798
Expected credit loss	585	49	42	4,093	1,108	786	452	7,115
2021								
	Trade – electlectricity distributed				Energy Generated	Other trade receivables	Nontrade receivables	Total
	Contract Status							
	Active	Active - Disconnected	Active – Pending to Terminate	Terminated				
(Amounts in millions, except ECL rate)								
ECL Rate	2.41%	5.39%	4.97%	8.22%	22.02%	12.15%	6.50%	
Estimated total gross carrying amount at default	₱24,432	₱3,404	₱4,109	₱3,319	₱5,087	₱6,461	₱4,125	₱50,937
Expected credit loss	589	183	204	2,775	1,120	785	268	5,924



Financial Instruments and Cash and Cash Equivalents

With respect to placements of cash with financial institutions, these institutions are subject to the *MERALCO Group's* accreditation evaluation based on liquidity and solvency ratios and on the bank's credit rating. The *MERALCO Group* transacts derivatives only with similarly accredited financial institutions. In addition, the *MERALCO Group's* deposit accounts in banks are insured by the Philippine Deposit Insurance Corporation up to ₱500,000 per bank account.

The *MERALCO Group* invests only in quoted debt securities with very low credit risk. The *MERALCO Group's* debt instruments at *FVOCI* comprised solely of quoted bonds that are graded in the top investment category (Very Good and Good) by credit rating agencies and therefore, are considered to be low credit risk investments.

Finally, credit quality review procedures are in place to provide regular identification of changes in the creditworthiness of counterparties. Counterparty limits are established and reviewed periodically based on latest available financial information of counterparties, credit ratings and liquidity. The *MERALCO Group's* credit quality review process allows it to assess any potential loss as a result of the risks to which it may be exposed and to take corrective actions.

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

The table below shows the maximum exposure to credit risk for the components of the consolidated statements of financial position. The maximum exposure is equivalent to the nominal amount of the accounts.

	Gross Maximum Exposure	
	2022	2021
	<i>(Amounts in millions)</i>	
Cash and cash equivalents:		
Cash in banks	₱16,966	₱20,518
Cash equivalents	38,634	34,119
Trade and other receivables:		
Electricity sold	36,926	31,513
Energy generated	6,486	3,967
Service contracts	2,421	3,049
Nontrade receivables	5,756	3,857
Other current financial assets:		
Debt securities at amortized cost	17,793	17,121
Short-term investments	204	444
Current portion of advance payments to a supplier	199	182
Other noncurrent financial assets:		
Debt securities at amortized cost	19,503	24,340
Restricted cash	4,478	4,698
Financial assets at <i>FVOCI</i>	4,140	8,467
Advance payments to a supplier	361	523
	₱153,867	₱152,798

The credit quality of financial assets is managed by *MERALCO* using “High Grade”, “Standard Grade” and “Sub-standard Grade” for accounts, which are neither impaired nor past due using internal credit rating policies



The following tables show the credit quality by asset class:

2022						
	Neither Past Due nor Impaired					
	High Grade	Standard Grade	Sub-standard Grade	Past Due but not Impaired	Impaired Financial Assets	Total
(Amounts in millions)						
Cash in banks and cash equivalents	₱55,600	₱—	₱—	₱—	₱—	₱55,600
Trade and other receivables:						
Electricity sold	8,031	2,868	12,728	13,299	4,769	41,695
Energy generated	6,485	—	—	1	1,108	7,594
Service contracts	1,175	—	—	1,246	762	3,183
Nontrade receivables	5,252	—	—	504	452	6,208
Financial and other current assets:						
Debt securities at amortized cost	17,793	—	—	—	—	17,793
Current portion of advance payments to a supplier	199	—	—	—	—	199
Short-term investments	204	—	—	—	—	204
Financial and other noncurrent assets:						
Debt securities at amortized cost	19,503	—	—	—	—	19,503
Financial assets at <i>FVOCI</i>	4,140	—	—	—	—	4,140
Restricted cash	4,478	—	—	—	—	4,478
Advance payment to a supplier	361	—	—	—	—	361
	₱123,221	₱2,868	₱12,728	₱15,050	₱7,091	₱160,958

2021						
	Neither Past Due nor Impaired					
	High Grade	Standard Grade	Sub-standard Grade	Past Due but not Impaired	Impaired Financial Assets	Total
(Amounts in millions)						
Cash in banks and cash equivalents	₱54,637	₱—	₱—	₱—	₱—	₱54,637
Trade and other receivables:						
Electricity sold	6,539	2,732	12,116	10,126	3,751	35,264
Energy generated	3,963	—	—	4	1,120	5,087
Service contracts	986	—	—	2,063	765	3,814
Nontrade receivables	3,246	—	—	611	268	4,125
Financial and other current assets:						
Debt securities at amortized cost	17,121	—	—	—	—	17,121
Current portion of advance payments to a supplier	182	—	—	—	—	182
Short-term investments	444	—	—	—	—	444
Financial and other noncurrent assets:						
Debt securities at amortized cost	24,340	—	—	—	—	24,340
Financial assets at <i>FVOCI</i>	8,467	—	—	—	—	8,467
Restricted cash	4,698	—	—	—	—	4,698
Advance payment to a supplier	523	—	—	—	—	523
	₱125,146	₱2,732	₱12,116	₱12,804	₱5,904	₱158,702



Credit ratings are determined as follows:

▪ High Grade

High grade financial assets include cash in banks, cash equivalents, short-term investments, debt securities at amortized cost investments, *FVOCI* financial assets and advance payments to a supplier transacted with counterparties of good credit rating or bank standing. Consequently, credit risk is minimal. These counterparties include large prime financial institutions, large industrial companies and commercial establishments, and government agencies. For trade receivables, these consist of current month's billings (less than 30 days) that are expected to be collected within 10 days from the time bills are delivered.

▪ Standard Grade

Standard grade financial assets include trade receivables that consist of current month's billings (less than 30 days) that are expected to be collected before due date (10 to 14 days after bill date).

▪ Sub-standard Grade

Sub-standard grade financial assets include trade receivables that consist of current month's billings, which are not expected to be collected within 60 days.

Liquidity Risk

Liquidity risk is the risk that the *MERALCO Group* will be unable to meet its payment obligations when these fall due. The *MERALCO Group* manages this risk through monitoring of cash flows in consideration of future payment of obligations and the collection of its trade receivables. The *MERALCO Group* also ensures that there are sufficient, available and approved working capital lines that it can draw from at any time.

The *MERALCO Group* maintains an adequate amount of cash, cash equivalents and *FVOCI* financial assets, which may be readily converted to cash in any unforeseen interruption of its cash collections. The *MERALCO Group* also maintains accounts with several relationship banks to avoid significant concentration of funds with one (1) institution.

The following table sets out the maturity profile of the financial liabilities and contract liabilities based on contractual undiscounted payments plus future interest:

	2022				
	Less than 3 Months	Over 3–12 Months	Over 1–5 Years	More than 5 Years	Total
	<i>(Amounts in millions)</i>				
Notes payable	₱2,047	₱28,004	₱—	₱—	₱30,051
Trade payables and other current liabilities	86,726	—	—	—	86,726
Customers' refund	2,905	—	—	—	2,905
Interest-bearing long-term financial liabilities:					
Fixed rate borrowings	958	4,937	31,187	33,259	70,341
Floating rate borrowings	163	590	2,972	12,501	16,226
Redeemable preferred stock	1,467	—	—	—	1,467
Customers' deposits	505	2,736	6,907	24,683	34,831
Refundable service extension costs	345	1,427	4,405	248	6,425
Non-refundable liability related to asset funded by customers	127	127	127	488	869
Total undiscounted financial liabilities	₱95,243	₱37,821	₱45,598	₱71,179	₱249,841



	2021				
	Less than 3 Months	Over 3–12 Months	Over 1–5 Years	More than 5 Years	Total
	<i>(Amounts in millions)</i>				
Notes payable	₱1,402	₱28,529	₱—	₱—	₱29,931
Trade payables and other current liabilities	67,166	—	—	—	67,166
Customers' refund	2,929	—	—	—	2,929
Interest-bearing long-term financial liabilities:					
Fixed rate borrowings	5,359	3,321	20,514	33,957	63,151
Redeemable preferred stock	1,470	—	—	—	1,470
Customers' deposits	720	2,055	6,754	24,147	33,676
Refundable service extension costs	345	1,315	4,405	929	6,994
Non-refundable liability related to asset funded by customers	127	127	127	485	866
Total undiscounted financial liabilities	₱79,518	₱35,347	₱31,800	₱59,518	₱206,183

The maturity profile of bill deposits is not determinable since the timing of each refund is linked to the cessation of service, which is not reasonably predictable. However, *MERALCO* estimates that the amount of bill deposits (including related interests) of ₱2,925 million will be refunded within a year. This is shown as part of "Trade payables and other current liabilities" account in the consolidated statement of financial position as at December 31, 2022.

Capital Management

The primary objective of the *MERALCO Group's* capital management is to enhance shareholder value. The capital structure is reviewed with the end view of achieving a competitive cost of capital and at the same time ensuring that returns on, and of, capital are consistent with the levels approved by its regulators for its core distribution business.

The capital structure optimization plan is complemented by efforts to improve capital efficiency to increase yields on invested capital. This entails efforts to improve the efficiency of capital assets, working capital and non-core assets.

The *MERALCO Group* monitors capital using, among other measures, debt to equity ratio, which is gross debt divided by equity attributable to the holders of the parent. The *MERALCO Group* considers long-term debt, redeemable preferred stock and notes payable as debt.

	2022	2021
	<i>(Amounts in millions, except debt to equity ratio)</i>	
Long-term debt	₱72,875	₱60,364
Notes payable	29,491	28,834
Redeemable preferred stock	1,467	1,470
Debt (a)	₱103,833	₱90,668
Equity attributable to the holders of the parent (b)	₱109,664	₱95,204
Debt to equity ratio(a)/(b)	0.95	0.95



28. Income Taxes and Local Franchise Taxes

Income Taxes

The components of net deferred income tax assets and liabilities are as follows:

	Note	2022	2021 (As restated – see Note 3)
<i>(Amounts in millions)</i>			
Deferred income tax assets:			
Provisions for probable losses and expenses from claims	19 and 22	₱25,464	₱29,147
Unfunded retirement benefits cost and unamortized past service cost	26	2,563	2,259
Accrued employee benefits	26	1,395	1,067
Allowance for expected credit losses	13	1,188	1,184
Decommissioning liability		223	219
Actuarial losses		–	89
Allowance for excess of cost over net realizable value of inventories	14	48	48
Others		1,151	564
		32,032	34,577
Deferred income tax liabilities:			
Revaluation increment in utility plant, generation plant and others	16	5,483	5,519
Fair value of net assets from acquisition of GBPC	3	5,343	5,558
Actuarial gains		2,329	922
Capitalized interest		792	700
Capitalized duties and taxes deducted in advance		398	412
Others		457	282
		14,802	13,393
		₱17,230	₱21,184

The deferred income tax assets and liabilities are presented in the consolidated statements of financial position as follows:

	2022	2021 (As restated – see Note 3)
<i>(Amounts in millions)</i>		
Deferred income tax assets – net	₱22,657	₱27,143
Deferred income tax liabilities – net	(5,427)	(5,959)
	₱17,230	₱21,184

Provision for (benefit from) income tax consists of:

	2022	2021	2020
<i>(Amounts in millions)</i>			
Current	₱4,122	₱8,728	₱10,295
Deferred	2,526	184	(4,029)
	₱6,648	₱8,912	₱6,266



The deferred tax assets charged directly to *OCI* amounted to ₱1,544 million, ₱2,172 million and ₱1,557 million for the years ended December 31, 2022, 2021 and 2020, respectively.

A reconciliation between the provision for income tax computed at statutory income tax rates of 25%, 25% and 30% for the years ended December 31, 2022, 2021 and 2020, and provision for income tax as shown in the consolidated statements of income is as follows:

	2022	2021	2020
	<i>(Amounts in millions)</i>		
Income tax computed at statutory tax rate	₱8,809	₱8,249	₱6,724
Impact of <i>CREATE</i> bill on provision for:			
Current income tax	—	(824)	—
Deferred income tax	—	4,525	—
Income tax effects of:			
Interest income subjected to lower final tax rate	(486)	(478)	(691)
Nondeductible interest expense	121	119	285
Nondeductible expense	25	—	1,038
Nontaxable income	(75)	(93)	(94)
Equity in net losses of associates and joint ventures	(₱3,009)	(₱782)	(₱370)
Difference in calculation of tax deductible costs and expenses	—	(1,526)	(3,621)
Unrecognized deferred tax assets	860	(677)	2,772
Others	403	399	223
	₱6,648	₱8,912	₱6,892

MERALCO elected to adopt the itemized deductions in 2022 and Optional Standard Deductions (“*OSD*”) in lieu of itemized deductions in 2021 and 2020 beginning with its first quarter income tax return.

Certain deferred tax assets and liabilities expected to be recovered or settled in subsequent taxable years, for which the related income and expense were not considered in determining gross income for income tax purposes, were not recognized. This is because the manner by which *MERALCO* expects to recover or settle the underlying assets and liabilities would not result in any future tax consequence under the current method of computing taxable income.



MERALCO's net deferred tax assets which were not recognized as at December 31, 2022 and 2021 are as follows:

	2022	2021
	<i>(Amounts in millions)</i>	
Deferred tax assets:		
Net operating loss carryover (" <i>NOLCO</i> ")	₱2,030	₱964
Provisions for various claims	664	480
	2,694	1,444
Deferred tax liabilities:		
Revaluation increment in utility plant, generation plant and others	—	13
Capitalized interest	—	8
Capitalized duties and taxes deducted in advance	—	6
Others	—	5
	—	32
	₱2,694	₱1,412

The temporary differences for which deferred tax assets have not been recognized pertain to the tax effect of *NOLCO* of *MGen* amounting to ₱8,121 million and ₱3,856 million as at December 31, 2022 and 2021, respectively. These are not recognized because *MGen* does not expect to utilize such deferred tax assets against sufficient taxable profit.

NOLCO totaling to ₱8,121 million may be claimed as deduction against taxable income as follows:

Date Incurred	Expiry Date	Amount
		<i>(In millions)</i>
December 31, 2020	December 31, 2025	₱1,288
December 31, 2021	December 31, 2026	1,945
December 31, 2022	December 31, 2025	4,888
		₱8,121

NOLCO amounting to ₱623 million, ₱862 million and ₱613 million expired in 2022, 2021 and 2020, respectively.

On September 30, 2020, the *BIR* issued Revenue Regulations No. 25-2020 implementing Section 4(bbbb) of "Bayanihan to Recover As One Act" which states that the *NOLCO* incurred for taxable years 2020 and 2021 can be carried over and claimed as a deduction from gross income for the next five (5) consecutive taxable years immediately following the year of such loss.

On November 26, 2020, the Senate approved on 3rd and final reading Senate Bill No. 1357, otherwise known as the "Corporate Recovery and Tax Incentives for Enterprises Act" ("*CREATE*"), which seeks to reduce the corporate income tax rates and to rationalize the current fiscal incentives by making it time-bound, targeted, and performed-based.

MERALCO's consolidated financial statements as at and for the years ended December 31, 2020 and 2019 were released on March 1, 2021, prior to the signing of the *CREATE* bill into law by President Duterte on March 26, 2021. As such, *MERALCO's* provision for income tax in 2020 was computed on the basis of the income tax rate of 30% and tax laws that were enacted at the reporting date. The



impact of the *CREATE* bill, mainly the difference between the 30% and 25% income tax rates are adjusted in the 2021 provision for current and deferred income tax.

LFT

Consistent with the decisions of the *ERC*, *LFT* is a recoverable charge of the *DU* from the particular province or city imposing and collecting the *LFT*. It is presented as a separate line item in the customer's bill and computed as a percentage of the sum of generation, transmission, distribution services and related *SL* charges.

The Implementing Rules and Regulations ("*IRR*") issued by the *ERC* provide that *LFT* shall be paid only on its distribution wheeling and captive market supply revenues. Pending the promulgation of guidelines from the relevant government agencies, *MERALCO* is paying *LFT* based on the sum of the foregoing charges in the customers' bill.

In *ERC* Resolution No. 2, Series of 2021, or the Rules on Recovery of Pass-Through Taxes (Real Property, Local Franchise, and Business Taxes) of *DUs*, the *ERC* amended and modified the rules with respect to the recovery of any local franchise tax, including the filing of applications for recovery.

29. Contingencies and Legal Proceedings

Overpayment of Income Tax related to SC Refund

With the decision of the *SC* for *MERALCO* to refund ₱0.167 per *kWh* to customers during the billing period February 1994 to May 2003, *MERALCO* overpaid income tax in the amount of ₱7,107 million for taxable years 1994 to 1998 and 2000 to 2001. Accordingly, on November 27, 2003, *MERALCO* filed a claim for the recovery of such excess income taxes paid. After examination of the books of *MERALCO* for the covered periods, the *BIR* determined that *MERALCO* had in fact overpaid income taxes in the amount of ₱6,690 million. However, the *BIR* also maintained that *MERALCO* is entitled to a refund amount of only ₱894 million, which pertains to taxable year 2001, claiming that the period for filing a claim had prescribed in respect to the difference between *MERALCO*'s overpayment and the refund amount *MERALCO* is entitled to.

The *BIR* then approved the refund of ₱894 million for issuance of tax credit certificates ("*TCCs*"), proportionate to the actual refund of claims to utility customers. The *BIR* initially issued *TCCs* amounting to ₱317 million corresponding to actual refund to customers as at August 31, 2005. In May 2014, the *BIR* issued additional *TCCs* amounting to ₱396 million corresponding to actual refund to customers as at December 31, 2012.

As at December 31, 2022 and 2021, the amount of unissued *TCCs* of ₱181 million is presented as part of "Financial and other noncurrent assets" account in the consolidated statements of financial position.

See Note 11 – *Financial and other Noncurrent Assets*.

MERALCO filed a Petition with the Court of Tax Appeals ("*CTA*") assailing the denial by the *BIR* of its income tax refund claim of ₱5,796 million for the years 1994 - 1998 and 2000, arising from the *SC* decision (net of ₱894 million as approved by the *BIR* for taxable year 2001 "Overpayment of Income Tax related to *SC* Refund"). In a Decision dated December 6, 2010, the *CTA*'s Second Division granted *MERALCO*'s claim and ordered the *BIR* to refund or to issue *TCC* in favor of



MERALCO in the amount of ₱5,796 million in proportion to the tax withheld on the total amount that has been actually given or credited to its customers.

On appeal by the *BIR* to the *CTA En Banc*, *MERALCO*'s petition was dismissed on the ground of prescription in the Decision of the *CTA En Banc* dated May 8, 2012. On a *MR* by *MERALCO* of the said dismissal, the *CTA En Banc* partly granted *MERALCO*'s motion and issued an Amended Decision dated November 13, 2012, ruling that *MERALCO*'s claim was not yet barred by prescription and remanding the case back to the *CTA Second Division* for further reception of evidence.

The *BIR* filed a *MR* of the above Amended Decision, while *MERALCO* filed its Motion for Partial Reconsideration or Clarification of Amended Decision. Both parties filed their respective Comments to the said motions, and these were submitted for resolution at the *CTA En Banc*.

In a Resolution promulgated on May 22, 2013, the *CTA* denied the said motions of the *BIR* and *MERALCO*, and the *CTA Second Division* was ordered to receive evidence and rebuttal evidence relating to *MERALCO*'s level of refund to customers, pertaining to the excess charges it made in taxable years 1994-1998 and 2000, but corresponding to the amount of ₱5,796 million, as already determined by the said court.

On July 12, 2013, the *BIR* appealed the *CTA En Banc*'s Amended Decision dated November 13, 2012 and Resolution dated May 22, 2013 via Petition for Review with the *SC*. As at February 27, 2023, the case is pending resolution by the *SC*.

LFT Assessments of Municipalities

Certain municipalities have served assessment notices on *MERALCO* for *LFT*. As provided in the Local Government Code ("*LGC*"), only cities and provincial governments may impose taxes on establishments doing business in their localities. On the basis of the foregoing, *MERALCO* and its legal counsel believe that *MERALCO* is not subject or liable for such assessments.

RPT Assessments

On October 22, 2015, the *SC* ruled on an appeal of *MERALCO* declaring, among others, that the transformers, electric posts, transmission lines, insulators and electric meters are not exempted from *RPT* under the *LGC*. Thereafter, *MERALCO* began the process of settlement with the affected *LGUs* and filed for the recovery of the resulting *RPT* payments with the *ERC*.

With the development, *PEPOA* and *PHILRECA* filed separate petitions for rule-making proposing the pass-through of *RPT*.

In 2021, acting on petitions filed by *PEPOA* and *PHILRECA*, which proposed the pass-through of *RPT*, *ERC* issued Resolution No. 2, Series of 2021, "Rules on Recovery of Pass-Through Taxes (Real Property, Local Franchise, and Business Taxes)". Under such resolution, the *ERC* approved the recovery of *RPT*, *LFT* and Business Taxes as pass-through charges and therefore excluded among the financial building blocks in the annual revenue requirement of *PBR*.

Accordingly, *MERALCO* filed for recovery of such *RPT* paid and intends to recover the same in the regulatory reset process.

Subsequently, *PEPOA* filed another petition for rule-making to amend certain provisions of Resolution No. 2, Series of 2021 to cover full recovery as pass-through costs of: (i) local taxes (*RPT*, *LFT* and business tax) levied by *LGUs* during the years prior to the Resolution to address tax



arrearages; (ii) *RPT* assessed by *LGUs* on assets located outside the *DU*'s franchise area but are used to provide public service within the franchise area. *MERALCO* had submitted its comments and several public consultations were conducted. As at February 27, 2023, the Petition is pending with the *ERC*.

See Note 19 – Provisions.

Mediation with NPC

The *NPC* embarked on a Power Development Program (“*PDP*”), which consisted of contracting generating capacities and the construction of its own, as well as private sector, generating plants, following a crippling power supply crisis. To address the concerns of the creditors of *NPC*, namely, Asian Development Bank and the World Bank, the Department of Energy (“*DOE*”) required that *MERALCO* enter into a long-term supply contract with the *NPC*.

Accordingly, on November 21, 1994, *MERALCO* entered into a 10-year Contract for Sale of Electricity (“*CSE*”) with *NPC* which commenced on January 1, 1995. The *CSE*, the rates and amounts charged to *MERALCO* therein, were approved by the *BOD* of *NPC* and the then Energy Regulatory Board, respectively.

Separately, the *DOE* further asked *MERALCO* to provide a market for half of the output of the Camago-Malampaya gas field to enable its development and production of natural gas, which was to generate significant revenues for the Philippine Government and equally significant foreign exchange savings for the country to the extent of the fuel imports, which the domestic volume of natural gas will displace.

MERALCO's actual purchases from *NPC* exceeded the contract level in the first seven (7) years of the *CSE*. However, the 1997 Asian crisis resulted in a significant curtailment of energy demand.

While the events were beyond the control of *MERALCO*, *NPC* did not honor *MERALCO*'s good faith notification of its off-take volumes. A dispute ensued and both parties agreed to enter into mediation.

The mediation resulted in the signing of a Settlement Agreement (“*SA*”) between the parties on July 15, 2003. The *SA* was approved by the respective *BODs* of *NPC* and *MERALCO*. The net settlement amount of ₱14,320 million was agreed upon by *NPC* and *MERALCO* and manifested before the *ERC* through a Joint Compliance dated January 19, 2006. The implementation of the *SA* is subject to the approval of the *ERC*.

Subsequently, the *OSG* filed a “Motion for Leave to Intervene with Motion to Admit Attached Opposition to the Joint Application and Settlement Agreement between *NPC* and *MERALCO*”. As a result, *MERALCO* sought judicial clarification with the Regional Trial Court (“*RTC-Pasig*”). Pre-trials were set, which *MERALCO* complied with and attended. However, the *OSG* refused to participate in the pre-trial and opted to seek a Temporary Restraining Order (“*TRO*”) from the *CA*.

In a Resolution dated December 1, 2010, the *CA* issued a *TRO* against the *RTC-Pasig*, *MERALCO* and *NPC* restraining the respondents from further proceeding with the case. Subsequently, in a Resolution dated February 3, 2011, the *CA* issued a writ of preliminary injunction enjoining the *RTC-Pasig* from conducting further proceedings pending resolution of the Petition. In a Decision dated October 14, 2011, the *CA* resolved to deny the Petition filed by the *OSG* and lifted the injunction previously issued. The said Decision likewise held that the *RTC-Pasig* committed no error in finding the *OSG* in default due to its failure to participate in the proceedings. The *RTC-Pasig* was thus ordered to proceed to hear the case *ex-parte*, as against the *OSG*, and with dispatch. The *OSG* filed a



MR which was denied by the *CA* in its Resolution dated April 25, 2012. The *OSG* filed a Petition for Review on Certiorari with the *SC*. *MERALCO*'s Comment was filed on October 29, 2012. Subsequently, a Decision dated December 11, 2013 was rendered by the First Division of the *SC* denying the Petition for Review on Certiorari by the *OSG* and affirming the Decision promulgated by the *CA* on October 14, 2011.

With the dismissal of the petition filed by the Office of the Solicitor General ("*OSG*") with the *CA*, *MERALCO* filed a motion for the reception of its evidence *ex-parte* with the *RTC-Pasig* pursuant to the ruling of the *CA*. In a Decision dated May 29, 2012, the *RTC-Pasig* declared the *SA* valid and binding, independent of the pass-through for the settlement amount which is reserved for the *ERC*. The *OSG* has filed a Notice of Appeal with the *RTC-Pasig* on June 19, 2012. After both parties filed their respective appeal briefs, the *CA* rendered a Decision dated April 15, 2014 denying the appeal and affirming the *RTC* Decision, which declared the *SA* as valid and binding. The *OSG* filed a Petition for Review with the *SC*. On November 10, 2014, *MERALCO* filed its comment to the Petition. *PSALM* likewise filed its comment to the Petition. In a Resolution dated July 8, 2015, the *SC* resolved to serve anew its Resolutions requiring *NPC* to comment on the Petition. In compliance, *NPC* submitted its Comment dated September 8, 2015. *MERALCO* submitted its Motion for Leave to File and to Admit Attached Reply on October 12, 2015. Pursuant to the *SC* Resolution dated November 11, 2015, the *OSG* filed a Consolidated Reply to the comments filed by *NPC*, *MERALCO* and *PSALM*. *MERALCO* then filed a Motion for Leave to File and to Admit the Attached Rejoinder. The parties have filed their respective memoranda. In a Resolution dated September 28, 2022, the *SC* denied the Petition filed by the *OSG* and affirmed the validity of the Settlement Agreement. The implementation of the *SA* is subject to the approval of the *ERC*.

Sucat-Araneta-Balintawak Transmission Line

The Sucat-Araneta-Balintawak transmission line is a two (2)-part transmission line, which completed the 230 *kV* line loop within Metro Manila. The two (2) main parts are the Araneta to Balintawak leg and the Sucat to Araneta leg, which cuts through Dasmariñas Village, Makati City.

On March 10, 2000, certain residents along Tamarind Road, Dasmariñas Village, Makati City "*the Plaintiffs*", filed a case against *NPC* with the *RTC-Makati*, enjoining *NPC* from further installing high voltage cables near the *Plaintiffs*' homes and from energizing and transmitting high voltage electric current through said cables because of the alleged health risks and danger posed by the same through the electromagnetic field emitted by said lines. Following its initial status quo Order issued on March 13, 2000, *RTC-Makati* granted on April 3, 2000 the preliminary injunction sought by the *Plaintiffs*. The decision was affirmed by the *SC* on March 23, 2006, which effectively reversed the decision of the *CA* to the contrary. The *RTC-Makati* subsequently issued a writ of execution based on the Order of the *SC*. *MERALCO*, in its capacity as an intervenor, was constrained to file an Omnibus Motion to maintain status quo because of the significant effect of a de-energization of the Sucat-Araneta line to the public and economy. Shutdown of the 230 *kV* line will result in widespread and rotating brownouts within *MERALCO*'s franchise area with certain power plants unable to run at their full capacities.

On September 8, 2009, the *RTC-Makati* granted the motions for intervention filed by intervenors, *MERALCO* and *NGCP* and dissolved the Writ of Preliminary Injunction issued, upon the posting of the respective counter bonds by defendant *NPC*, intervenors *MERALCO* and *NGCP*, subject to the condition that *NPC* and intervenors will pay for all damages, which the *Plaintiffs* may incur as a result of the Writ of Preliminary Injunction.

In its Order dated February 5, 2013, the *RTC-Makati* granted the *Plaintiffs*' motion and directed the re-raffle of the case to another branch after the judicial dispute resolution failed.



This case remains pending and is still at the pre-trial stage. During the pre-trial stage, *Plaintiffs* filed a Manifestation stating that they are pursuing the deposition of a supposed expert in electromagnetic field through oral examination without leave of court in late January or early February 2016 or on such date as all the parties may agree amongst themselves at the Consulate Office of the Philippines in Vancouver, Canada. *NPC* and intervenors filed their Opposition and Counter-Manifestation. Intervenor *NGCP* filed a Motion to Prohibit the Taking of the Deposition of the said expert. Intervenor *MERALCO* intends to file its Comment/Opposition in due course. As at February 27, 2023, *MERALCO* is awaiting further action of the *SC* on the matter.

Petition for Dispute Resolution against PEMC, TransCo, NPC and PSALM

On September 9, 2008, *MERALCO* filed with the *ERC* a Petition for Dispute Resolution, against *PEMC*, *TransCo*, *NPC* and *PSALM*, as a result of the congestion in the transmission system of *TransCo* arising from the outages of the San Jose-Tayabas 500 kV Line 2 on June 22, 2008, and the 500 kV 600 Mega Volt-Ampere Transformer Bank No. 2 of *TransCo*'s San Jose, Bulacan substation on July 11, 2008. The Petition seeks to, among others, direct *PEMC* to adopt the *NPC*- Time-of-Use ("*TOU*") rate or the new price determined through the price substitution methodology of *PEMC* as approved by the *ERC*, as basis for its billing during the period of the congestion and direct *NPC* and *PSALM* to refund the transmission line loss components of the line rentals associated with *NPC/PSALM* bilateral transactions from the start of *WESM* operation on June 26, 2006.

In a Decision dated March 10, 2010, the *ERC* granted *MERALCO*'s petition and ruled that there is double charging of the transmission line costs billed to *MERALCO* by *NPC* for the Transition Supply Contract ("*TSC*") quantities to the extent of 2.98% loss factor, since the effectivity of the *TSC* in November 2006. Thus, *NPC* was directed to refund line rental adjustment to *MERALCO*. In the meantime, the *ERC* issued an Order on May 4, 2011 allowing *PEMC* to submit an alternative methodology for the segregation of line rental into congestion cost and line losses from the start of the *WESM*. *PEMC* has filed its compliance submitting its alternative methodology.

On September 8, 2011, *MERALCO* received a copy of *PEMC*'s compliance to the *ERC*'s directive and on November 11, 2011, *MERALCO* filed a counter-proposal which effectively simplifies *PEMC*'s proposal.

In an Order of the *ERC* dated June 21, 2012, *MERALCO* was directed to submit its computation of the amount of the double charging of line loss on a per month basis from June 26, 2006 up to June 2012. On July 4, 2012, *MERALCO* filed its Compliance to the said Order. Thereafter, the *ERC* issued an Order directing the parties to comment on *MERALCO*'s submissions. Hearings were conducted on October 2, 2012 and October 16, 2012 to discuss the parties' proposal and comments.

In an Order dated March 4, 2013, the *ERC* approved the methodology proposed by *MERALCO* and *PEMC* in computing the double charged amount on line losses by deducting 2.98% from the *NPC-TOU* amount. Accordingly, the *ERC* determined that the computed double charge amount to be collected from *NPC* is ₱5.2 billion, covering the period November 2006 to August 2012 until actual cessation of the collection of the 2.98% line loss charge in the *NPC-TOU* rates imposed on *MERALCO*. In this regard, *NPC* was directed by the *ERC* to refund said amount by remitting to *MERALCO* the equivalent amount of ₱73.9 million per month until the over-recoveries are fully refunded. In the said Order, the *ERC* likewise determined that the amount to be collected from the successor generating companies ("*SGCs*") is ₱4.7 billion. Additionally, *MERALCO* was directed to file a petition against the following *SGCs*: *MPPCL*, Aboitiz Power Renewables, Inc. ("*APRP*"), *TLI*, *SMEC* and *Sem-Calaca*, within 30 days from receipt thereof, to recover the line loss collected by them. On April 19, 2013, *MERALCO* filed a Motion for Clarification with the *ERC* regarding the directives contained in the March 4, 2013 Order. On April 30, 2013 and May 8, 2013, *PSALM* and



NPC, respectively, filed motions seeking reconsideration of the March 4, 2013 Order. *MERALCO* filed a motion seeking for an additional 15 days from its receipt of the *ERC*'s Order resolving its Motion for Clarification, within which to file its Petition against the *SGCs*.

In an Order dated July 1, 2013, the *ERC* issued the following clarifications/resolutions: (i) *SPPC* should be included as one of the *SGCs* against whom a petition for dispute resolution should be filed by *MERALCO*; (ii) amount to be refunded by *NPC* is not only ₱5.2 billion but also the subsequent payments it received from *MERALCO* beyond August 2012 until the actual cessation of the collection of the 2.98% line loss charge in its *TOU* rates; (iii) petition to be filed by *MERALCO* against the *SGCs* should not only be for the recovery of the amount of ₱4.7 billion but also the subsequent payments beyond August 2012 until the actual cessation of the collection of the 2.98% line loss charge in its *TOU* rates; (iv) "SCPC Ilijan" pertains to *SPPC* instead. Thus, the refundable amount of ₱706 million pertaining to "SCPC Ilijan" should be added to *SPPC*'s refundable amount of ₱1.1 billion; (v) grant the Motion for Extension filed by *MERALCO* within which to file a petition against the following *SGCs*: *MPPCL*, *APRI*, *TLI*, *SMEC*, *Sem-Calaca* and *SPPC*; and (vi) deny the respective *MRs* filed by *NPC* and *PSALM*.

On September 12, 2013, *MERALCO* filed a Manifestation with Motion with the *ERC* seeking approval of its proposal to offset the amount of ₱73.9 million per month against its monthly remittances to *PSALM*. *PSALM* and *NPC* filed their comments *Ad Cautelam* and Comment and Opposition *Ad Cautelam*, respectively, on *MERALCO*'s Manifestation with Motion. On November 4, 2013, *MERALCO* filed its reply. As at February 27, 2023, *MERALCO*'s Manifestation with Motion is pending resolution by the *ERC*.

On October 24, 2013, *MERALCO* received *PSALM*'s Petition for Review on Certiorari with the *CA* (With Urgent *TRO* and/or Writ of Preliminary Mandatory Injunction Applications) questioning the March 4, 2013 and July 1, 2013 Orders of the *ERC*.

On February 3, 2014, *MERALCO* filed a Comment with Opposition to the Application for *TRO* or Writ of Preliminary Injunction dated January 30, 2014. *PEMC* filed a Comment and Opposition Re: Petition for Certiorari with Urgent *TRO* and/or Writ of Preliminary Mandatory Injunction dated January 6, 2014. On June 4, 2014, the *CA* issued a Resolution declaring that *PSALM* is deemed to have waived the filing of a Reply to the comment and opposition of *MERALCO* and *PEMC* and directing the parties to submit their simultaneous memoranda within 15 days from notice. On December 1, 2014, the *CA* issued a decision dismissing the Petition for Certiorari filed by *PSALM* against the *ERC*, *MERALCO* and *PEMC* and affirming the *ERC*'s ruling on the refund of the ₱5.2 billion of transmission line losses double charged by *PSALM* and *NPC*. On January 30, 2015, *PSALM* filed its *MR* on the December 1, 2014 Decision of the *CA*. *MERALCO* has filed its Opposition to the *MR*. In a Resolution dated August 11, 2015, the *CA* denied *PSALM*'s *MR*. On October 27, 2015, *MERALCO* received *PSALM*'s Petition for Review with the *SC*. The Petition has been given due course and the parties have filed their respective memoranda. As at February 27, 2023, *MERALCO* is still awaiting further action of the *SC* on the Petition.

Petition for Dispute Resolution against SPPC, MPPCL, APRI, TLI, SMEC and Sem-Calaca

On August 29, 2013, *MERALCO* filed a Petition for Dispute Resolution against *SPPC*, *MPPCL*, *APRI*, *TLI*, *SMEC* and *Sem-Calaca*. Said Petition seeks the following: 1) refund of the 2.98% transmission line losses in the amount of ₱5.4 billion, inclusive of the ₱758 million line loss for the period September 2012 to June 25, 2013, from said *SGCs*; and 2) approval of *MERALCO*'s proposal to correspondingly refund to its customers the aforementioned line loss amounts, as and when the same are received from the *SGCs*, until such time that the said over-recoveries are fully refunded, by way of automatic deduction of the amount of refund from the computed monthly generation rate. On



September 20, 2013, *MERALCO* received the *SGCs*' Joint Motion to Dismiss. On October 7, 2013, *MERALCO* filed its Comment on the said Joint Motion.

On October 8, 2013, *MERALCO* received the *SGCs* Manifestation and Motion, which sought, among other things, the cancellation of the scheduled initial hearing of the case, including the submission of the parties respective Pre-trial Briefs, until the final resolution of the *SGC*'s Joint Motion to Dismiss. On October 11, 2013, *MERALCO* filed its pre-trial brief. On October 14, 2013, *MERALCO* filed its Opposition to the *SGC*'s Manifestation and Motion. On October 24, 2013, *MERALCO* received the *SGC*'s Reply to its Comment on the Joint Motion to Dismiss. On October 29, 2013, *MERALCO* filed its Rejoinder. Thereafter, the *SGC*'s filed their Sur-Rejoinder dated November 4, 2013. As at February 27, 2023, the Joint Motion to Dismiss is pending resolution by the *ERC*.

Petition for Dispute Resolution with NPC on Premium Charges

On June 2, 2009, *MERALCO* filed a Petition for Dispute Resolution against *NPC* and *PSALM* with respect to *NPC*'s imposition of premium charges for the alleged excess energy it supplied to *MERALCO* covering the billing periods May 2005 to June 2006. The premium charges amounting to ₱315 million during the May-June 2005 billing periods have been paid but are the subject of a protest by *MERALCO*, and premium charges of ₱318 million during the November 2005, February 2006 and April to June 2006 billing periods are being disputed and withheld by *MERALCO*. *MERALCO* believes that there is no basis for the imposition of the premium charges. The hearings on this case have been completed. As at February 27, 2023, the Petition is pending resolution by the *ERC*.

SC TRO on MERALCO's December 2013 Billing Rate Increase

On December 9, 2013, the *ERC* gave clearance to the request of *MERALCO* to implement a staggered collection over three (3) months covering the December 2013 billing month for the increase in generation charge and other bill components such as *VAT*, *LFT*, transmission charge, and *SL* charge. The generation costs for the November 2013 supply month increased significantly because of the aberrant spike in the *WESM* charges on account of the non-compliance with *WESM* Rules by certain plants resulting in significant power generation capacities not being offered and dispatched, and the scheduled and extended shutdowns, and the forced outages, of several base load power plants, and the use of the more expensive liquid fuel or bio-diesel by the natural gas-fired power plants that were affected by the Malampaya Gas Field shutdown from November 11 to December 10, 2013.

On December 19, 2013, several party-list representatives of the House of Representatives filed a Petition against *MERALCO*, *ERC* and *DOE* before the *SC*, questioning the *ERC* clearance granted to *MERALCO* to charge the resulting price increase, alleging the lack of hearing and due process. It also sought for the declaration of the unconstitutionality of the *EPIRA*, which essentially declared the generation and supply sectors competitive and open, and not considered public utilities. A similar petition was filed by a consumer group and several private homeowners' associations challenging also the legality of the *AGRA* that the *ERC* had promulgated. Both petitions prayed for the issuance of *TRO*, and a Writ of Preliminary Injunction.

On December 23, 2013, the *SC* consolidated the two (2) Petitions and granted the application for *TRO* effective immediately and for a period of 60 days, which effectively enjoined the *ERC* and *MERALCO* from implementing the price increase. The *SC* also ordered *MERALCO*, *ERC* and *DOE* to file their respective comments to the Petitions. Oral Arguments were conducted on January 21, 2014, February 4, 2014 and February 11, 2014. Thereafter, the *SC* ordered all the Parties to the consolidated Petitions to file their respective Memorandum on or before February 26, 2014 after which the Petitions will be deemed submitted for resolution of the *SC*. *MERALCO* complied with said directive and filed its Memorandum on said date.



On February 18, 2014, acting on the motion filed by the Petitioners, the SC extended for another 60 days or until April 22, 2014, the TRO that it originally issued against *MERALCO* and *ERC* on December 23, 2013. The TRO was also similarly applied to the generating companies, specifically *MPPCL*, *SMEC*, *SPPC*, *FGPC*, and the *NGCP*, and the *PEMC* (the administrator of *WESM* and market operator at that time) who were all enjoined from collecting from *MERALCO* the deferred amounts representing the ₱4.15 per *kWh* price increase for the November 2013 supply month.

In the meantime, on January 30, 2014, *MERALCO* filed an Omnibus Motion with Manifestation with the *ERC* for the latter to direct *PEMC* to conduct a re-run or re-calculation of the *WESM* prices for the supply months of November to December 2013. Subsequently, on February 17, 2014, *MERALCO* filed with the *ERC* an Application for the recovery of deferred generation costs for the December 2013 supply month praying that it be allowed to recover the same over a six (6)-month period.

On March 3, 2014, the *ERC* issued an Order voiding the Luzon *WESM* prices during the November and December 2013 supply months on the basis of the preliminary findings of its Investigating Unit (“IU”) that these are not reasonable, rational and competitive, and imposing the use of regulated rates for the said period. *PEMC* was given seven (7) days upon receipt of the Order to calculate these regulated prices and implement the same in the revised *WESM* bills of the concerned *DUs* in Luzon. *PEMC*’s recalculated power bills for the supply month of December 2013 resulted in a net reduction of the December 2013 supply month bill of the *WESM* by ₱9.3 billion. Due to the pendency of the TRO, no adjustment was made to the *WESM* bill of *MERALCO* for the November 2013 supply month. The timing of amounts to be credited to *MERALCO* is dependent on the reimbursement of *PEMC* from associated generator companies. However, several generating companies, including *MPPCL*, *SN Aboitiz Power, Inc.*, *Team (Philippines) Energy Corporation*, *PanAsia Energy, Inc.* (“*PanAsia*”), and *SMEC*, have filed *MRs* questioning the Order dated March 3, 2014. *MERALCO* has filed a consolidated comment to these *MRs*. In an Order dated October 15, 2014, the *ERC* denied the *MRs*. The generating companies have appealed the Orders with the *CA*. *MERALCO* has filed a motion to intervene and a comment in intervention. The *CA* consolidated the cases filed by the generation companies. In a Decision dated November 7, 2017, the *CA* set aside *ERC* Orders dated March 3, 2014, March 27, 2014, May 9, 2014 and October 15, 2014 and declared the orders null and void. The Decision then reinstated and declared valid *WESM* prices for the November and December 2013 supply months. *MERALCO* and the *ERC* have filed their respective motions for reconsideration. Several consumers also intervened in the case and filed their respective motions for reconsideration. In a Resolution dated March 29, 2019, the *CA* denied the motions for reconsideration and upheld its Decision dated November 7, 2017.

MERALCO and several consumers have elevated the *CA* Decision and Order to the SC where the case is pending. In a Resolution dated November 4, 2020, the SC consolidated *ERC*’s and *MERALCO*’s petitions and transferred *MERALCO*’s petition to the member-in-charge of *ERC*’s petition which was the lower-numbered case. The petitions filed by the consumers were denied by the SC.

In view of the pendency of the various submissions before the *ERC* and mindful of the complexities in the implementation of the *ERC*’s Order dated March 3, 2014, the *ERC* directed *PEMC* to provide the market participants additional 45 days to comply with the settlement of their respective adjusted *WESM* bills. In an Order dated May 9, 2014, the parties were then given an additional non-extendible period of 30 days from receipt of the Order within which to settle their *WESM* bills. However, in an Order dated June 6, 2014 and acting on an intervention filed by *Angeles Electric Corporation*, the *ERC* deemed it appropriate to hold in abeyance the settlement of *PEMC*’s adjusted *WESM* bills by the market participants.



On April 22, 2014, the *SC* extended indefinitely the *TRO* issued on December 23, 2013 and February 18, 2014 and directed generating companies, *NGCP* and *PEMC* not to collect from *MERALCO*. In a Decision promulgated on August 3, 2022, the *SC* affirmed the December 9, 2013 *ERC* letter approving *MERALCO*'s proposal to implement a staggered collection over three (3) months covering the December 2013 billing month. However, it voided the *ERC* March 3, 2014 Order which voided the Luzon *WESM* prices during the November and December 2013 supply months and imposed the use of regulated rates for said period. The *ERC* and the petitioners filed motions for reconsideration which were denied with finality in the *SC* Resolution dated October 11, 2022. The implementation of any staggered collection is subject to the approval of the *ERC*.

ERC IU Complaint

On December 26, 2013, the *ERC* constituted the *IU* under its Competition Rules to investigate possible anti-competitive behavior by the industry players and possible collusion that transpired in the *WESM* during the supply months of November 2013 and December 2013. *MERALCO* participated in the proceedings and submitted a Memorandum.

An investigating officer of the *IU* filed a Complaint dated May 9, 2015 against *MERALCO* and *TMO* for alleged anti-competitive behavior constituting economic withholding in violation of Section 45 of the *EPIRA* and Rule 11, Section 1 and 8(e) of the *EPIRA IRR*. In an Order dated June 15, 2015, the *ERC* directed *MERALCO* to file its comment on the Complaint. *MERALCO* and *TMO* have filed their respective answers to the Complaint.

In an Order dated September 1, 2015, the *ERC* directed the investigating officer to file his reply to *MERALCO*. In a Manifestation and Motion to Set the Case for Hearing dated November 9, 2015, the investigating officer manifested that he would no longer file a reply and that the case be set for hearing.

On May 24, 2016, the *ERC* promulgated Resolution No. 14, Series of 2016, which resolved to divide the Commission into two (2) core groups for the conduct of hearings and to designate the commissioners to act as presiding officers in anti-competition cases. The raffle pursuant to said Resolution was conducted on June 15, 2016.

In a Notice of Pre-Trial Conference dated June 16, 2016, the *ERC* set the pre-trial conference on August 18, 2016 and required *MERALCO* and *TMO* to submit their respective pre-trial briefs. However, on July 27, 2016, the complainant filed two (2) omnibus motions for the consolidation and deferment of the pre-trial conferences. Hence, in an Order dated August 1, 2016, the respondents were given 10 days to submit their comments on the Motion for Consolidation, with the complainant given five (5) days to file his reply. As such, the pre-trial conferences as scheduled were deferred until further notice and all parties were granted 20 days to submit their respective pre-trial briefs.

In the meantime, *MERALCO* likewise filed an Urgent Motion to Dismiss with Motion to Suspend Proceedings which was adopted by *TMO* in its Manifestation and Motion filed on July 28, 2016. *MERALCO* maintained that the Complaint should be dismissed due to the absence of subject matter jurisdiction as it is now the Philippine Competition Commission ("*PCC*") which has original and primary jurisdiction over competition-related cases in the energy sector. On August 23, 2016, *MERALCO* filed an Urgent Motion Ad Cautelam for suspension of proceeding including period to file pre-trial brief and judicial affidavit.

In a Motion dated August 25, 2016, complainant filed a Motion to defer the submission of the complainant's pre-trial brief and judicial affidavit. In an Order dated June 13, 2017, the *ERC* denied



the motion to consolidate but upheld the authority of private counsel to represent the complainants. *MERALCO* filed a Motion for Partial Reconsideration to question such authority.

In an Order dated February 2, 2017, the *ERC* denied the motion to dismiss and asserted jurisdiction over the Complaint. *MERALCO* filed its *MR* to the Order on February 23, 2017. In an Order dated June 20, 2017, the *ERC* denied the *MR*. On September 19, 2017, *MERALCO* filed a Petition for Certiorari with the *CA*. In a Resolution dated October 2, 2017, the *CA* required respondents to file their Comment on the Petition within 10 days and held in abeyance its resolution on the prayer for injunctive relief until the comments have been filed. *MERALCO* was likewise given five (5) days to file its reply. In a Manifestation dated October 23, 2017, the *ERC* stated that it is a nominal party in the case as the quasi-judicial tribunal that issued the assailed ordinances. The *IU* filed its own Comment dated December 19, 2017. In a Manifestation and Motion dated December 22, 2017, the *OSG* informed the *CA* that it will no longer represent the *IU* and will instead participate as “tribune of the people”. In the meantime, *TMO* also filed a separate Petition for Review on Certiorari with the *CA*. In a Resolution dated January 10, 2018, the *CA* ordered the consolidation of the petitions of *TMO* and *MERALCO*. In a Decision dated May 23, 2018, the *CA* denied the consolidated Petitions filed by *MERALCO*, *TMO*, and *APRI*, and ruled that the jurisdiction to resolve the *IU* cases remains with the *ERC* because the Philippine Competition Act (“*PCA*”) does not apply retroactively.

On June 20, 2018, *MERALCO* filed an *MR* with the *CA*. The *ERC* likewise filed its Motion for Partial Reconsideration on the ground that it retained concurrent jurisdiction together with the *PCC* over cases involving alleged anti-competitive conduct supposedly because the *PCA* did not repeal Section 45 of the *EPIRA*.

In Resolution dated January 28, 2019, the *CA* denied the motions for reconsideration filed by all of the parties. While it sustained its finding that the *PCC* now holds original, exclusive, and primary jurisdiction over all competition-related cases, the *CA* reiterated its view that the *PCA* has no retroactive effect.

The *ERC* has elevated the matter to the *SC*. *MERALCO*, *TMO* and *APRI* have all filed their respective manifestations before the *SC*. In a Resolution dated September 29, 2021, the *SC* affirmed the *CA* in that the *ERC* had jurisdiction over these cases as they were filed before the enactment of the *PCA*. However, the *SC* did not rule on whether the *PCC* and the *ERC* now have concurrent jurisdiction as these issues were not fully litigated.

In the meantime, the *ERC* called for a conference on March 26, 2021 in order to discuss updates and developments regarding the case. On April 14, 2021, *MERALCO* filed an Urgent Motion Ad Cautelam to Suspend Proceedings in view of the pendency of the case before the *SC*. The *ERC* then issued an Order dated August 13, 2021, setting the pre-trial conference on August 27, 2021. *MERALCO* filed a Manifestation and Urgent Omnibus Motion Ad Cautelam to (A) Resolve the Urgent Motion Ad Cautelam to Suspend Proceedings dated April 14, 2021 and (B) Cancel the August 27, 2021 Pre-Trial Conference dated August 20, 2021. The pre-trial conference proceeded on August 27, 2021. However, the *ERC* stated that, after the pre-trial conference and before the case can proceed with trial on the merits, the *ERC* will first resolve *MERALCO*’s motions. The *ERC* also issued an open court order denying the motion of the *ERC IU* that the case be resolved through the submission of the position papers and other supporting documents. The *ERC IU* filed a Motion for Reconsideration to which *MERALCO* filed an opposition. As at February 27, 2023, *MERALCO* is awaiting further action by the *ERC* on the matter.



Ombudsman Cases Against MERALCO Directors

On January 30, 2018, *MERALCO* received an Order dated January 22, 2018 from the Office of the Ombudsman directing *MERALCO*'s directors to comment on a complaint-affidavit for syndicated estafa filed by certain consumer group which charged that there was conspiracy between *MERALCO* directors and the *ERC* regarding the alleged misappropriation of the bill deposits received from *MERALCO* consumers. On February 9, 2018, *MERALCO*'s directors filed their Counter-Affidavits where they refuted the arguments of the consumer group. In a Resolution dated May 18, 2018, the criminal complaint for syndicated estafa was dismissed for insufficiency of evidence. The case was referred to the *COA* for the conduct of audit on the bill deposits collected by *MERALCO* from the public consumers and to inform the Ombudsman of the compliance therewith. The consumer group filed a Motion for Partial Reconsideration dated June 16, 2018 to which *MERALCO* filed its Comment. The consumer group's Motion for Partial Reconsideration was denied through an Order dated July 30, 2018. *NASECORE* filed an *Urgent Motion for Immediate Execution* dated September 21, 2018 praying that the Ombudsman issue a writ of execution to implement the *Resolution* dated May 18, 2018.

On February 28, 2018, *MERALCO* received an Order dated February 20, 2018 from the Office of the Ombudsman directing *MERALCO*'s directors to comment on a complaint-affidavit for syndicated estafa filed by certain consumer group which charged that there was conspiracy between *MERALCO* directors and the *ERC* regarding the *MERALCO*'s investment activities in other businesses for being violative of its legislative franchise and the *EPIRA*. On March 12, 2018, *MERALCO*'s directors filed their Counter-Affidavits where they refuted the arguments of the consumer group. On May 4, 2018, *MERALCO* filed a Manifestation with Motion for Early Resolution of even date. Another Motion to Resolve and Dismiss was also filed by *MERALCO* on June 2, 2021. In a Joint Resolution dated February 22, 2022, the Ombudman dismissed the cases.

Others

Liabilities for certain local taxes amounting to ₱535 million and ₱423 million as at December 31, 2022 and 2021, respectively, are included in the "Other noncurrent liabilities" account in the consolidated statements of financial position.

Management and its internal and external counsels believe that the probable resolution of these issues will not materially affect *MERALCO*'s financial position and results of operations.

30. Significant Contracts and Commitments

MERALCO

Independent Power Producers ("IPPs")

FGPC and FGP

In compliance with the *DOE*'s program to create a market for Camago-Malampaya gas field and enable its development, *MERALCO* contracted 1,500 *MW* of the 2,700 *MW* output of the Malampaya gas field.

Accordingly, *MERALCO* entered into separate 25-year *PPAs* with *FGPC* (March 14, 1995) and *FGP* (July 22, 1999) for a minimum number of *kWh* of the net electric output of the Sta. Rita and San



Lorenzo power plants, respectively, from the start of their commercial operations. The *PPA* with *FGPC* terminates on August 17, 2025, while that of *FGP* ends on October 1, 2027.

On January 7, 2004, *MERALCO*, *FGP* and *FGPC* signed an Amendment to their respective *PPAs*. The negotiations resulted in certain new conditions including the assumption of *FGP* and *FGPC* of community taxes at current tax rate, and subject to certain conditions increasing the discounts on excess generation, payment of higher penalties for non-performance up to a capped amount, recovery of accumulated deemed delivered energy until 2011 resulting in the non-charging of *MERALCO* of excess generation charge for such energy delivered beyond the contracted amount but within a 90% capacity quota. The amended terms under the respective *PPAs* of *FGP* and *FGPC* were approved by the *ERC* on May 31, 2006.

Under the respective *PPAs* of *FGP* and *FGPC*, the fixed capacity fees and fixed operating and maintenance fees are recognized monthly based on the actual Net Dependable Capacity tested and proven, which is usually conducted on a semi-annual basis.

QPPL

MERALCO entered into a *PPA* with *QPPL* on August 12, 1994, which was subsequently amended on December 1, 1996. The *PPA* is for a period of 25 years from the start of commercial operations up to May 31, 2025.

In a Letter Agreement signed on February 21, 2008, the amount billable by *QPPL* included a transmission line charge reduction in lieu of a previous rebate program. The Letter Agreement also provides that *MERALCO* shall advance to *QPPL* US\$2.85 million per annum for 10 years beginning 2008 to assist *QPPL* in consideration of the difference between the transmission line charge specified in the Transmission Line Agreement (“*TLA*”) and the *ERC*-approved transmission line charge in March 2003. *QPPL* shall repay *MERALCO* the same amount at the end of the 10-year period in equal annual payments without adjustment. However, if *MERALCO* is able to dispatch *QPPL* at a plant capacity factor of no less than 86% in any particular year, *MERALCO* shall not be required to pay US\$2.85 million on that year. In January 2018, *QPPL* began repayment of the amount advanced by *MERALCO*. As at December 31, 2022, the remaining amount for repayment by *QPPL* is US\$7.125 million. This arrangement did not have any impact on the rates to be charged to consumers and hence, did not require any amendment in the *PPA*, as approved by the *ERC*.

See Note 11 – Financial and other Noncurrent Assets.

Committed Energy Volume to be Purchased

The following are forecasted purchases/payments to *FGPC*, *FGP* and *QPPL* corresponding to the Minimum Energy Quantity (“*MEQ*”) provisions of the contracts. The forecasted fixed payments include capacity charge and fixed operation and maintenance cost escalated using the *U.S.* and Philippine Consumer Price Index.

Year	MEQ	Equivalent Amount
	<i>(In million kwh)</i>	<i>(In Millions)</i>
2023	15,346	₱31,297
2024	15,379	30,712
2025	10,739	19,088
2026	4,042	6,226
2027-2032	3,367	5,224



PSAs with Privatized Plants and IPPAs

MERALCO has a *PSA* with *MPPCL* which was approved by the *ERC* on December 17, 2012, and entered into Supplemental Agreement on April 8, 2016, for the extension of the term of the *PSA* for an additional period of three (3) years up to December 25, 2022.

On December 6, 2019, *MERALCO* and *TLI* executed a new short-term *PSA* for the purchase of 250 *MW* capacity and energy from *TLI*'s power plant for the period of December 26, 2019 to December 25, 2020. On December 19, 2019, the *DOE* issued a Certificate of Exemption from *CSP* in favor of *MERALCO* for the new short-term *PSA*. On December 23, 2019, *MERALCO* filed an application with the *ERC* for the approval of its new short-term *PSA* with *TLI*. On August 7, 2020, *MERALCO* and *TLI* filed a Joint Manifestation with Motion with the *ERC* seeking approval of the extension of the *PSA* for five days or until December 30, 2020. As at February 27, 2023, hearings have been completed. The case, including the motion, is still pending approval of the *ERC*.

The *ERC*, for the *MPPCL* case, issued an Order dated October 11, 2016 resolving to consider *MERALCO*'s "Manifestation and Motion" as a new application for approval of *PSA*. In view of the said Order, *MERALCO* and *MPPCL* filed a Joint Application for approval of the Supplemental Agreement extending the term of their *PSA* for an additional three (3) years. On December 19, 2019, *MERALCO* and *MPPCL* entered into an Agreement to Amend the Supplemental Agreement, whereby the Parties resolved to extend the *PSA* for an additional period of one (1) year reckoned from the date of the approval by the *ERC* of the said Agreement to Amend. On June 8, 2020, *MERALCO* and *MPPCL* filed a Joint Manifestation and Omnibus Motion to seek *ERC* approval of said Agreement to Amend. On April 14, 2021, due to exigent and emergency reasons (e.g. unforecasted supply deficiency and to account for outages of power plants with bilateral contracts with *MERALCO*), *MERALCO* and *MPPCL* further agreed to enter into an Amendment Agreement to amend the December 19, 2019 Agreement to Amend, to instead extend the *PSA* for an additional period of one (1) year from May 26, 2021. On even date, (a) *MERALCO* and *MPPCL* filed a Joint Manifestation and Omnibus Motion to seek *ERC* approval of the said Amendment Agreement; and (b) *MERALCO* sought confirmation from the *DOE* that the extension of the *ERC*-approved 2011 *PSA*, as embodied in the Amendment Agreement, is exempted from the conduct of a *CSP*. In its letter dated July 30, 2021, the *DOE* denied *MERALCO*'s request for certificate of exemption from *CSP*. As at February 27, 2023, the *ERC* has yet to act on the parties' Joint Manifestation and Omnibus Motion.

Philippine Power and Development Company ("Philpodeco")

On May 15, 2014, *MERALCO* and *Philpodeco* executed a *PSA*. *Philpodeco* operates three (3) run-of-river hydro power plants, namely: (i) Palakpakin, a 448 *kW* hydro power plant located at Barangay Prinza, Calauan, Laguna; (ii) Calibato, a 75 *kW* Calibato hydro power plant located at Barangay Sto. Angel, San Pablo City, Laguna; and (iii) Balugbog, a 528 *kW* hydro power plant located at Barangay Palina, Nagcarlan, Laguna. The *PSA* has a term of five (5) years from the delivery period commencement date.

On June 2, 2014, *MERALCO* filed an application with the *ERC* for the approval of its *PSA* with *Philpodeco*. This *PSA* provides that *MERALCO* shall accept all the energy deliveries of *Philpodeco* as measured by the latter's billing meter. Hearings on this case have been completed and *MERALCO* has submitted its *FOE*. On January 25, 2019, *MERALCO* filed an Urgent Motion to Resolve the case. On May 22, 2019, *MERALCO* filed a Manifestation with Motion to Resolve seeking *ERC* confirmation of the extension of the term of the *PSA* with *Philpodeco* from May 15, 2019 to October 25, 2019. On October 24, 2019, *MERALCO* wrote *DOE* asking for exemption from the requirement for *CSP* for a further extension of the term of the *PSA* with *Philpodeco* from October 25, 2019 to May 15, 2020. On the same date, *MERALCO* also filed a Manifestation with



Motion to Resolve seeking *ERC* confirmation of the said extension of term. In its letter to *Philpodeco* dated December 18, 2019, the *DOE* has taken the position that “xxx [u]nder Section 45(b) of Republic Act No. 9136, *ERC* is the sole authority mandated to review and approve PSAs.” On May 15, 2020, the *PSA* with *Philpodeco* expired. As at February 27, 2023, the case is pending decision by the *ERC*.

Bacavalley Energy Inc. (“BET”)

MERALCO signed a *CSE* with *BEI* on November 12, 2010. *BEI* owns and operates a four (4) *MW* renewable energy generation facility powered by landfill gas in San Pedro, Laguna. The *CSE* has a term of two (2) years from the delivery period commencement date.

Purchases from *BEI*, an embedded renewable energy generator, are *VAT* zero-rated and exempt from power delivery service charge. *MERALCO* filed an application for the approval of the *CSE* with the *ERC*, for the provisional implementation of the contract on December 15, 2010. In an order dated January 31, 2011, the *ERC* provisionally approved the said application.

After a series of negotiations, *MERALCO* and *BEI* signed the Letter Agreements dated March 1, 2013 and March 5, 2013, extending the *CSE* between said parties for another two (2) years from March 16, 2013, or until March 15, 2015. In its Order December 9, 2013, the *ERC* allowed the *CSE* to be extended until March 15, 2015. On March 12, 2015, *MERALCO* and *BEI* executed a Letter of Agreement extending the *CSE* until March 15, 2016. On March 16, 2015, *MERALCO* filed a Manifestation with Motion to the *ERC* for approval of the extended term. On March 1, 2016, *BEI* requested for the extension of the *CSE* for another two (2) years. In its letter dated April 7, 2016, *MERALCO* denied *BEI*’s request to extend the *CSE*. On May 18, 2018 and January 25, 2019, *MERALCO* filed Urgent Motions to Resolve the case. As at February 27, 2023, the contract term has expired and the case is pending decision by the *ERC*.

Pangea Green Energy Philippines, Inc. (“PGEP”)

On May 31, 2012, *MERALCO* signed a *CSE* with *PGEP*, a biomass power plant located in Payatas, Quezon City using methane gas extracted from the Payatas landfill as its fuel. Its plant has a total nominal generating capacity of 1,236 *kW*. The *CSE* is for a period of two (2) years from the delivery period commencement date.

On June 15, 2012, *MERALCO* filed an application for approval of the *CSE*. On August 28, 2012, the *ERC* issued an Order provisionally approving the application. On August 29, 2013, the *ERC* extended the provisional authority in its Order dated August 12, 2013. On March 2, 2015, *MERALCO* and *PGEP* executed a Letter of Agreement extending the *CSE* until February 29, 2016. On March 4, 2015, *MERALCO* filed a Manifestation with Motion with the *ERC* for the approval of the extended term. On September 16, 2015, *MERALCO* received a letter from *PGEP* seeking the termination of the *CSE* effective October 15, 2015. The termination of the *CSE* was thereafter formalized in the Letter Agreement dated October 29, 2015 where the parties agreed to terminate the *CSE* effective October 9, 2015, which was *PGEP*’s Facility Registration Date with the *WESM*. On January 8, 2016, *MERALCO* filed a Manifestation with Motion with the *ERC* seeking approval of the extended term of March 4, 2015 until October 9, 2015. On May 17, 2018 and January 25, 2019, *MERALCO* filed Urgent Motions to Resolve the case. In its Order dated February 18, 2019, the *ERC* directed *MERALCO* to submit certain documents to facilitate its evaluation of the application. On March 29, 2019, *MERALCO* filed its Compliance with Manifestation. As at February 27, 2023, the contract term has expired and the case is pending decision by the *ERC*.



TMO

On March 4, 2013, *MERALCO* signed an Interconnection Agreement with *TMO* for their 243 *MW* generating facility at the Navotas Fish Port Complex, Navotas City, which is an interconnection at *MERALCO*'s Grace Park-Malabon 115 *kV* line. *TMO* is an embedded generator. *TMO* shall construct at its own cost, operate and maintain the 115 *kV* line connecting its generating facility to *MERALCO*'s system. *TMO* and *MERALCO* subsequently signed a Supplement to the Interconnection Agreement dated July 3, 2014 covering the construction of a second line from the connection point at the Grace Park-Malabon 115 *kV* line to the *TMO* switchyard.

On September 27, 2013, *MERALCO* signed a *PSA* with *TMO* for the output of the barge-mounted, bunker oil-fired diesel engines moored at the Fish Port Complex in Navotas, Manila. On September 30, 2013, *MERALCO* filed an application with the *ERC* for the approval of the *PSA*. In an Order dated November 4, 2013, the *ERC* granted the prayer for provisional authority. After hearing and submission of the required documents, including the *FOE*, the case is now submitted for decision.

On December 17, 2014, *MERALCO* and *TMO* entered into an Amendment to the *PSA* based on the power situation outlook for 2015 and 2016 issued by the *NGCP* that the reserve capacity will be below the Contingency Reserves due to the maintenance shutdowns and forced outages of major power plants in Luzon. The amendment to the *PSA* was filed for approval with the *ERC* on January 21, 2015. In an Order dated April 6, 2015, the *ERC* approved the amendment in the *PSA* between *MERALCO* and *TMO* with modification. In an Order dated July 1, 2015, the *ERC* clarified that the provisional approval, while not specifically modifying nor stating any condition with respect to the implementation of the outage provisions of the amendment, covers the increase in outage allowance and the minor change in operating procedures.

On June 16, 2015, *MERALCO* received the Omnibus Motion for Partial Reconsideration and Deferment of Implementation of the Order dated April 6, 2015; Urgent Resolution of the Application; and Confidential Treatment filed by *TMO*.

In an Order dated April 5, 2016, the *ERC* ruled that the provisional authority granted to *MERALCO* and *TMO* is extended unless revoked or made permanent. On June 10, 2016 and July 5, 2016, respectively, *MERALCO* and *TMO* filed a Motion for Clarification of the *ERC* Order dated April 5, 2016. Said motions are still pending decision by the *ERC*. On January 3, 2017, *MERALCO* filed a Manifestation with Motion informing the *ERC* of the extension of the term of the *PSA* from June 26, 2017 to June 25, 2018. In an Order dated June 6, 2017, the *ERC* noted *MERALCO*'s Manifestation and Motion and confirmed one (1) year extension of the *PSA*. *MERALCO* and *TMO* were further directed to strictly comply with the provisions of *ERC* Resolution No. 1, Series of 2016, in particular, the one (1) time limit for renewal of the *PSA*. As at February 27, 2023, the contract term has expired and the case is pending decision by the *ERC*.

SBPL

On September 26, 2019, *MERALCO* and *SBPL* began implementation of the *PSA* which was approved by the *ERC*, subject to *ERC*'s subsequent issuance of a certificate of compliance to replace the provisional authority to operate. The *PSA* is for a period of 20 years from the start of commercial operations up to September 25, 2039.

PEDC

To address the *SC* Decision in *Alyansa Para sa Bagong Pilipinas, Inc. vs. ERC, et al.* (G.R. No. 227670, 3 May 2019) that effectively required all *PSA* applications for *ERC* approval filed on or after



June 30, 2015 to undergo *CSP*, which includes the 2016 20-year *PSA* between *MERALCO* and *PEDC*, a *CSP* was conducted in 2021 to cover the 70 *MW* required contract capacity of *MERALCO* for contract period ending January 25, 2037. The same capacity was won by *PEDC* under the new 15-year *PSA* with *MERALCO* (“2021 *PEDC PSA*”). The application for approval of the new *PSA* with *PEDC* was filed on January 22, 2022. Through a “Notice of Resolution” dated February 23, 2022, the *ERC* granted provisional authority to implement the 2021 *PEDC PSA*, and on April 1, 2022, the 2021 *PEDC PSA* was implemented by *MERALCO* and *PEDC*.

On March 18, 2022, *PEDC* issued to *MERALCO* a Notice of Change in Circumstance, claiming that the Ukraine-Russia conflict had a significant negative financial impact to *PEDC* due to the price spike in coal prices and if the current situation continues, *PEDC*’s losses will be massive and ruinous unless an adjustment in contract price pursuant to the 2021 *PEDC PSA* is implemented. Thus, on April 13, 2022, *PEDC* (joined by *MERALCO*) filed an *Urgent Motion for Contract Price Adjustment* with the *ERC*. Meanwhile, on April 22, 2022, *MERALCO* received *PEDC*’s Notice of Termination, effective six months thereafter, or until October 22, 2022. After the lapse of October 22, 2022, with the *Urgent Motion for Contract Price Adjustment* still pending with the *ERC*, *PEDC* has continued with its obligations under the 2021 *PEDC PSA*. On December 4, 2022, *PEDC* sent to *MERALCO* a Notice of End of Supply, which formally informed *MERALCO* of *PEDC*’s decision to cease supply of energy beginning midnight of December 5, 2022, because without the *ERC*’s action on the *Urgent Motion for Contract Price Adjustment*, *PEDC* was already placed in severe financial stress and in danger of breaching its financial covenants. As at February 27, 2023, further *ERC* action on the *Urgent Motion for Contract Price Adjustment* is pending.

First Bulacan

On May 12, 2021, *MERALCO* and *First Bulacan* began implementation of the *PSA* which was approved by the *ERC*, subject to *ERC*’s subsequent issuance of a certificate of compliance to replace the provisional authority to operate. The *PSA* is for a period of 20 years from the start of commercial operations.

Solar Philippines Tanauan Corporation (“Solar Philippines Tanauan”)

On December 22, 2016, *MERALCO* signed a 20-year *PSA* with *Solar Philippines Tanauan* for the purchase of 50 *MW* of electric output from its solar plant in Tanauan, Batangas. On February 27, 2017, after conduct of a *CSP* wherein *Solar Philippines Tanauan* was declared as the winning power supplier, the application for approval of the *PSA* with *Solar Philippines Tanauan* was filed. In a Decision promulgated on February 28, 2020, the *ERC* approved the *PSA* with modification.

Solar Philippines Tarlac Phase 1

On October 6, 2017, after being declared the winning power supplier in a *CSP*, *MERALCO* signed a 20-year *PSA* with *Solar Philippines Tarlac* for the purchase of up to 85 *MW* of electric output from Phase one (1) of its solar plant in Tarlac. The application for approval of the *PSA* with *Solar Philippines Tarlac* was filed on October 19, 2017. Hearings have been completed and parties await *ERC* resolution on *Solar Philippines Tarlac*’s opposition to a consumer group’s intervention, which shall prompt submission of case for final decision. Meanwhile, in an Order promulgated on June 8, 2018, the *ERC* granted Interim Relief to provisionally implement the *PSA*. On July 3, 2018, *Solar Philippines Tarlac* filed a Motion for Partial Reconsideration of the said Order. *MERALCO* and *Solar Philippines Tarlac* agreed on a way forward, subject to resolution of the Motion for Partial Reconsideration, and began implementation of the *PSA* on August 20, 2018. On July 13, 2018, *MERALCO* filed its *Comment with Opposition* in so far as the adjustment of the timelines under the



PSA is concerned. On November 26, 2018, a consumer group filed its *Comment with Opposition*, likewise with respect to *Solar Philippines Tarlac*'s motion for the adjustment of the timelines under the *PSA*. In its Order dated January 23, 2019, the *ERC* partially granted the Motion for Partial Reconsideration filed by *Solar Philippines Tarlac* and allowed the 2% annual escalation under the *PSA*. On June 25, 2019, the *ERC* promulgated its Order leaving the adjustment of the timelines set under the *PSA* to the discretion of *MERALCO* and *Solar Philippines Tarlac*. Meanwhile, the 20-year term of the *PSA* began on commencement date last August 20, 2018. As at February 27, 2023, the parties are awaiting *ERC*'s final decision on the Joint Application.

FNPC

Following conduct and completion of a *CSP*, *MERALCO* confirmed effectivity of the *PSA* with *FNPC* dated December 13, 2017, for the purchase of 414 *MW* electric energy generated by the San Gabriel Gas Plant beginning *ERC* approval and ending on February 23, 2024. A joint application for approval of the *PSA* with *FNPC* was filed on March 19, 2018. Pursuant to an *ERC* Order granting interim relief, on June 26, 2018, *MERALCO* and *FNPC* began implementing the *PSA*. On July 13, 2022, *MERALCO* received the *ERC* Decision approving the joint application subject to certain modifications and conditions. On July 28, 2022, *FNPC* filed a motion seeking reconsideration and to hold in abeyance the implementation of the *ERC* Decision. As at February 27, 2023, further *ERC* action remain pending on the *FNPC*'s Motion for Reconsideration and to Hold in Abeyance the Execution of the *ERC* Decision.

Solar Philippines Tarlac Phase 2

On February 22, 2019, after being declared the winning power supplier in a *CSP*, *MERALCO* signed a 20-year *PSA* with *Solar Philippines Tarlac* for the purchase of up to 50 *MW* of electric output from Phase 2 of its solar plant in Tarlac. The application for approval of the *PSA* with *Solar Philippines Tarlac* was filed on March 18, 2019. As at February 27, 2023, the case is pending decision by the *ERC*.

SMEC, AC Energy and SPPC – Baseload PSAs

On September 13, 2019, after being declared the winning power suppliers in a *CSP*, *MERALCO* signed three (3) *PSAs* for baseload capacity with *AC Energy* for 200 *MW*, *SMEC* for 330 *MW*, and *SPPC* for 670 *MW*. On October 22, 2019, the joint applications for approval of these three (3) baseload *PSAs* were filed before the *ERC*. In its letters to *MERALCO*, all dated December 23, 2019, the *ERC* granted provisional authority to implement *MERALCO*'s three (3) *PSAs* for baseload capacity with *AC Energy*, *SPPC* and *SMEC*. On January 30, 2020, *MERALCO* received the orders of the *ERC* granting provisional authority to implement *MERALCO*'s *PSA* for baseload capacity with *AC Energy*. On March 16, 2020, *MERALCO* received the orders of the *ERC* granting provisional authority to implement *MERALCO*'s *PSAs* for baseload capacity with *SPPC* and *SMEC*. In its Orders dated November 26, 2020, the *ERC* granted interim relief authorizing continued implementation of the *PSAs*, until revoked or until the issuance of a final decision by the *ERC*. As at February 27, 2023, the three (3) *PSA* applications are pending final decision by the *ERC*.

On April 18, 2022, *SMEC* and *SPPC* issued to *MERALCO* Notices of Change in Circumstances, claiming that the worsening conflict between Russia and Ukraine and other geopolitical and economic factors related and/or emanating therefrom had impacted *SMEC* and *SPPC*'s capability to perform their obligations under the respective *PSAs* in terms of unexpected increase in fuel cost. Thus, on May 12, 2022, *SMEC* and *SPPC* (joined by *MERALCO*) filed Joint Motions for Price Adjustment with the *ERC*. On June 27, 2022 and July 22, 2022, *SMEC*, *SPPC* and *MERALCO* filed motions for urgent resolution of the Joint Motion. On August 30, 2022, the *ERC* conducted a



clarificatory hearing with *SMEC*, *SPPC* and *MERALCO* to clarify several issues in connection with the Joint Motions for Price Adjustment. On October 3, 2022, the *ERC*, voting 3-2, promulgated its Orders dated September 29, 2022, denying the Joint Motions for Price Adjustment. On October 5, 2022, *SMEC* and *SPPC* notified *MERALCO* that it will continue with its obligations under their respective baseload *PSAs* with *MERALCO* under protest and without prejudice to their rights and remedies under pertinent laws and contract. On November 4, 2022, *SMEC* and *SPPC* filed Petitions for Certiorari with prayer for issuance of *TRO* and Writ of Preliminary Injunction (“*WPI*”) with the *CA*, assailing the *ERC* Orders dated September 29, 2022. On November 25, 2022, the *CA* issued a *TRO* for the *SPPC* case, hence, after the *TRO* bond was posted by *SPPC*, on December 7, 2022, *SPPC* stopped accepting *MERALCO* nominations. On January 25, 2023, the *CA* issued a *WPI* for the *SPPC* case, which shall remain in effect until the main case is finally decided. Meanwhile, for the *SMEC* case, on January 13, 2023, the *CA* denied *SMEC*’s prayer for *TRO* and *WPI*. As at February 27, 2023, *SPPC* has suspended its obligations under its baseload *PSA* with *MERALCO*, while *SMEC* has continued with its obligations under its baseload *PSA* with *MERALCO*.

FGHPC, AC Energy and SPPC – Mid-merit PSAs

On September 16, 2019, after being declared the winning power suppliers in a *CSP*, *MERALCO* signed three (3) *PSAs* for mid-merit capacity with *FGHPC* for 100 *MW*, *AC Energy* for 110 *MW*, and *SPPC* for 290 *MW*. On October 22, 2019, the joint applications for approval of these three (3) *PSAs* were filed before the *ERC*. On January 30, 2020, *MERALCO* received the orders of the *ERC* granting provisional authority to implement *MERALCO*’s the *PSA* for mid-merit capacity with *AC Energy*. On March 16, 2020, *MERALCO* received the orders of the *ERC* granting provisional authority to implement *MERALCO*’s other *PSAs* for mid-merit capacity with *FGHPC* and *SPPC*. In its Orders dated November 26, 2020, the *ERC* granted interim relief authorizing continued implementation of the *PSAs*, until revoked or until the issuance of a final decision by the *ERC*. As at February 27, 2023, the three (3) *PSA* applications are pending final decision by the *ERC*.

Excellent Energy Resources, Inc. (“EERI”) and MPPCL - Baseload PSAs

On March 2, 2021, after being declared the winning power suppliers in a *CSP* for 1,800 *MW* baseload capacity from greenfield power plants was conducted, *MERALCO* signed two (2) *PSAs* with *EERI* with commercial operations date in December 2024 for 1,200 *MW*, and with *MPPCL* with commercial operations date in May 2025 for 600 *MW*. The joint applications for approval of *MERALCO*’s *PSAs* with *MPPCL* and *EERI* were filed with the *ERC* on March 18, 2021 and March 24, 2021, respectively. As at February 27, 2023, the two (2) *PSA* applications are pending final decision by the *ERC*.

Under the *PSAs* approved by the *ERC*, fixed capacity fees and fixed operating maintenance fees are recognized monthly based on their contracted capacities. The annual projection of these payments is shown in the table below:

Year	Contracted Capacity (In Megawatt)	Fixed Payment Amount (In millions)
2023	2,867	₱61,942
2024	2,967	64,887
2025	2,956	61,743
2026	3,455	74,383
2027-2032	17,130	339,573



Interim Power Supply Agreements (“IPSAs”)

On January 24, 2017, in view of the Malampaya shutdown that was to coincide with the scheduled outage of other plants, *MERALCO* signed an *IPSA* with Strategic Power Development Corporation (“*SPDC*”) for the supply of 100 *MW* per hour of electric power from 0901H to 1000H and from 2001H to 2100H, and 150 *MW* per hour of electric power from 1001H to 2000H, from January 28, 2017 until February 16, 2017. An application for approval of such *IPSA* was filed before the *ERC* on February 9, 2017. The said *IPSA* was effective immediately, on the condition that disallowances and penalties that the *ERC* may impose as a result thereof shall be for the account of *SPDC*. *MERALCO* and *SPDC*, in a letter agreement dated February 15, 2017, agreed to extend the term of the *IPSA* until March 25, 2017 under the same terms and conditions of the *IPSA*. On February 16, 2017, *MERALCO* and *SPDC* filed a Joint Manifestation with Motion with the *ERC* apprising the Honorable Commission of the extended term and praying that the same be duly considered and approved accordingly. The hearings on this case have been completed and *MERALCO* filed its *FOE* on July 21, 2017. As at February 27, 2023, the contract term has expired and *MERALCO* awaits the *ERC*’s final decision on the *IPSA*.

On April 15, 2019, with the *NGCP* forecast that of voltage situations occurring for the weekdays of May up to the first half of June 2019 every time the Luzon peak demand exceeds 11,200 *MW*, *MERALCO* signed two (2) separate *IPSAs* with: (i) *MEI* for the purchase of 70 *MW* of electric power, subject to a net dependable capacity test, from April 26, 2019 to June 25, 2019, from *MEI*’s Gas Turbine Power Plant in Navotas Fishport Complex, Navotas City; and (ii) *TMO* for the purchase of up to 200,000 *kW* contract capacity and associated energy, subject to restatement based on the results of capacity test, from April 26, 2019 to April 25, 2020, from *TMO*’s 242 *MW*-installed capacity, barge-mounted, bunker-fired diesel power generating and interconnection facilities in Navotas City. For the said *IPSAs*, *MERALCO* also received the *DOE*’s grant of exemption from the requirement for *CSP*. The applications for approval of said *IPSAs* were filed before the *ERC* on April 17, 2019. In accordance with the said *IPSAs*, with the filing of the joint applications and *DOE*’s exemption, the mutual obligations to sell and purchase power under said agreements were implemented beginning April 26, 2019. On July 1, 2019, *MERALCO* filed its Compliance with *FOE* on the *TMO IPSA* Joint Application. In addition, in light of the declarations of yellow and red alerts in the Luzon Grid by *NGCP*, *MERALCO* and *MEI*, in a Letter Agreement dated June 20, 2019, agreed to extend their *IPSA* until September 25, 2019. Further, given continuing declarations of yellow and red alerts in the Luzon grid by *NGCP*, *MERALCO* and *MEI*, in a Letter Agreement dated September 23, 2019, agreed to further extend their *IPSA* until April 25, 2020. *MERALCO* also received the *DOE*’s grant of exemption from the requirement for *CSP* for said periods. In a Letter Agreement dated January 28, 2020, *MERALCO* and *MEI* agreed on another extension of their *IPSA* from April 26, 2020 to June 25, 2020 in view of *DOE*’s forecast, presented to *MERALCO* in a meeting with the *DOE* on January 16, 2020, which showed red alert situation in the Luzon grid for the period from April to June 2020. *MERALCO* wrote *DOE* on January 29, 2020 to request for exemption from the requirement for *CSP* for said period. However, the *PSA* with *MEI* was not extended as the *DOE* did not issue any exemption to be able to further extend the *PSA*. Thus, on April 25, 2020, the *PSA* with *MEI* expired. On even date, the *PSA* with *TMO* also expired. As at February 27, 2023, the cases remain pending with the *ERC*.

On September 28, 2021, in view of the Malampaya shutdown set for October 2021 that was to coincide with the scheduled outage of other plants, *MERALCO* signed a Contract for Supply of Electric Energy (“*CSEE*”) with *PSALM* for the supply of 90 *MW* for the period of ten (10) months from September 26, 2021 to July 25, 2022. On even date, the *DOE* issued a Certificate of Exemption from *CSP* in favor of *MERALCO* for the *CSEE*. With the *DOE*’s grant of exemption from the requirement for *CSP*, the parties began implementation of the *CSEE* on September 29, 2021. The



application for approval of the *CSEE* with *PSALM* was filed on December 29, 2021. As at February 27, 2023, the contract term has expired and the case is pending decision by the *ERC*.

On February 4, 2022, after being declared the winning power supplier in a *CSP*, *MERALCO* signed a 5-month *PSA* with *SPPC* for 170 *MW* contract capacity. The application for approval of *MERALCO*'s emergency *PSA* with *SPPC* was filed with the *ERC* on March 22, 2022. On July 25, 2022, the contract term has expired, thus, on September 2, 2022, *MERALCO* and *SPPC* jointly filed a Manifestation with the *ERC*, informing it of the expiration of the *PSA*'s contract term and that the application for approval of the *PSA* is already deemed moot. As at February 27, 2023, the contract term has expired and the *ERC* has not issued its final decision on this *PSA*.

On December 14, 2022, in connection with the sudden and unforeseen suspension of *MERALCO*'s baseload *PSA* with *SPPC* for 670 *MW* and after receiving from the *DOE* a Certificate of Exemption from the conduct of a competitive selection process ("*COE-CSP*") pursuant to the *2021 Revised CSP Circular*, *MERALCO* signed a 1-month *PSA* with *GNPower Dinginin Ltd. Co. ("GNPD")*. The *GNPD* emergency power supply agreement ("*EPSA*") was implemented on December 15, 2022 and submitted to the *ERC* for assessment of the application for filing. As at February 27, 2023, the contract term has expired and the *ERC* has not set this *PSA* for hearing.

Clark Electric

SCPC

On August 28, 2020, *Clark Electric* conducted a *CSP* for the procurement of 20 *MW* of baseload power supply for a contract term of ten (10) years commencing on December 26, 2020. *SCPC* was selected as the winning bidder for submitting the least cost bid.

On October 26, 2020, *Clark Electric* executed a *PSA* with *SCPC*, the power generation company which owns, operates and maintains the 600 *MW* Batangas Coal-Fired Thermal Power Plant located in Calaca, Batangas. On October 30, 2020, *Clark Electric* and *SCPC* filed a Joint Application with Motion for Confidential Treatment of Information and Prayer for Provisional Authority for the approval of their *PSA*. Accordingly, the *ERC* has set the expository presentation and pre-trial conference on March 4 and 11, 2021, respectively.

On January 25, 2021, *Clark Electric* and *SCPC*, jointly filed an urgent ex-parte motion for the issuance of provisional authority to implement the *PSA*. On March 1, 2021, the *ERC* granted the provisional authority to implement the *PSA* between *Clark Electric* and *SCPC*.

On February 23, 2022, the *ERC* granted an Interim Relief upon the expiration of the provisional authority.

SPDC

On August 28, 2020, *Clark Electric* conducted a *CSP* for the procurement of its 25 *MW* of mid-merit power supply requirement for a contract term of five (5) years commencing on December 26, 2020. *SPDC* was selected as the winning bidder for submitting the least cost.

On October 23, 2020, *Clark Electric* executed a *PSA* with *SPDC* for the supply of 25 *MW* contract capacity and associated energy beginning December 26, 2020. The *PSA* was jointly filed by *Clark Electric* and *SPDC* on October 28, 2020 with Motion for Confidential Treatment of Information and Prayer for Provisional Authority for the approval of their *PSA*. Thus, the expository presentation and pre-trial conference was set by *ERC* on March 9 and 16, 2021, respectively.



On January 25, 2021, *Clark Electric* and *SPDC*, jointly filed an urgent ex-parte motion for the issuance of provisional authority to implement the *PSA*. The provisional authority was granted by the *ERC* through its Order which was promulgated on June 11, 2021.

On February 23, 2022, the *ERC* granted an Interim Relief upon the expiration of the provisional authority.

TransCo/NGCP

Clark Electric executed a Transmission Service Agreement on December 26, 2013 with *NGCP* for the provision of necessary transmission services in accordance with the *OATS* rules for five (5) years until December 25, 2018. This was renewed for another five years until December 25, 2023.

Supply and Equipment Loan Agreement with Shell

Panay Power Corporation ("*PPC*") has a Supply and Equipment Loan Agreement with Shell, whereby Shell will supply *PPC*'s total requirements of petroleum products at prices based on the formula indicated in the agreement. The agreement also provides that Shell will install at *PPC*'s premises the equipment and facilities for the storage and servicing of products purchased at no cost to *PPC*. The agreement is effective for 15 years until 2013. As *PPC* has not utilized the contracted quantity, agreement was renewed for another five years or until the contracted quantity is fully utilized. Under the new agreement, pricing is subject to semi-annual review.

Long-term Coal Supply Agreements ("CSA")

In order to ensure that there is an adequate supply of coal to operate the power plants, the following operating plants entered into several long-term contracts with local and foreign coal suppliers:

PEDC

Supplier	Coal Type	Contract Duration	Price Basis	Quantity per Year
PT Sakti Nusantara Bakti	Indonesia	2020 - 2026	ICI4	275,000 MT
PT Bayan Resources, TBK	Indonesia	2023-2024	GNewC and	220,000 MT
Semirara Mining and Power Corporation	Local	Contract	Fixed Price	200,000 MT
Galaxy Energy and Resources Co. PTE, Ltd.	Indonesia	2020 - 2023	ICI4	110,000 MT
PT Kideco Jaya Agung	Indonesia	2021 - 2025	GNewC	110,000 MT
Vitol Asia PTE Ltd	Indonesia	2021-2023	GNewC	110,000 MT
Samsung C&T Corporation	Indonesia	2020 - 2024	GNewC Index	110,000 MT
Trafigura Asia Trading PTE, Ltd	Indonesia	2023 - 2024	ICI4	55,000 MT



CEDC

Supplier	Coal Type	Contract Duration	Price Basis	Quantity per Year
PT Antang Gunung Meratus Semirara Mining and Power Corporation	Indonesia	2020 - 2025 Annual	GNewC	385,000 MT
PT Adaro Indonesia	Local	Contract	Fixed Price	200,000 MT
	Indonesia	2020 - 2024	GNewC Index	165,000 MT
PT Kideco Jaya Agung	Indonesia	2021 - 2025	GNewC	110,000 MT
Trafigura Asia Trading PTE, Ltd	Indonesia	2023 - 2024	ICI4	55,000 MT
RWood Resources DMCC	Indonesia	2021 - 2025	GNewC	55,000 MT

TPC

Supplier	Coal Type	Contract Duration	Price Basis	Quantity per Year
Semirara Mining and Power Corporation	Local	Contract Annual	Fixed Price	200,000 MT
PT Kideco Jaya Agung	Indonesia	2021 - 2025	GNewC	110,000 MT
RWood Resources DMCC	Indonesia	2021 - 2025	GNewC	110,000 MT
PT Antang Gunung Meratus	Indonesia	2020 - 2025	GNewC	55,000 MT
Galaxy Energy and Resources Co. PTE, Ltd.	Indonesia	2020 - 2023	ICI4	55,000 MT

GESC

Supplier	Coal Type	Contract Duration	Price Basis	Quantity per Year
Bulk Bayan Resources, TBK	Indonesia	2023-2024	Fixed Price GNewC and	220,000 MT
PT Bayan Resources, TBK	Indonesia	2023-2024	ICI4	110,000 MT
Trafigura Asia Trading PTE, Ltd	Indonesia	2023 - 2024	ICI4	55,000 MT

Cagbalete Island Microgrid Electrification Expansion Capital Expenditure Project (“Cagbalete Microgrid Project”)

On July 23, 2019, *MERALCO* inaugurated the first phase of its power microgrid in Cagbalete Island, Quezon Province as part of its continuing initiative of rural energization using sustainable energy. The microgrid is a hybrid generating plant that features a 60 *kW PV* system, 150 *kWh* battery energy storage system and two (2) units of 30 *kW* diesel generators, which shall provide 24 x 7 power to the residents of the island.

On May 31, 2019, *MERALCO* filed an application dated May 29, 2019 to implement the proposed *Cagbalete Microgrid Expansion Project* to allow *MERALCO* to serve the rest of the residents in Cagbalete Island. The *Cagbalete Microgrid Expansion Project* with an estimated cost of ₱219 million, will utilize a scaled-up hybrid generation system by similarly using solar photovoltaic (“*PV*”) panels, diesel generators and lithium-ion battery storage as main components. Hearings have been completed and *MERALCO* filed its *FOE* on August 15, 2019. In an Order dated



August 27, 2020, the *ERC* requested additional information regarding the *Cagbalete Microgrid Expansion Project*. *MERALCO* filed its Compliance on October 15, 2020. On November 20, 2020, *MERALCO* filed another Manifestation reiterating the urgency of immediately implementing the *Cagbalete Microgrid Expansion Project*. On May 12, 2021, *MERALCO* filed a Manifestation with Urgent Motion for Resolution to urge the *ERC* to resolve the instant Application. On May 19, 2021, *MERALCO* submitted the letter from the Office of Municipal Mayor of Mauban, Quezon Province which certified that no generation company has applied to the Municipality of Mauban to secure a permit in order to build and operate an electricity generating facility in the island of Cagbalete. On May 31, 2021, *MERALCO* filed a Supplemental Submission and Very Urgent Motion for Resolution to urge the *ERC* to resolve the instant Application. As at February 27, 2023, *MERALCO* is awaiting further action by the *ERC*.

Lease Agreement with CDC

On June 23, 2004, *Clark Electric* entered into a lease agreement with *CDC* for the lease of land and structures for the period of 18 years beginning July 2005, renewable for 25 years upon mutual agreement of both parties.

Beginning July 2004, as stated in the lease agreement, *CDC* charges guarantee fees equivalent to ₱0.05 per *kWh* sold for the first eight (8) years, ₱0.075 per *kWh* for the next four (4) years, and ₱0.12 per *kWh* for the succeeding six (6) years.

IMC with PELCO II

On February 12, 2014, *Comstech* entered into an *IMC* with *PELCO II* for a period of 20 years. *PELCO II* is an electric cooperative with franchise to distribute electric power in certain municipalities of Pampanga.

Pursuant to the *IMC*, *Comstech* shall render technical and management services for the operation, maintenance and management and improvement of *PELCO II*'s electric distribution. As consideration for its technical, consultancy and management services, *Comstech* is entitled to a performance-based remuneration and management fee based on a certain percentage of the operating revenues of *PELCO II*.

Agreement and Registration with PEZA

MERALCO has a concession agreement with *PEZA* for 25 years, whereby *MERALCO* has been contracted to operate the distribution system of *CEZ* beginning May 26, 2014.

MERALCO executed a tripartite agreement with *PEZA* and *TLI* for the billing and settlement of the supply of power from *TLI* to *CEZ* and its locators. Said tripartite agreement is from December 26, 2019 until December 25, 2021. With the extension of the *PSA* of *PEZA* with *TLI* for another year to expire on December 25, 2022, the tripartite agreement is likewise extended until December 25, 2022.

On December 29, 2014, *MERALCO* secured its Certificate of Registration No.10-01-U from *PEZA*, which confirms *MERALCO* as an Ecozone Utilities Enterprise at the *CEZ*.

Joint Venture Agreement with New Clark City

On April 3, 2019, *Shin Clark* signed a Joint Venture Agreement with the *BCDA* for the construction, operation and maintenance of the electric distribution system in New Clark City.



Shin Clark completed the construction of Phase 1A of the Interim Electrical Distribution facilities, which consists of (i) a 33 *MVA*, 69 *kV*-13.8 *kV* interim substation; (ii) 2.2 kilometers of 13.8 *kV* overhead lines; and (iii) 1.5 kilometers of 13.8 *kV* underground line.

On September 15, 2021, *BCDA* secured the endorsement from the Governance Commission for Government Owned and Controlled Corporation for the incorporation of *Shin Clark Power*, the joint venture company. On May 10, 2022, the *SEC* approved the incorporation of *Shin Clark Power*. On June 30, 2022, *Shin Clark Power* filed its application for a *CPCN* with the *ERC*. As at February 27, 2023, the application is subject to the final decision of the *ERC*.

31. Earnings Per Share Attributable to Equity Holders of the Parent

Basic and diluted earnings per share are calculated as follows:

	2022	2021	2020
		<i>(Amounts in millions)</i>	
Net income attributable to equity holders of the Parent (a)	₱28,431	₱23,498	₱16,316
Weighted average common shares outstanding (b)	1,127	1,127	1,127
Per Share Amounts:			
Basic and diluted earnings per share (a/b)	₱25.23	₱20.85	₱14.48

Basic and diluted earnings per share amounts are calculated by dividing net income for the year attributable to common shareholders of the parent by the weighted average number of common shares outstanding during the year. There are no potential dilutive common shares in 2022 and 2021.

There are no other transactions involving common shares or potential common shares between the reporting date and the date of completion of these consolidated financial statements.

32. Other Matters

RCOA

The transition period for *RCOA* commenced on December 26, 2012 in accordance with the joint statement released by the *ERC* and the *DOE* on September 27, 2012 and the Transitory Rules for the Implementation of *RCOA* (*ERC* Resolution No. 16, Series of 2012). The commercial operations of *RCOA* started on June 26, 2013.

On May 12, 2016, the *ERC* issued Resolutions No. 10 and 11, Series of 2016, which:

1. Provided for mandatory contestability. Failure of a contestable customer to switch to *RES* upon date of mandatory contestability (December 26, 2016 for those with average demand of at least one (1) *MW* and June 26, 2017 for at least 750 *MW*) shall result in the physical disconnection from the *DU* system unless it is served by the supplier of last resort ("*SoLR*"), or, if applicable, procures power from the *WESM*;
2. Prohibits *DUs* from engaging in the supply of electricity to the contestable market except in its capacity as a *SoLR*;
3. Mandates Local *RESs* to wind down their supply businesses within a period of three (3) years;



4. Imposes upon all *RESs*, including *DU*-affiliate *RESs*, a market-share cap of 30% of the total average monthly peak demand of all contestable customers in the competitive retail electricity market; and,
5. Prohibits *RESs* from transacting more than 50% of the total energy transactions of its supply business, with its affiliate contestable customers.

On November 29, 2017, the *DOE* issued two (2) *DOE* Circulars, namely: DC 2017-12-0013, entitled, Providing Policies on the Implementation of *RCOA* for Contestable Customers in the Philippines Electric Power Industry and DC 2017-12-0014, entitled Providing Policies on the Implementation of *RCOA* for *RES* in the Philippine Electric Power Industry. The *DOE* Circulars became effective on December 24, 2017.

Under the *DOE* Circular No. DC 2017-12-0013, it is provided that voluntary participation for contestable customers under *RCOA*-Phase 2 shall now be allowed upon effectivity of said Circular, while voluntary participation of contestable customers with a monthly average peak demand of 500 *kW* to 749 *kW* for the preceding 12 months and demand aggregation for electricity end users within a contiguous area with an aggregate average peak demand of not less than 500 *kW* for the preceding 12-month period, will also be allowed by June 26, 2018 and December 26, 2018, respectively.

On December 28, 2020, the *ERC* released Resolution No. 12, Series of 2020, entitled “A Resolution Prescribing the Timeline for the Implementation of Retail Competition and Open Access (“*RCOA*”)”. In said Resolution, the *ERC* expanded the coverage of *RCOA* for end-users with an average monthly peak demand of at least 500 *KW* in the preceding 12 months, on a voluntary basis.

On September 24, 2021, *MERALCO* received a copy of the *SC* Decision wherein, among other matters, the *ERC* was also directed to promulgate the supporting guidelines to *DOE* Circular No. DC 2017-12-0013 and DC 2017-12-0014.

Retail Aggregation

On June 16, 2022, the *ERC* issued Resolution No. 04, Series of 2022 entitled “*A Resolution Adopting the Rules for the Electric Retail Aggregation Program.*” Under said Resolution, the aggregation of the electricity requirements of end-users, whose total monthly average peak demand is at least 500 *kW*, is allowed to accommodate a wider consumer base availing of the benefits of *RCOA* to further promote competition in the Competitive Retail Electricity Market. Implementation of such aggregation shall become effective by December 26, 2022. Meanwhile, industry stakeholders are clarifying certain provisions in the Resolution to allow for the smooth implementation of Retail Aggregation.

Pre-Emptive Mitigating Measure in the WESM

In December 2014, in its Resolution No. 20, Series of 2014, the *ERC* adopted and established a permanent pre-emptive mitigation measure in the *WESM*. The *ERC* set a cumulative price threshold (“*CPT*”) amounting to an average spot price of ₱9,000 per *MWh* over a rolling 7-day period or 168-hour trading interval. Once this *CPT* for said period is breached, it triggers the imposition of a price cap amounting to ₱6,245 per *MWh*. The price cap shall be imposed until after a determination that succeeding *GWAP* rolling average is already below the *CPT*. The pre-emptive measure has taken effect beginning January 9, 2015.



The imposition of the mitigating measure was questioned by the Philippine Independent Power Producers Association (“*PIPPA*”) in the *RTC-Pasig* through a Petition for Declaratory Relief with Application for *TRO* and/or Writ of Preliminary Injunction. The Petition prayed for, among others, that the *ERC* Resolutions pertaining to the secondary cap mechanism be declared void *ab initio*. The original petition was subsequently amended to reflect the promulgation of the subsequent *ERC* resolutions extending the effectivity of the *WESM* price cap. On July 21, 2014, *MERALCO* filed its Motion for Leave to Intervene and to Admit Attached Comment in Intervention. The *RTC-Pasig* admitted *MERALCO*’s intervention and comment in its Order dated October 28, 2014. However, in a Motion for Leave to Admit Supplement Petition, *PIPPA* moved for leave to file a supplemental petition to include *ERC* Resolution No. 20, Series of 2014 which provides for a permanent mitigating measure in the *WESM*. In an Order dated May 5, 2015, the *RTC-Pasig* denied the Motion for Leave to File and Admit Supplemental Petition. *PIPPA* filed a Motion for Partial Reconsideration which was denied by the *RTC-Pasig* in its Resolution dated September 10, 2015. *PIPPA* filed a Petition for Certiorari with the *CA*. The *CA* denied the Petition for Certiorari in its Decision dated June 9, 2017. *PIPPA* filed a *MR* dated July 19, 2017. In a Resolution dated August 16, 2017, the parties were directed to file their comments to the *PIPPA*’s *MR*. *MERALCO* has filed its comment on the *MR*. On April 4, 2018, the *CA* rendered a resolution denying the *MR* filed by *PIPPA*.

On September 29, 2015, the *WESM* Tripartite Committee issued a Joint Resolution further extending the interim offer price cap of ₱32,000 per *MWh* until December 31, 2015. In its Joint Resolution No. 3, Series of 2015, the *WESM* Tripartite Committee resolved to set the *WESM* offer price cap at ₱32,000 per *MWh* and the *WESM* offer price floor of negative ₱10,000 per *MWh* effective January 2016, provided that an annual review shall be undertaken considering the relevant costs assumptions at the time of review.

On December 7, 2015, the *RTC-Pasig* rendered a Decision dismissing the Petition for Declaratory Relief. The *MR* filed by *PIPPA* was denied in a Resolution dated June 16, 2016. *PIPPA* appealed the *RTC-Pasig* Decision with the *SC*. *MERALCO* has filed its comment thereto. *PIPPA* filed a Consolidated Reply on July 17, 2017. As at February 27, 2023, the case is pending before the *SC*.

On May 9, 2017, the *ERC* issued Resolution No. 4, Series of 2017, entitled, “A Resolution Adopting Amendments to the Pre-emptive Mitigating Measure in the *WESM*”. They adopted a recalculated cumulative price threshold level of ₱1,080,000 and a shorter five (5)-day (120-hour) rolling average period. This is equivalent to ₱9,000 per *MWh* over said period.

The *ERC* has expressed its intent to further amend the pre-emptive mitigating measure in the *WESM* to increase consumer safety nets against price spikes. The highlight of the amendments would be the lowering of the rolling average period from five (5) days to three (3) days, and the regional/island imposition of the Secondary Price Cap mechanism when the grid interconnection is on outage. In its Resolution No. 7, Series of 2021, promulgated on July 28, 2021, the *ERC* shortened the rolling average period to seventy-two (72) hours and approved the regional/island imposition of the Secondary Price Cap mechanism.

PEZA – ERC Jurisdiction

On September 13, 2007, *PEZA* issued “Guidelines in the Registration of Electric Power Generation Facilities/Utilities/Entities Operating Inside the Ecozones” and “Guidelines for the Supply of Electric Power in Ecozones” (“*Guidelines*”). Under these Guidelines, *PEZA* effectively bestowed upon itself franchising and regulatory powers in Ecozones operating within the legislative franchise areas of *DUs* which are under the legislatively-authorized regulatory jurisdiction of the *ERC*. The *Guidelines* are the subject of an injunction case filed by the *DUs* in *RTC-Pasig*.



On February 4, 2015, the *RTC-Pasig* issued an Order setting a clarificatory hearing on April 15, 2015. During the said hearing, *MERALCO* manifested that it previously filed a Motion to Withdraw as plaintiff on the basis of letter agreements between *MERALCO* and *PEZA*, which is pending before the *RTC-Pasig*. *MERALCO* submitted the Tripartite Agreement among *PEZA*, *PEPOA* and *MERALCO* for approval of the *RTC-Pasig*. In a Decision dated July 3, 2015, the *RTC-Pasig* approved the Compromise Agreement between *PEZA*, *PEPOA* and *MERALCO*. In the hearing on February 10, 2016, the *RTC-Pasig* dismissed the petition upon motion by *PEZA*. The *ERC* filed a *MR* which is pending resolution by the *RTC-Pasig*.

Purchase of Subtransmission Assets (“STAs”)

On April 17, 2012, *MERALCO* and *TransCo* filed a joint application for the approval of the Batch 4 contract to sell with the *ERC*. On April 22, 2013, the *ERC* issued a Decision on *MERALCO*’s joint application for the acquisition of the Batch 4 contract to sell. On June 21, 2013 and July 3, 2013, *MERALCO* and *TransCo* filed a Motion for Partial Reconsideration and *MR*, respectively, regarding the exclusion of certain facilities for acquisition.

On May 22, 2014, *MERALCO* and *TransCo* received an *ERC* Order dated May 5, 2014 denying *MERALCO* and *TransCo*’s Motions. On June 5, 2014, *MERALCO* filed a clarificatory motion and a *MR* of the May 5, 2014 *ERC* Order, which was denied by the *ERC* through an Order dated June 16, 2014. On October 10, 2014, *MERALCO* filed a Motion to Reopen Proceedings for the reception of new evidence to support *MERALCO*’s position on the acquisition of excluded *STAs*. The Motion was heard by the *ERC* on October 17, 2014. After the parties have submitted their respective comments and pleadings, the *ERC* conducted another hearing on February 23, 2015.

In an Order dated March 4, 2015, the *ERC* considered but denied the new and substantive allegations in *MERALCO*’s Motion to Reopen Proceedings. *MERALCO* then filed a Petition for Review with the *CA* to question the Orders of the *ERC*. In a Decision dated August 12, 2016, the *CA* dismissed the Petition. On September 17, 2016, *MERALCO* filed a *MR*. In an Amended Decision dated September 15, 2017, the *CA* granted *MERALCO*’s *MR* and approved the sale of the Dasmarinas-Abubot-Rosario 115 kV line and Rosario substation equipment in favor of *MERALCO*. *NGCP* filed a *MR* (of the Amended Decision) dated October 4, 2017. In a Resolution dated May 31, 2018, the *CA* denied the *MR*. *NGCP* filed a Petition for Review with the *SC*.

On March 20, 2015, *MERALCO* filed a case for “Interpleader with Consignation and Specific Performance” against *TransCo* and the Municipality of Labrador, Pangasinan (“*Labrador*”) with the *RTC-Pasig*, praying for the *RTC-Pasig* to (i) accept and approved the consignation of the amount of ₱194.1 million; (ii) declare *MERALCO* to have paid in full the purchase price of the sale of *TransCo*’s assets; (iii) direct *TransCo* to execute the corresponding Deeds of Absolute Sale; and (iv) direct *Labrador* and *TransCo* to interplead their respective claims. On April 14 and 20, 2015, *Labrador* and *TransCo* filed their respective Motions to Dismiss on the ground of impropriety of the filing of the Interpleader and on the ground of *litis pendentia*. *MERALCO* received an Order from *RTC-Pasig* granting the Motions to Dismiss of both *TransCo* and *Labrador*. *MERALCO* filed a *MR* which was denied by the *RTC-Pasig*. *MERALCO* appealed the Decision with the *CA*, which granted the appeal, and remanded the interpleader case to the trial court for proper disposition. The *CA* decision already attained finality as of May 25, 2018.

TransCo and *MERALCO* executed the Deeds of Absolute Sale (“*DOAS*”) on December 10, 2020, covering the Batch 2 and Batch 4 *STAs*. Hence, *MERALCO* has acquired and is in full possession of these assets. In a letter dated October 26, 2021, *NGCP* likewise confirmed that, with the turn-over of these assets, the corresponding Connection Charges and Residual Sub-Transmission Charges



(“CC/RSTC”) of *MERALCO* starting the December 2021 billing month will be correspondingly adjusted.

On December 15, 2016, *MERALCO* and *TransCo* filed a joint application for the approval of the Batch 3 contract to sell with the *ERC*. Hearings were conducted on August 10, 2018 and October 15, 2018. The *ERC* has yet to set the next scheduled hearing of the case.

FiT

Pursuant to *RA* No. 9513, or the Renewable Energy Act of 2008 (“*RE Act*”), the *ERC* issued Resolution No. 16, Series of 2010, Adopting the *FiT* Rules, on July 23, 2010. As defined under the *FiT* Rules, the *FiT* system is a renewable energy policy that offers guaranteed payments on a fixed rate per *kWh* for electricity from wind, solar, ocean, hydropower and biomass energy sources, excluding any generation for own use.

To fund the *FiT* payments to eligible *RE* developers, a *FiT-All* charge shall be imposed on all end-users. The *FiT-All* will be established by the *ERC* upon petition by *TransCo*, which had been designated as the *FiT* Fund Administrator.

On February 5, 2014, the *ERC* released the *FiT-All* disbursement and Collection Guidelines (“*FiT Guidelines*”) to supplement the *FiT* Rules. This set of guidelines will govern how the *FiT-All* will be calculated using the formulae provided. It will also outline the process of billing and collecting the *FiT-All* from the electricity consumers, the remittance to a specified fund, the disbursement from the *FiT-All* fund and the payment to eligible *RE* developers.

TransCo applied for *FiT-All* rates with the *ERC*, the *ERC* approval and status of applications are indicated in the table below:

Year	Applied Rate per <i>kWh</i>	Approved Rate per <i>kWh</i>	Date Approved / Status
2019	₱0.2780	₱0.0495	October 28, 2019
2020	₱0.2278	₱0.0983	November 23, 2020
2021	₱0.1881	₱0.0983	August 17, 2022
2022	₱0.3320 or ₱0.3165 (alternative rate in consideration of <i>Covid-19</i>)	₱0.0364	August 30, 2022
2023	₱0.2382	—	Pending final decision

On December 23, 2014, *MERALCO* received a copy of a Petition for Prohibition and Certiorari filed with the *SC* against the *ERC*, *DOE*, *TransCo*, *NREB* and *MERALCO*. The Petition seeks (i) the issuance of a *TRO* and/or *WPI*, and after giving due course to the Petition, a Writ of Prohibition to enjoin the respondents from implementing the *FiT-All*, the *FiT* Rules and *FiT* Guidelines; and (ii) the annulment of the *FiT* Rules and *FiT* Guidelines. With the parties’ submission of their respective memoranda, the case is now pending decision. As at February 27, 2023, the said petition is pending with the *SC*.

In a Decision dated October 6, 2015, the *ERC* set the Wind *FiT* at ₱7.40 per *kWh*. *MERALCO* filed a *MR* on the Decision. As at February 27, 2023, the *MR* is pending further action of the *ERC*.



On September 29, 2016, Alternergy Wind One Corporation, Petrowind Energy, Inc. and Trans-Asia Renewable Energy Corporation filed a Petition to Initiate Rule-Making to adjust the Wind *FiT* rate of ₱7.40 per *kWh* to ₱7.93 per *kWh*. *MERALCO* filed an intervention in the case. The hearing on the Petition was set on January 6, 2017. *MERALCO*'s motion on the propriety of the petition has been submitted for the resolution of the *ERC*. As at February 27, 2023, the said petition is ongoing and remains pending with the *ERC*.

On May 26, 2020, through Resolution No. 6, Series of 2020, the *ERC* issued the *FiT* adjustments for the years 2016, 2017, 2018, 2019 and 2020 using 2014 as the base year for the *CPI* and foreign exchange adjustments, pursuant to Section 2.10 of the *FiT* Rules. The said *FiT* adjustments are to be recovered for a period of five (5) years.

In its Decision dated November 28, 2020, the *ERC* set the modified *FiT2* rate to be applicable from January 1, 2018 to December 31, 2019. The modified Run of River ("*ROR*") Hydro *FiT2* rate is ₱5.8705 per *kWh* while for Biomass *FiT2*, the rate is ₱6.19 *kWh*.

On November 26, 2022, the *ERC* issued Resolution No. 12, Series of 2022, "*A Resolution Adopting the Suspension of the Collection of Feed-in-Tariff Allowance (FiT-All)*", approving the temporary suspension in the collection of the *FiT-All* for a period of three (3) months, starting the December 2022 until the February 2023 billing months. According to the *ERC*, the *FiT-All* balance as of November 7, 2022, inclusive of the Cost Recovery Revenue ("*CRR*") collections in November 2022, shows a healthy fund balance that can sufficiently cover the *FiT-All* payment requirements for three (3) months, assuming the same average *CRR* collection. On February 23, 2023, *ERC* issued an advisory extending the temporary suspension in the collection of the *FiT-All* for six (6) months, starting the March 2023 to August 2023 billing months.

Renewable Portfolio Standards (RPS)

In accordance with the *RE* Act, the *DOE* issued Department Circular No. DC2017-12-0015 "Promulgating the Rules and Guidelines Governing the Establishment of the Renewable Portfolio Standards for On-Grid Areas" or the *RPS* Rules on December 22, 2017. On June 30, 2020, *MERALCO* submitted its *RPS* Form for 2020 to the *DOE* as part of its compliance with the *RPS* Rules. The *RPS* form contains *MERALCO*'s computation of its requirements, as well as plans to comply with the requirements. *MERALCO* intends to fully comply with its *RPS* obligations while minimizing the rate impact to its customers.

MERALCO is also preparing to register with the Renewable Energy Market ("*REM*"). On August 18, 2020, the *DOE* issued an advisory on the Recalibration of the Commercial Operations of the *REM*. According to the advisory, the *REM* will be launched in June 2021. As at February 27, 2023, the *REM* is not yet operational.

Green Energy Option Program (GEOP)

Pursuant to the *RE* Act, the *DOE* issued Department Circular No. DC2018-07-0019 "Promulgating the Rules and Guidelines Governing the Establishment of the Green Energy Option Program Pursuant to the Renewable Energy Act of 2008" or the *GEOP* Rules on July 18, 2018. On April 22, 2020, the *DOE* also issued Department Circular No. DC2020-04-0009, "Guidelines Governing the Issuance of Operating Permits to Renewable Energy Suppliers under the *GEOP*" as a supplement to the *GEOP* Rules.

On November 24, 2020, the *ERC* released a draft "Resolution Adopting the *GEOP* Rules". This is in accordance with Section 15(e) of the *DOE*'s *GEOP* Rules stating that "The *ERC* shall issue the



necessary regulatory framework particularly in setting the technical and interconnection standards and wheeling fees, to effect and achieve the objectives of the *GEOP*.” On December 7 and 8, 2020, the *ERC* conducted public consultations on the draft. On August 17, 2021, the *ERC* released its *ERC* Resolution No. 8, Series of 2021 (dated April 22, 2021) and put into effect its regulatory framework to govern the *GEOP*. The rules became effective on September 3, 2021.

Recovery of NPC Stranded Contract Costs

In an Order dated May 22, 2018, the *ERC* approved *PSALM*’s petition for the recovery of *NPC*’s stranded contract costs portion of the universal charge (“*UC-SCC*”). Accordingly, *PSALM* is hereby authorized to recover the stranded contract costs for Luzon, Visayas and Mindanao grids totaling ₱8,547 million with a monthly rate of ₱0.1938 per *kWh* starting May 2018 billing period until the full amount has been recovered.

On January 14, 2019, *MERALCO* received a letter dated December 28, 2018 from *PSALM* advising *MERALCO* to cease the implementation of the collection of the ₱0.1938 per *kWh* for the recovery of the additional *SCC* effective January 2019 as it already recovered the full amount of the stranded contract costs. This was after *MERALCO* had already completed the billing program for January 2019. Accordingly, on February 6, 2019, *MERALCO* wrote the *ERC* proposing to reverse the said collections of the additional *UC-SCC*. On February 7, 2019, *MERALCO* received a letter from the *ERC* which allowed the full reversal of the subject *UC-SCC* in its February billing equivalent to ₱0.3876 per *kWh*, without prejudice to further validation by the *ERC* as to the final amounts due.

In its letter dated January 15, 2020, *MERALCO* informed the *ERC* that it accumulated additional total excess *UC-SCC* collections in the amount of ₱545 million and proposed to implement another reversal to its customers in the amount of ₱0.1453 per *kWh* for the month of February 2020. In its letter dated February 6, 2020, the *ERC* directed *MERALCO* to implement the refund, subject to post-validation. *MERALCO* was then directed to provide additional information as well as status report to the *ERC* with respect to the implementation of refund. *MERALCO* implemented the refund starting its March 2020 billing.

On March 4, 2020, *MERALCO* received a letter dated March 3, 2020, directing it to comment on a petition filed by a consumer group which sought to stop the collection of *UC-SCC* and stranded debts portion of the universal charge (“*UC-SD*”) from consumers because of the Murang Kuryente Act. *MERALCO* filed its comment on March 16, 2020.

In a Decision dated April 10, 2019, the *ERC* approved with modification *PSALM*’s petition for the availment of the *NPC*’s stranded contract costs portion of the universal charge for calendar year 2014. *PSALM* is hereby authorized to recover the *UC-SCC* for Luzon, Visayas and Mindanao grids totaling ₱5,117 million with a monthly rate of ₱0.0543 per *kWh* within a period of 12 months.

In separate Orders dated May 28, 2020, the *ERC* dismissed *PSALM*’s petitions for the availment of the *NPC*’s stranded contract costs portion of the universal charge for calendar years 2015 to 2018 due to the promulgation of the Murang Kuryente Act.



Net Metering Program

The *RE Act* mandates the *DUs* to provide the mechanism for the “physical connection and commercial arrangements necessary to ensure the success of the *RE* programs”, specifically the Net Metering Program. The *RE Act* defines Net Metering as “a system, appropriate for distributed generation, in which a distribution grid user has a two-way connection to the grid and is only charged for his net electricity consumption and is credited for any overall contribution to the electricity grid”. By their nature, net metering installations will be small (less than 100 *kW*) and will likely be adopted by households and small business end-users of *DUs*.

After consultations with stakeholders, the *ERC* issued on July 3, 2013 its Resolution No. 09, Series of 2013, entitled, “A Resolution Adopting the Rules enabling the Net Metering Program for Renewable Energy”. The Rules will govern the *DUs*’ implementation of the Net Metering Program. Included in the Rules are the interconnection standards that shall provide technical guidance to address engineering, electric system reliability, and safety concerns for net metering interconnections. However, the final pricing methodology to determine the rate at which energy exported back to the distribution system by Net Metering Program participants will be addressed in another set of rules by the *ERC* in due course. In the meantime, the *DUs*’ blended generation cost equivalent to the generation charge shall be used as the preliminary reference price in the net metering agreement. The Rules took effect on July 24, 2013. Under *ERC* Resolution No. 6, Series of 2019, entitled, “A Resolution Adopting the Amendments to the Rules enabling the Net Metering Program for Renewable Energy”, the *ERC* adopted amendments to the Net Metering Rules. On June 23, 2020, the *ERC* issued Resolution No. 5, Series of 2020 entitled, “A Resolution Clarifying *ERC* Resolution No. 6, Series of 2019, entitled "A Resolution Adopting the amendments to the Rules Enabling the Net-Metering Program for Renewable Energy". As at December 31, 2022, *MERALCO* has already installed 7,590 meters and energized 7,304 net metering customers.

Interruptible Load Program (“ILP”)

In an *ERC* Order dated April 11, 2014, the *ERC* approved with modification *MERALCO*’s request that it be allowed to adopt and implement the *ILP*. *ILP* protocols, compensation and recovery mechanism are governed by *ERC* Resolution No. 5, Series of 2015 “A Resolution Adopting the Amended Rules to Govern the Interruptible Load Program”, *DOE* Circular No. DC2015-06-0003 “Providing the Interim Manner for Declaring Bilateral Contract Quantities in the Wholesale Electricity Spot Market and Directing the Philippine Electricity Market Corporation to Establish Necessary Protocols to Complement the Interruptible Load Program” and *ERC* Resolution No. 3, Series of 2019 “A Resolution Clarifying Section 3, Article III of the Amended Interruptible Load Program Rules”.

As at December 31, 2022, there are 117 companies with a total committed de-loading capacity of 560.59 *MW* that have signed up with *MERALCO*, *MPower* and with other retail electricity suppliers as *ILP* participants.



Long-Term Indebtedness Application

On June 25, 2015, *MERALCO* filed an application, with prayer for provisional authority, for continuing authority to (a) issue bonds or other evidence of indebtedness for as long as it maintains 50:50 long-term debt to equity ratio; and (b) whenever necessary, to mortgage, pledge or encumber any of its property to any creditor in connection with its authority to issue bonds or any other evidence of long-term indebtedness. The hearing on the application was conducted on October 6, 2015. In an Order dated October 12, 2015, the *ERC* directed *MERALCO* to submit additional documents in support of its application which *MERALCO* complied with. However, due to changes in the financial climate which may affect the terms and conditions of any financial borrowings, *MERALCO* has filed a Motion to withdraw the application without prejudice to its refiling at a later date. In an Order dated March 22, 2016, the *ERC* granted *MERALCO*'s Motion to Withdraw but still required *MERALCO* to submit certain documents. *MERALCO* filed a Motion for Partial Reconsideration questioning the requirement which is pending before the *ERC*. As at February 27, 2023, the *ERC* has yet to resolve *MERALCO*'s Motion for Partial Reconsideration.

On October 29, 2019, *MERALCO* filed an application, with prayer for provisional authority, for continuing authority to (a) issue bonds or other evidence of indebtedness; and (b) whenever necessary, to mortgage, pledge or encumber any of its property to any creditor in connection with its authority to issue bonds or any other evidence of long-term indebtedness. Hearings have been completed and *MERALCO* filed its *FOE*. On January 21, 2021, *MERALCO* filed its Manifestation with Urgent Motion to Resolution. *MERALCO* has filed a Motion to Withdraw the Application to align with the changes brought about by the amended Public Service Act. As at February 27, 2023, *MERALCO* is awaiting the resolution of the *ERC* of its motion.

CSP Requirement for PSAs

On February 9, 2018, the *DOE* published the *2018 DOE Circular*. Upon effectivity of the Circular, all prospective *PSAs* in grid and off-grid areas shall be procured through *CSP*. The *CSP* under the *2018 DOE Circular* involves publication of invitation to bid, pre-bid conference, bid evaluation, and pre-/post-qualification of winning bidder. Exemption from *CSP* may be granted by the *DOE* in the following instances:

- i. Generation project owned by the *DU* funded by grant or donations
- ii. Negotiated procurement of emergency supply
- iii. Generation project embedded in the *DU*, utilizing indigenous energy resources in the franchise area of the *DU* and subject to a maximum capacity of 10 *MW* per Luzon *DU* and 5 *MW* per Visayas and Mindanao *DU* (introduced by the *2021 Revised CSP Circular*, see discussion below)
- iv. Provision of supply in off-grid areas prior to the entry of new power providers
- v. Provision of supply by *PSALM* through bilateral contracts for power produced from undisposed generating assets and *IPP* contracts sanctioned by *EPIRA*.

PSAs that were granted exemption from *CSP* by reason of need for emergency supply shall be implemented by the *DU* immediately without prejudice to the evaluation and final decision of the *ERC*.



The *DU's CSP* may be managed by a Third Party Bids and Awards Committee (“*TPBAC*”) or a Third Party Administrator (“*TPA*”). The *DU's TPBAC* shall be composed of the following (a) one (1) *DU* officer or employee knowledgeable in the technical operations of the *DU*; (b) One (1) *DU* officer or employee with knowledge and/or experience with any local or international competitive bidding procedures; (c) one (1) lawyer; (d) one (1) finance officer or accountant that has knowledge on electricity pricing; and (e) one (1) technical person, or a person with knowledge and/or experience with any local or international competitive bidding procedures. Any two of the last three (3) members shall be captive customer representatives. The selection process of the representatives of the captive customers to the *DU's TPBAC* shall be submitted to the *DOE* for approval. The *DOE* has already approved the selection process of *MERALCO's TPBAC* captive customer representatives.

Direct negotiations may be made by the *DUs* after at least two (2) failed *CSPs* and there is no outstanding dispute on the conducted *CSP*. A *CSP* is considered failed when during its conduct:

- i. No proposal was received by the *DU*
- ii. Only one (1) generator submitted an offer
- iii. Competitive offers of prospective generators failed to meet the requirements prescribed in the bid document

On October 14, 2021, the *DOE* published a *DOE Circular* entitled “Amending Certain Provisions of and Supplementing [the *2018 DOE Circular*] on the Competitive Selection Process in the Procurement by the Distribution Utilities of Power Supply Agreement for the Captive Market” (“*2021 Revised CSP Circular*”). The *2021 Revised CSP Circular* mainly improved the procedural process and flow prescribed under the *2018 DOE Circular* and, most importantly, introduced a new alternative mode of *CSP* – a competitive challenge for unsolicited proposals (“*USP*”), if the *USP* offers a New Technology and does not exceed twenty-five percent (25%) of the distribution utility’s peak demand for the year of the *USP's* required commercial operations minus any capacity previously procured through *USP* for commercial operations in the same year.

New Technology is defined under the *2021 Revised CSP Circular* as referring to “a technology that is novel or a novel use or arrangement of existing technology that has not yet been commercially operating or applied in the country upon effectivity of the Circular. Such technology, whether in whole or in part, is compliant to international test standards in the power generation industry.”

Under the *2021 Revised CSP Circular*, each *CSP* shall be completed within seven (7) months from the time of the publication of the Invitation to Bid until filing of the *PSA* to the *ERC*.

Meanwhile, following the *2018 DOE Circular*, *MERALCO* constituted its *TPBAC* to conduct *CSP* in accordance with the *2018 DOE Circular* and its submitted Power Supply Procurement Plan.

SC Petitions on CSP

On September 5, 2019, representatives of the *Bayan Muna* partylist filed a petition with the *SC* claiming that the *2018 DOE Circular*, which repealed portions of the *2015 CSP Circular*, is void for violating policies/provisions intended to protect consumers under *EPIRA* and the Constitution (the “*Bayan Muna Petition*”). The *Bayan Muna Petition* also sought for the issuance of *TRO* and/or writ of preliminary injunction to prevent continuation of the on-going *CSPs* of *MERALCO* and some electric cooperatives. On December 17, 2019, *MERALCO* filed its Comment to the *Bayan Muna Petition*.



On March 3, 2021, *MERALCO* received a copy of the petition dated February 17, 2021 filed with the *SC* by representatives of various consumer groups led by the Power for People (P4P) Coalition (the “*P4P Petition*”) against the *DOE* and *MERALCO*’s *TPBAC*. The petition claims that the terms of reference for the 1,800 *MW* baseload *CSP* completed in March 2021 are unfavorable to the consumers and non-compliant with the 2018 *DOE Circular* and that it would not result in the least cost of electricity. The *P4P Petition* also sought for the issuance of *TRO* and/or writ of preliminary injunction to prevent continuation and/or nullify the 1,800 *MW* baseload *CSP* of *MERALCO*. In a Resolution dated March 18, 2021, the *SC* dismissed the *P4P Petition*. The *SC* held that the issues raised by *P4P* are factual in nature, which require the *SC* to inquire into wisdom of the terms of reference. Hence, the petition was deemed premature as *P4P* itself admitted that *DOE* has yet to act on its protest letter and the *ERC* has yet to determine reasonableness of the rates resulting from the *CSP*.

True-up Adjustments of Fuel and Purchased Power Costs (“TAFPPC”) and Foreign Exchange-Related Costs (“TAFxA”)

On June 20, 2017, the *ERC* issued a Decision, a copy of which was received by *MERALCO* on December 29, 2017, authorizing *PSALM* to recover, within a 60-month period, the amount of ₱3,592 million in the Luzon grid, among others, as part of the *TAFPPC* and *TAFxA*; and directed all distribution utilities to comply with the directive.

On January 1, 2018, *MERALCO* filed a Motion for Partial Reconsideration praying for the suspension of the Order and requesting that *MERALCO* be allowed to charge the recovery to all types of customers, regardless of whether they were covered or not during the relevant test periods. As at February 27, 2023, the *ERC* has yet to act on the Motion.

Clean Air Act

The Clean Air Act and the related *IRR* contain provisions that have an impact on the industry as a whole and to *TPC*, *PPC*, *GRPI*, *PEDC* and *CEDC* (“the Operating Subsidiaries of *GBPC*”) in particular, that need to be complied with within 44 months from the effectivity date or by July 2004. Based on the assessment made on the Operating Subsidiaries of *GBPC*’s existing facilities, the Operating Subsidiaries of *GBPC* believe that they have complied with the provisions of the Clean Air Act and the related *IRR*.

Energy Regulation (ER) 1-94

Based on *ER 1-94* and the *IRR* of the *EPIRA*, generation companies are mandated to provide benefits to its host communities, equivalent to ₱0.01 per *kWh* of energy generated and sold. The operating subsidiaries of *GBPC* accrue the required benefits to their host community (included under “Trade payables and other current liabilities” account in the consolidated statements of financial position) prospectively from the date of effectivity of *ER 1-94*. Such amount accrued is remitted to the trust account of the *DOE* upon their audit.



33. Notes to Consolidated Statements of Cash Flows

	2022			2021		
	Interest-bearing long-term financial liabilities	Notes payable	Dividends payable	Interest-bearing long-term financial liabilities	Notes payable	Dividends payable
	<i>(Amounts in millions)</i>					
Balance at beginning of year	₱61,834	₱28,834	₱2,021	₱16,771	₱23,373	₱1,251
Payments	(18,676)	(2,263)	(17,213)	(7,388)	(17,419)	(13,748)
Availments	32,507	2,920	—	24,513	22,880	—
Dividend declarations	—	—	18,070	—	—	14,518
Preferred stock redemption	(3)	—	—	(2)	—	—
Reclassifications	—	—	—	—	—	—
Interest accretion	(577)	—	—	(153)	—	—
Effect of consolidation of GBPC	—	—	—	28,323	—	—
Amortization of fair value on the acquisition of GBPC	(743)	—	—	(230)	—	—
Balance at end of year	₱74,342	₱29,491	₱2,878	₱61,834	₱28,834	₱2,021

34. Event After the Financial Reporting Date

On February 27, 2023, the *BOD* of *MERALCO* approved the declaration of cash dividends of ₱11.028 a share to all shareholders of record as at March 29, 2023, payable on April 26, 2023.

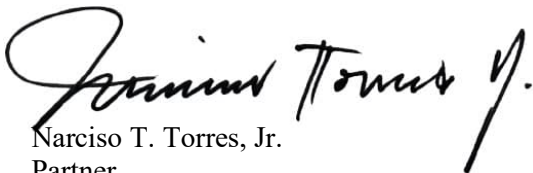


INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES

The Stockholders and the Board of Directors
Manila Electric Company and Subsidiaries
Lopez Building, Ortigas Avenue
Barangay Ugong, Pasig City, Metro Manila

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Manila Electric Company and its subsidiaries (the Group) as at December 31, 2022 and 2021, and for each of the three years in the period ended December 31, 2022, included in this Form 17-A, and have issued our report thereon dated February 27, 2023. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The schedules listed in the Index to the Financial Statements and Supplementary Schedules are the responsibility of the Group's management. These schedules are presented for purposes of complying with the Revised Securities Regulation Code Rule 68, and are not part of the basic consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, fairly state, in all material respects, the financial information required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



Narciso T. Torres, Jr.

Partner

CPA Certificate No. 84208

Tax Identification No. 102-099-147

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

SEC Partner Accreditation No. 84208-SEC (Group A)

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

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

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

BIR Accreditation No. 08-001998-111-2020, November 27, 2020, valid until November 26, 2023

PTR No. 9566006, January 3, 2023, Makati City

February 27, 2023



MANILA ELECTRIC COMPANY AND SUBSIDIARIES
Schedule A: Financial Assets
As at December 31, 2022
(Amounts in Millions Pesos)

Name of Issuing Entity and Association of Each Issue	Number of Shares or Principal Amount of Bonds and Notes	Amount shown in the Statement of Financial Position	Value based on Market Quotation at End of Reporting Period	Income Received and Accrued
Cash and cash equivalents:				
Cash in banks	not applicable	16,966	16,966	80
Cash equivalents	not applicable	38,634	38,634	685
Trade and other receivables:				
Electricity distributed	not applicable	36,926	36,926	-
Energy generated	not applicable	6,486	6,486	-
Service contracts	not applicable	2,421	2,421	-
Nontrade receivables	not applicable	5,756	5,756	-
Debt securities at amortized cost:				
Government securities	various	28,237	27,549	784
Private debt securities	various	9,059	8,573	253
Financial assets at FVOCI:				
Corporate bonds	various	2,196	2,196	113
Ordinary and club shares	various	1,940	1,940	-
Unit investment trust funds	various	4	4	-
Other financial assets:				
Restricted cash	not applicable	4,478	4,478	11
Advance payments to a supplier	not applicable	560	560	-
Short-term investments	not applicable	204	204	-
		153,867	152,693	1,926

MANILA ELECTRIC COMPANY AND SUBSIDIARIES
Schedule C: Accounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements
As at December 31, 2022
(Amounts in Millions Pesos)

Name of Related Party	January 1, 2022	Additions	Collections	Others	Amount written off	Current	Noncurrent	December 31, 2022
Comstech Integration Alliance, Inc.	131	-	(5)	-	-	126	-	126
Vantage Energy Solutions and Management, Inc.	67	-	(62)	-	-	5	-	5
MRAIL, Inc.	17	-	(7)	-	-	10	-	10
eSakay, Inc.	4	1	-	-	-	5	-	5
Miescor Logistics, Inc.	13	13	(3)	-	-	23	-	23
Meralco Energy Inc.	16	-	(11)	-	-	5	-	5
Meralco Industrial Engineering Services Corporation	13	8	(5)	-	-	16	-	16
Corporate Information Solutions, Inc.	-	5	-	-	-	5	-	5
Miescor Builders, Inc.	2	4	-	-	-	6	-	6
MSpectrum, Inc.	-	7	-	-	-	7	-	7
Meralco Financial Services Corporation	-	15	-	-	-	15	-	15
Radius Telecoms, Inc.	-	-	-	-	-	-	-	-
	263	53	(93)	-	-	223	-	223

MANILA ELECTRIC COMPANY AND SUBSIDIARIES
Schedule D: Interest Bearing Long-term Financial Liabilities
As at December 31, 2022
(Amounts In Million Pesos)

Title of issue and type of obligation	Interest Rate	Amount authorized by indenture	Amount shown under "Current portion of interest-bearing long-term financial liabilities" in the Consolidated Statement of Financial Position	Amount shown under "Interest-bearing long-term financial liabilities - net of current portion" in the Consolidated Statement of Financial Position
Fixed Rate Loans	4.3750%-10.81%	102,063	4,037	59,772
Floating Rate Loans	6.5000%		100	9,900
Redeemable Preferred Stock	10.0000%		1,467	-
Total			5,604	69,672
Less Unamortized debt issue cost			19	915
Balance at the end of the year			5,585	68,757

Note: The number of periodic payments of the fixed rate loans are disclosed in Note 16 - Interest-bearing Long-term Financial Liabilities in the Consolidated Financial Statements.

MANILA ELECTRIC COMPANY AND SUBSIDIARIES
Schedule G. Capital Stock
As at December 31, 2022
(Amounts in millions)

Title of Issue	Number of shares authorized	Number of shares issued and outstanding as shown under related balance sheet 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	1,250	1,127	-	832	1	294

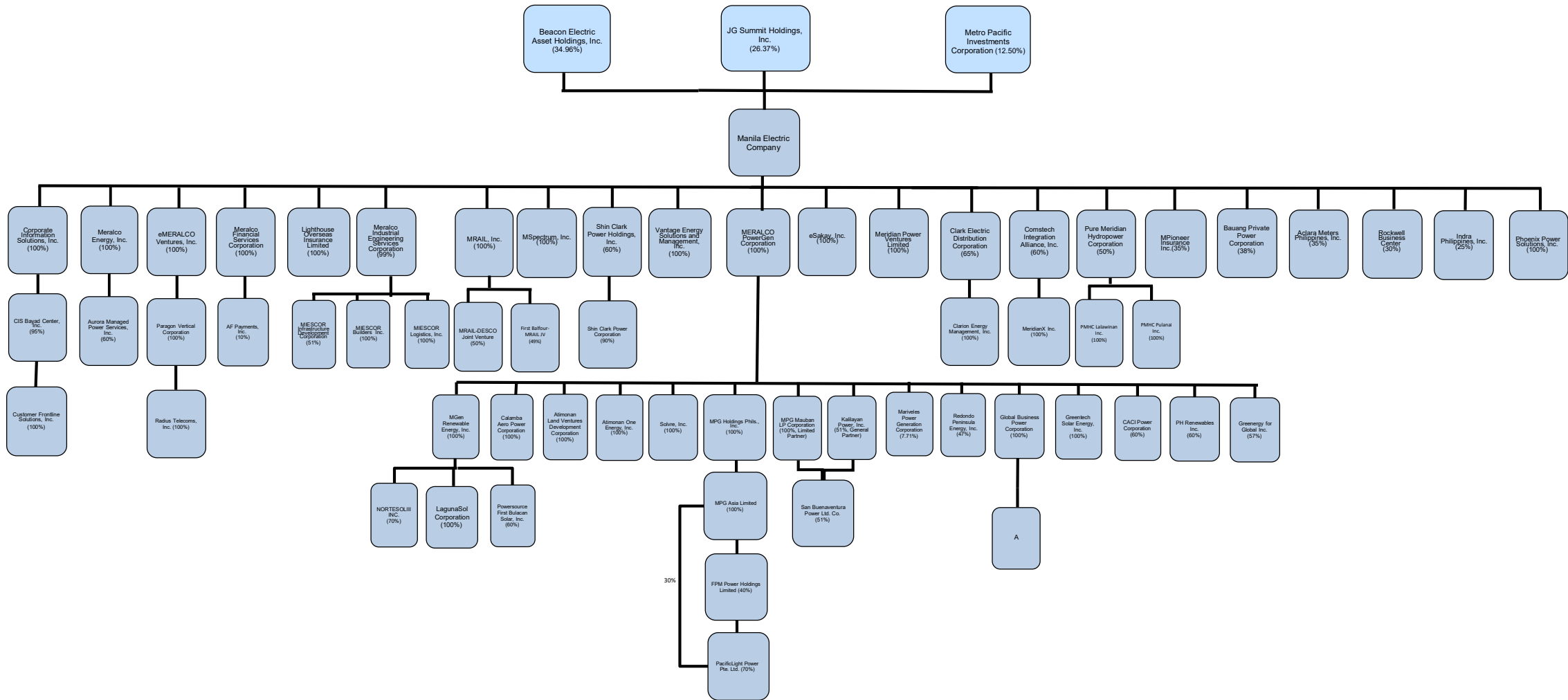
MANILA ELECTRIC COMPANY
Schedule H: Reconciliation of Retained Earnings Available for Dividend Declaration
As at December 31, 2022
(Amounts in millions)

Unappropriated retained earnings, as adjusted to available for dividends declaration as at January 1, 2022	₱ <u>17,803</u>
Add: Net income actually earned/realized during the year	<u>21,693</u>
Net income during the year closed to retained earnings	21,693
Add: Non-actual losses	
Movement of deferred tax assets	4,112
Depreciation of revaluation increment on utility plant and others - net of tax	<u>262</u>
Subtotal	<u>4,374</u>
Less: Non-actual/unrealized income net of tax:	
Unrealized foreign exchange gain	(147)
Impact of discounting on certain liabilities	<u>(4,287)</u>
Subtotal	<u>(4,434)</u>
Net income actually earned during the year	21,633
Add:	
Dividends declared during the year	<u>(18,070)</u>
Unappropriated retained earnings available for dividend declaration as at December 31, 2022	₱ <u><u>21,366</u></u>

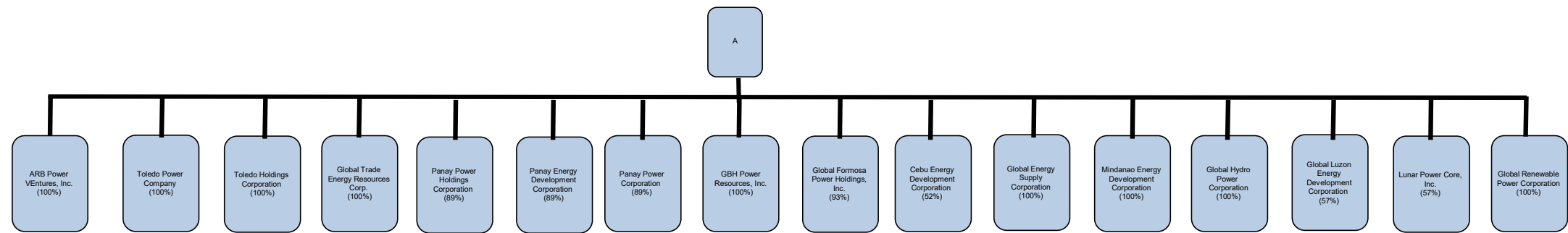
MANILA ELECTRIC COMPANY AND SUBSIDIARIES

Schedule I: Map Showing the Relationships among the Companies within the Group

As at December 31, 2022



MANILA ELECTRIC COMPANY AND SUBSIDIARIES
Schedule I: Map Showing the Relationships among the Companies within the Group
As at December 31, 2021

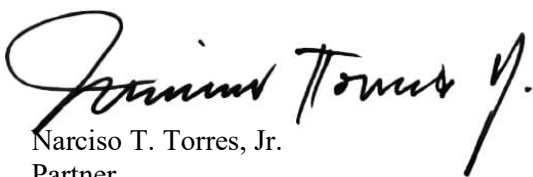


INDEPENDENT AUDITOR'S REPORT ON COMPONENTS OF FINANCIAL SOUNDNESS INDICATORS

The Stockholders and the Board of Directors
Manila Electric Company and Subsidiaries
Lopez Building, Ortigas Avenue
Barangay Ugong, Pasig City, Metro Manila

We have audited in accordance with Philippine Standards on Auditing, the financial statements of Manila Electric Company and its subsidiaries (the Group) as at December 31, 2022 and 2021, and for each of the three years in the period ended December 31, 2022, and have issued our report thereon dated February 27, 2023. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The Supplementary Schedule on Financial Soundness Indicators, including their definitions, formulas, calculation, and their appropriateness or usefulness to the intended users, are the responsibility of the Group's management. These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRSs) and may not be comparable to similarly titled measures presented by other companies. This schedule is presented for the purpose of complying with the Revised Securities Regulation Code Rule 68 issued by the Securities and Exchange Commission, and is not a required part of the basic consolidated financial statements prepared in accordance with PFRSs. The components of these financial soundness indicators have been traced to the Group's consolidated financial statements as at December 31, 2022 and 2021 and for each of the three years in the period ended December 31, 2022 and no material exceptions were noted.

SYCIP GORRES VELAYO & CO.



Narciso T. Torres, Jr.

Partner

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BIR Accreditation No. 08-001998-111-2020, November 27, 2020, valid until November 26, 2023

PTR No. 9566006, January 3, 2023, Makati City

February 27, 2023



MANILA ELECTRIC COMPANY AND SUBSIDIARIES

Schedule of Financial Soundness Indicators

As at December 31, 2022, 2021 and 2020

	2022	2021 - as restated	2020
Current Ratio ⁽¹⁾	0.75 : 1.00	0.86 : 1.00	0.90 : 1.00
Acid ratio ⁽²⁾	0.66 : 1.00	0.76 : 1.00	0.83 : 1.00
Solvency Ratio ⁽³⁾	0.13 : 1.00	0.12 : 1.00	0.13 : 1.00
Debt to Equity Ratio ⁽⁴⁾	0.95 : 1.00	0.95 : 1.00	0.51 : 1.00
Asset to Equity Ratio ⁽⁵⁾	4.74x	5.08x	4.93x
Interest Coverage Ratio ⁽⁶⁾	9.84x	9.26x	13.60x
Profit margin Ratio ⁽⁷⁾	0.07x	0.07x	0.06x
Return on Equity ⁽⁸⁾	0.26x	0.25x	0.21x
Return on Assets ⁽⁹⁾	0.05x	0.05x	0.04x
EBITDA Margin ⁽¹⁰⁾	12.18%	14.61%	11.29%

⁽¹⁾ Current ratio is measured as current assets divided by current liabilities.

⁽²⁾ Acid ratio is measured as current assets minus inventory and prepayments divided by current liabilities.

⁽³⁾ Solvency ratio is measured as net income plus non-cash expenses divided to total liabilities.

⁽⁴⁾ Debt to equity ratio is measured as total debts divided to total equity attributable to equity holders of the parent.

⁽⁵⁾ Asset to equity ratio is measured as total assets divided by total equity attributable to equity holders of the parent.

⁽⁶⁾ Interest coverage ratio is measured as earnings before interest and taxes, divided by total interest and other financial charges.

⁽⁷⁾ Profit margin ratio is computed by dividing net income attributable to equity holders of the parent with total revenues.

⁽⁸⁾ Return on equity is measured as net income attributable to equity holders of the parent with total equity attributable to equity holders of the p

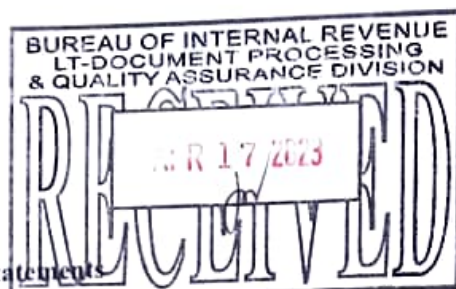
⁽⁹⁾ Return on assets is measured as net income attributable to equity holders of the parent with total assets.

⁽¹⁰⁾ EBITDA margin is measured as EBITDA divided by total revenues.

EBITDA is measured as net income excluding depreciation and amortization, impairment of noncurrent assets, interest and other financial charges, interest and other financial income, equity in net earnings or losses of associates and joint ventures, foreign exchange gains or losses, mark-to-market gains or losses, provision for income tax and other non-recurring gains or losses, if any.

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
Manila Electric Company and Subsidiaries
Lopez Building, Ortigas Avenue
Barangay Ugong, Pasig City, Metro Manila



Report on the Audit of the Parent Company Financial Statements

Opinion

We have audited the parent company financial statements of Manila Electric Company (the Company), which comprise the parent company statements of financial position as at December 31, 2022 and 2021, and the parent company statements of income, parent company statements of comprehensive income, parent company statements of changes in equity and parent company statements of cash flows for the years then ended, and notes to the parent company financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying parent company financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

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

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

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

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





Auditor's Responsibilities for the Audit of the Parent Company Financial Statements

Our objectives are to obtain reasonable assurance about whether the parent company financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these parent company financial statements.

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

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

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

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

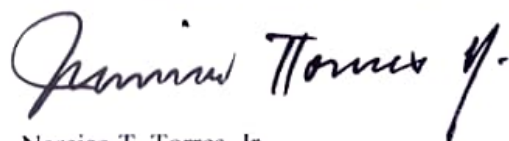


Report on the Supplementary Information Required Under Revenue Regulations No. 15-2010

Our audits were conducted for the purpose of forming an opinion on the parent company financial statements taken as a whole. The supplementary information required under Revenue Regulations No. 15-2010 in Note 32 to the parent company financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Manila Electric Company. The information has been subjected to the auditing procedures applied in our audit 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.

The engagement partner on the audit resulting in this independent auditor's report is Narciso T. Torres, Jr.

SYCIP GORRES VELAYO & CO.



Narciso T. Torres, Jr.

Partner

CPA Certificate No. 84208

Tax Identification No. 102-099-147

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

SEC Partner Accreditation No. 84208-SEC (Group A)

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

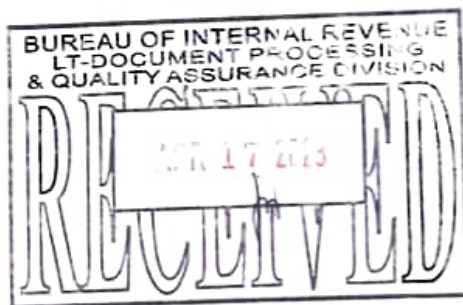
SEC Firm Accreditation No. 0001-SEC (Group A)

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

BIR Accreditation No. 08-001998-111-2020, November 27, 2020, valid until November 26, 2023

PTR No. 9566006, January 3, 2023, Makati City

February 27, 2023

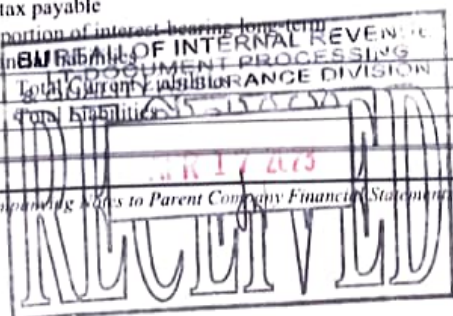


MANILA ELECTRIC COMPANY

PARENT COMPANY STATEMENTS OF FINANCIAL POSITION

		December 31	
	Note	2022	2021
		(Amounts in millions)	
ASSETS			
Noncurrent Assets			
Utility plant and others	6	P171,680	P160,099
Investments in subsidiaries and associates and interests in joint ventures	7 and 21	58,870	43,695
Investment properties	8	1,454	1,458
Deferred tax assets - net	26	19,992	25,685
	2, 9, 11, 13, 24, 25 and 28	41,266	50,857
Financial and other noncurrent assets		293,262	281,794
Total Noncurrent Assets			
Current Assets			
Cash and cash equivalents	10 and 25	38,973	40,631
Trade and other receivables	9, 11, 21 and 25	36,424	32,688
Inventories	12 and 23	6,016	5,322
Financial and other current assets	9, 13, 21 and 25	25,848	21,816
		107,261	100,457
Total Current Assets		P400,523	P382,251
Total Assets			
EQUITY AND LIABILITIES			
Equity			
Common stock	14	P11,273	P11,273
Additional paid-in capital		4,111	4,111
Employee stock purchase plan	14	1,049	1,049
Unrealized fair value gains on financial assets at fair value through other comprehensive income ("FVOCI")	9	177	325
Remeasurement adjustments on retirement and other post-employment liabilities	24	6,986	2,500
	14	(11)	(11)
Treasury shares	14	72,539	68,916
Retained earnings		96,124	88,163
Total Equity			
Noncurrent Liabilities			
Interest-bearing long-term financial liabilities - net of current portion	15 and 25	20,778	11,294
Customers' deposits - net of current portion	16, 20, and 25	30,854	30,184
Refundable service extension costs - net of current portion	20 and 25	4,653	5,334
Long-term employee benefits	24	1,970	9,175
Provisions	17, 20 and 27	12,611	13,536
	2, 5, 6, 22 and 27	58,303	94,764
Other noncurrent liabilities		129,169	164,287
Total Noncurrent Liabilities			
Current Liabilities			
Notes payable	19 and 25	27,529	27,654
	14, 15, 16, 17, 20, 21, 22, 25 and 27	139,139	95,850
Trade payables and other current liabilities	2, 18 and 25	2,905	2,929
Customers' refund	24	3,750	-
Current portion of long-term employee benefits		-	1,549
Income tax payable		-	-
Current portion of interest-bearing long-term financial liabilities	15, 23 and 25	1,907	1,819
Total Current Liabilities		175,230	129,801
Total Liabilities		304,399	294,088
Total Liabilities		P400,523	P382,251

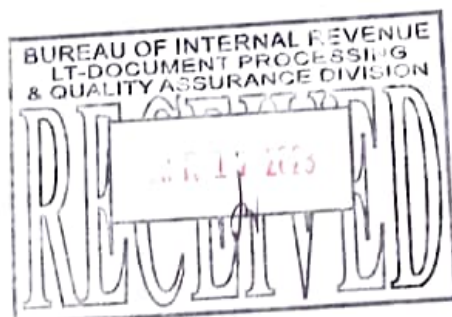
See accompanying notes to Parent Company Financial Statements.



MANILA ELECTRIC COMPANY
PARENT COMPANY STATEMENTS OF INCOME

		Years Ended December 31	
	Note	2022	2021
(Amounts in millions, except per share data)			
REVENUES			
Sale of electricity	21, 22, 28 and 30	₱371,757	₱286,714
Lease income	8 and 21	1,633	1,548
		373,390	288,262
COSTS AND EXPENSES			
Purchased power	21, 22 and 28	312,602	220,751
Salaries, wages and employee benefits	23 and 24	11,178	11,410
Depreciation and amortization	6, 8 and 9	10,419	8,549
Contracted services		7,851	7,299
Provisions for probable losses and expenses from claims	9, 17, 20, 22 and 27	5,585	9,570
Provision for estimated credit losses ("ECL")	11	2,093	202
Taxes, fees and permits		718	736
Other expenses	21 and 23	3,013	2,361
		353,459	260,878
OTHER INCOME (EXPENSES)			
Interest and other financial income	2 and 23	2,145	2,234
Interest and other financial charges	6, 15, 16, 19 and 23	(1,319)	(1,473)
Foreign exchange gains - net		1,075	414
Impairment loss on investments in subsidiaries	7	(99)	(12)
Others	2, 21, 22 and 28	5,805	1,182
		7,607	2,345
INCOME BEFORE INCOME TAX		27,538	29,729
PROVISION FOR INCOME TAX			
Current	26	1,658	7,827
Deferred		4,187	603
		5,845	8,430
NET INCOME		₱21,693	₱21,299
Earnings Per Share - Basic and Diluted		₱19.25	₱18.90
Dividends Per Share		₱16.04	4,12.88

See accompanying Notes to Parent Company Financial Statements.

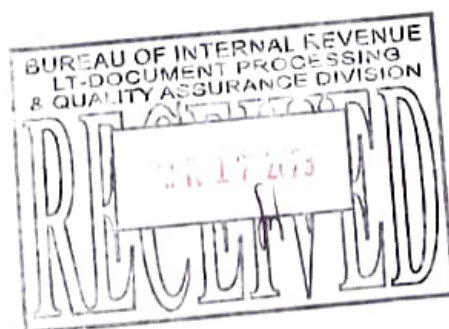


MANILA ELECTRIC COMPANY

PARENT COMPANY STATEMENTS OF COMPREHENSIVE INCOME

		Years Ended December 31	
	Note	2022	2021
		(Amounts in millions)	
NET INCOME		₱21,693	₱21,299
OTHER COMPREHENSIVE INCOME			
Items that will be reclassified to profit or loss in subsequent years:			
Unrealized fair value losses on financial assets at <i>FVOCI</i>	9	(238)	(2)
		(238)	(2)
Items that will not be reclassified to profit or loss in subsequent years:			
Remeasurement adjustments on retirement and other post-employment liabilities	24	5,983	8,660
Income tax effect		(1,497)	(2,431)
		4,486	6,229
Unrealized fair value gains on equity securities at <i>FVOCI</i>		99	43
Income tax effect		(9)	(4)
		90	39
OTHER COMPREHENSIVE INCOME, NET OF INCOME TAX		4,338	6,266
TOTAL COMPREHENSIVE INCOME, NET OF INCOME TAX		₱26,031	₱27,565

See accompanying Notes to Parent Company Financial Statements.

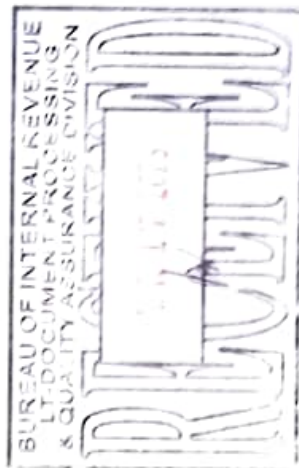


MANILA ELECTRIC COMPANY

PARENT COMPANY STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	Common Stock (Note 14)	Additional Paid-in Capital	Employee Stock Purchase Plan (Note 14)	Unrealized Fair Value on Financial Assets at FVOCI (Note 9)	Remeasurement Adjustments on Retirement and Other Post- Employment Liabilities (Note 24)	Treasury Shares (Note 14)	Retained Earnings (Note 14)	Total Equity
<i>(Amounts in millions)</i>								
At January 1, 2022	P11,273	P4,111	P1,049	P325	P2,500	(P11)	P68,916	P88,163
Net income	-	-	-	-	-	-	21,693	21,693
Other comprehensive income	-	-	-	(148)	4,486	-	-	4,338
Total comprehensive income	-	-	-	(148)	4,486	-	21,693	26,031
Dividends	-	-	-	-	-	-	(18,070)	(18,070)
At December 31, 2022	P11,273	P4,111	P1,049	P177	P6,986	(P11)	P72,539	P98,124
At January 1, 2021	P11,273	P4,111	P1,049	P288	(P3,729)	(P11)	P62,135	P75,110
Net income	-	-	-	37	6,229	-	21,289	27,555
Other comprehensive income	-	-	-	37	6,229	-	21,289	27,555
Total comprehensive income	-	-	-	74	12,458	-	(14,518)	(1,386)
Dividends	-	-	-	-	-	-	-	-
At December 31, 2021	P11,273	P4,111	P1,049	P325	P2,500	(P11)	P68,916	P88,163

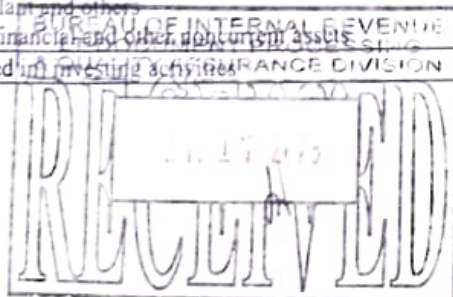
See accompanying Notes to Parent Company Financial Statements



MANILA ELECTRIC COMPANY
PARENT COMPANY STATEMENTS OF CASH FLOWS

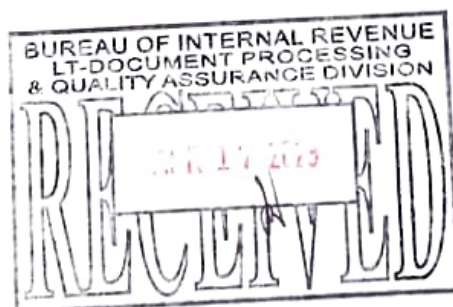
		Years Ended December 31	
	Note	2022	2021
		(Amounts in millions)	
CASH FLOWS FROM OPERATING ACTIVITIES		P27,538	P29,729
Income before income tax			
Adjustments for:			
Provisions (settlement of/ reversal of provision) for probable losses and expenses from claims - net	17, 20, 22 and 27	(15,110)	1,489
Depreciation and amortization	6, 8 and 9	10,419	8,549
Impairment loss on investment in subsidiaries	7	94	12
Interest and other financial income	23	(2,145)	(2,234)
Interest and other financial charges	6, 15, 16 and 23	1,319	1,473
Gain on disposal of utility plant and others		(342)	(463)
Provision for ECL		2,093	202
Others		(147)	36
Operating income before working capital changes		23,719	38,793
Decrease (increase) in:			
Trade and other receivables		(6,949)	12,986
Inventories		(694)	(701)
Financial and other current assets		(2,316)	(979)
Increase (decrease) in:			
Trade payables and other current liabilities		21,564	816
Customers' deposits		2,377	1,685
Long-term employee benefits		2,537	3,018
Customers' refund		(24)	(20)
Cash generated from operations		40,214	55,598
Income tax paid		(3,311)	(6,880)
Net cash provided by operating activities		36,903	48,718
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to:			
Financial assets at FVOCI	9 and 25	(26,241)	(41,982)
Short-term investments		(2,784)	(740)
Utility plant and others	6	(21,131)	(17,793)
Debt securities at amortized cost	9 and 25	(18,587)	(22,815)
Investments in subsidiaries and associates and interests in joint ventures	7	(15,297)	(14,949)
Intangible assets	9	(688)	(748)
Interest and other financial income received		97	295
Return of capital received	7	23	64
Proceeds from disposal of:			
Financial assets at FVOCI	9 and 25	30,603	43,070
Debt securities at amortized cost	9 and 25	22,689	13,759
Short-term investments		3,025	306
Utility plant and others		376	473
Decrease in financial and other noncurrent assets		1,430	667
Net cash (used in) investing activities		(26,485)	(40,393)

(Forward)



		Years Ended December 31	
	Notes	2022	2021
		(Amounts in millions)	
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments of:	14	(P17,304)	(P14,458)
Dividends		(125)	—
Notes payable		(363)	(361)
Interest-bearing long-term financial liabilities		(1,732)	(1,554)
Interest and other financial charges		(2,552)	(555)
Decrease in financial and other noncurrent liabilities			
Proceeds from availment of interest-bearing long-term financial liabilities		10,000	—
Proceeds from availment of notes payable	19	—	5,000
Net cash used in financing activities		(12,076)	(11,928)
NET DECREASE IN CASH AND CASH EQUIVALENTS			
		(1,658)	(3,603)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
		40,631	44,639
NET UNREALIZED FOREIGN EXCHANGE (LOSS) GAINS			
		—	(405)
CASH AND CASH EQUIVALENTS AT END OF YEAR			
	10	P38,973	P40,631

See accompanying Notes to Parent Company Financial Statements.



MANILA ELECTRIC COMPANY

NOTES TO PARENT COMPANY FINANCIAL STATEMENTS

1. Corporate Information

Manila Electric Company (“*MERALCO*”) holds a 25-year congressional franchise under Republic Act (“*RA*”) No. 9209 valid through June 28, 2028 to construct, operate, and maintain the electric distribution system in the cities and municipalities of Bulacan, Cavite, Metro Manila, and Rizal and certain cities, municipalities and barangays in the provinces of Batangas, Laguna, Pampanga, and Quezon. On October 20, 2008, the Energy Regulatory Commission (“*ERC*”) granted *MERALCO* a consolidated Certificate of Public Convenience and Necessity for the operation of electric service within its franchise area, which shall be valid within the franchise period. *MERALCO*’s participation in retail electricity supply (“*RES*”) is directly through its local *RES* unit, *MPower*.

MERALCO is owned directly by two (2) major shareholder groups, Metro Pacific Investments Corporation (“*Metro Pacific*”) and JG Summit Holdings, Inc. (“*JG Summit*”). As at December 31, 2022, *Metro Pacific* has combined direct equity interests in *MERALCO* and indirect ownership through its wholly owned subsidiary, Beacon Electric Asset Holdings, Inc. *Metro Pacific*’s combined direct and indirect ownership interests in *MERALCO* totaled 47.46% while *JG Summit* has 26.37% direct ownership interest in *MERALCO*. First Philippine Holdings Corporation (“*First Holdings*”) and First Philippine Utilities Corporation have a combined direct equity ownership of 3.95% in *MERALCO*. The balance of *MERALCO*’s common shares is held by institutional investors and the public.

The shares of *MERALCO* are listed and traded in the Philippine Stock Exchange (“*PSE*”) with ticker symbol, *MER*.

The registered office address of *MERALCO* is Lopez Building, Ortigas Avenue, Barangay Ugong, Pasig City, Metro Manila, Philippines.

The parent company financial statements were approved and authorized for issue by the *BOD* on February 27, 2023.

2. Rate Regulations

As a distribution utility (“*DU*”), *MERALCO* is subject to the rate-making regulations and regulatory policies of the *ERC*. Billings of *MERALCO* to customers are itemized or “unbundled” into a number of bill components that reflect the various activities and costs incurred in providing electricity distribution services. The adjustment to each bill component is governed by mechanisms promulgated and enforced by the *ERC*, mainly: [i] the “Rules Governing the Automatic Cost Adjustment and True-up Mechanisms and Corresponding Confirmation Process for Distribution Utilities”, which govern the recovery of pass-through costs, including over- or under-recoveries of the bill components, namely, (a) generation charge, (b) transmission charge, (c) system loss (“*SL*”) charge, (d) lifeline and inter-class rate subsidies, and (e) local franchise tax (“*LFT*”) and business tax as modified by Rules on Recovery of Pass-Through Taxes (Real Property, Local Franchise, and Business Taxes) of Distribution Utilities; and [ii] the “Rules for the Setting of Distribution Wheeling Rates” (“*RDWR*”), as modified, which govern the determination of *MERALCO*’s distribution, supply, and metering charges.



The following is a discussion of matters related to rate-setting:

Performance-Based Regulations (“PBR”)

MERALCO is among the Group A entrants to the PBR, together with two (2) other private DUs.

Rate-setting under PBR is governed by the RDWR. The PBR scheme sets tariffs once every Regulatory Period (“RP”) based on the regulated asset base (“RAB”) of each DU, and the required operating and capital expenditures (“OPEX” and “CAPEX”, respectively) to meet operational performance and service level requirements responsive to the need for adequate, reliable and quality power, efficient service, and growth of all customer classes in the franchise area as approved by the ERC. PBR also employs a mechanism that penalizes or rewards a DU depending on its network and service performance.

Rate filings and settings are done on a RP basis. One (1) RP consists of four (4) Regulatory Years (“RYs”). A RY for MERALCO begins on July 1 and ends on June 30 of the following year.

Maximum Average Price (“MAP”) for the 3rd RP

After rate setting process for a RP, MERALCO goes through a rate verification process to set the MAP for each RY within the RP. In each of RYs 2012, 2013, 2014 and 2015, MERALCO filed for the respective MAP with the ERC. The ERC provisionally approved the MAPs for each of the RY.

On April 29, 2022, MERALCO received an Order from the ERC dated March 8, 2022, which resolved the true-up value of MERALCO’s regulatory asset base for the 3rd RP. On such basis, the ERC adjusted the MAPs for RYs 2012, 2013, 2014 and 2015. The ERC then granted interim relief, which among other things, directed MERALCO to implement the refund of ₱7.8 billion or equivalent to ₱0.2583 per kWh. MERALCO implemented the refund beginning its May 2022 billing. In a Decision dated June 10, 2022, the interim approval of the ERC was rendered permanent and MERALCO was directed to continue implementing the refund. As at December 31, 2022, the amount has been fully refunded.

Interim Average Rate beginning RY 2016

On July 10, 2015, the ERC provisionally approved an interim average rate (“IAR”) of ₱1.3810 per kWh (excluding efficiency adjustment) and the rate translation per customer class, which was reflected in the customer bills starting July 2015.

In a letter dated July 4, 2019, the ERC authorized the continued implementation of the interim average rate but directed MERALCO, as well as other distribution utilities, to refund any remaining amount pertaining to regulatory reset costs for the previous RPs.

On July 13, 2022, MERALCO received the June 16, 2022 Decision of the ERC which approved a revised and final IAR of ₱1.3522 per kWh as the final distribution rate for the period from July 1, 2015 to June 30, 2022. The ERC likewise approved the corresponding distribution rate structure based thereon. MERALCO was authorized to continue implementing the ERC-approved IAR of ₱1.3522 per kWh until otherwise directed. MERALCO implemented the Decision beginning its August 2022 billing.

MERALCO recognized provisions for any resulting over-recoveries. The movements in and the balance of the “Other noncurrent liabilities” and “provision for probable losses and expenses from claims” accounts in the parent company statements of financial position and parent company



statements of income include these provisions, consistent with the limited disclosure as allowed in Philippine Financial Reporting Standards (“PFRSs”) as it may prejudice the position of *MERALCO*.

Distribution Rate True-Up (“DRTU”) Applications

On January 27, 2021, the *ERC* approved *MERALCO*’s application to refund to its customers ₱13,886 million of over-recoveries (*DRTU* 1) representing the difference between the Actual Weighted Average Tariff (“*AWAT*”) for the period July 1, 2015 to November 2020 and the then *IAR* of ₱1.3810 per *kWh*, as provisionally approved by the *ERC* on July 10, 2015.

Thereafter, there were three (3) other *DRTU* refunds ordered: (a) *DRTU* 2 totaling ₱4,837 million representing the difference between the *AWAT* for the period December 2020 to December 2021 and the then *IAR* of ₱1.3810 per *kWh*; (b) *DRTU* 3 of ₱7,755 million related to *3RP* asset true-up adjustments; and (c) *DRTU* 4 amounting to ₱21,769 million based on *ERC* approved revised and final *IAR* of ₱1.3522 per *kWh*.

MERALCO implemented the foregoing refunds. As at December 31, 2022, a total of ₱38.3 billion have been credited to the bills of customers.

As at December 31, 2022, the outstanding balance of *DRTU* for refund amounted to ₱9,581 million, presented as part of “Provisions” under “Trade payables and other current liabilities” account in the parent company statement of financial position.

CAPEX for 4th RP, RY 2020 to RY 2022

Absent the final rules governing the 4th *RP* and 5th *RP* rate setting, *MERALCO* filed its applications for approval of authority to implement its *CAPEX* program for each of the *RYs* beginning July 1, 2015. This is consistent with the provisions of Section 20(b) of Commonwealth Act No. 146, as amended, otherwise known as the Public Service Act.

Except with respect to partial approval by the *ERC* of the *RY* 2016 *CAPEX* amounting to ₱15,466 million and provisional authority granted by the *ERC* to implement certain projects for *RY* 2017 amounting to ₱8,758 million, all other applications remain pending with the *ERC*. As at February 27, 2023, *MERALCO* is awaiting the final resolution of the *ERC*.

Pending *ERC*’s approval, *MERALCO* manifested several projects as “urgent” or “emergency in nature” and proceeded with the implementation of said *CAPEX*.

Regulatory Reset Process Application

On March 16, 2022, *MERALCO* filed its application for the approval of its annual revenue requirement and performance incentive scheme for the 5th *RP* (July 1, 2022 to June 30, 2026) based on *ERC*-promulgated *RDWR*. As at February 27, 2023, hearings on the case are ongoing.

Supreme Court (“SC”) Decision on Unbundling Rate Case

On May 30, 2003, the *ERC* issued an Order approving *MERALCO*’s unbundled tariffs that resulted in a total increase of ₱0.17 per *kWh* over the May 2003 tariff levels. However, on August 4, 2003, *MERALCO* received a Petition for Review of the *ERC*’s ruling filed by certain consumer and civil society groups before the Court of Appeals (“*CA*”). On July 22, 2004, the *CA* set aside the *ERC*’s ruling on *MERALCO*’s rate unbundling and remanded the case to the *ERC*. Further, the *CA* opined that the *ERC* should have asked the Commission on Audit (“*COA*”) to audit the books of *MERALCO*.



The *ERC* and *MERALCO* subsequently filed separate motions asking the *CA* to reconsider its decision. As a result of the denial by the *CA* of the motions on January 24, 2005, the *ERC* and *MERALCO* elevated the case to the *SC*.

In an En Banc decision promulgated on December 6, 2006, the *SC* set aside and reversed the *CA* ruling saying that a *COA* audit was not a prerequisite in the determination of a utility's rates. However, while the *SC* affirmed *ERC*'s authority in rate-fixing, the *SC* directed the *ERC* to request *COA*'s assistance to undertake a complete audit of the books, records and accounts of *MERALCO*. In compliance with the directive of the *SC*, the *ERC* requested *COA* to conduct an audit of the books, records and accounts of *MERALCO* using calendar years 2004 and 2007 as test years.

The *COA* audit, which began in September 2008, was completed with the submission to the *ERC* of its report on November 12, 2009.

On February 15, 2010, the *ERC* issued its Order directing *MERALCO* and all intervenors in the case to submit, within 15 days from receipt of the Order, their respective comments on the *COA* report.

On June 21, 2011, the *ERC* maintained and affirmed its findings and conclusions in its Decision dated March 20, 2003 and Order dated May 30, 2003. The *ERC* stated that the *COA* recommendation to apply disallowances under *PBR* to rate unbundling violates the principle against retroactive rate-making. An intervenor group filed a *MR* of the said Order. On September 5, 2011, *MERALCO* filed its comment on the intervenor's *MR*. On February 4, 2013, the *ERC* denied the intervenor's *MR*. The intervenor filed a Petition for Review before the *CA* and *MERALCO* filed its comment thereon on May 29, 2014. In compliance with the *CA*'s directive, *MERALCO* filed its Memorandum in August 2015. In a Resolution dated September 29, 2015, the *CA* declared the case submitted for decision. In a Decision dated February 29, 2016, the *CA* dismissed the Petition for Review and affirmed the orders dated June 21, 2011 and February 4, 2013 of the *ERC*.

On March 22, 2016, the intervenors filed a *MR* on the *CA* Decision dated February 29, 2016. The same was denied by the *CA* through a Resolution dated August 8, 2016.

On October 11, 2016, *MERALCO* received a Petition for Review on Certiorari filed by the intervenors before the *SC* appealing the dismissal of its Petition. *MERALCO*, *COA* and the *ERC* have filed their respective comments to the Petition. On June 22, 2017, *MERALCO* received the Motion for Leave to Intervene and Admit Comment-in-Intervention filed by other *DUs* that sought to intervene in the case. In a Resolution dated October 3, 2017, the *SC* granted the Motion for Leave to Intervene and Comment-in-Intervention. On November 13, 2019, *MERALCO* received a Decision dated October 8, 2019 partially granting the Petition filed by the National Association of Electric Consumers for Reforms Inc. ("*NASECORE*"), which among other things, (i) voided the adoption by the *ERC* of the current or replacement cost in the valuation of *MERALCO*'s *RAB*; and (ii) remanded the case to *ERC* to determine, within 90 days from finality of the Decision, (1) the valuation of the *RAB* of *MERALCO*; and (2) the parameters whether expenses that are not directly and entirely related to the operation of a distribution utility shall be passed on wholly or partially to consumers.

MERALCO, the other *DUs* and the *ERC* filed their respective motions for reconsideration which are pending before the *SC*. Two (2) new *DUs* filed their respective motions for leave to intervene and to file their motions for reconsideration. As at February 27, 2023, the case is pending before the *SC*.



*Applications for the Confirmation of Under- or Over-recoveries of
Pass-through Charges*

The *ERC* issued resolutions to govern the recovery of pass-through costs, including under- or over-recoveries with respect to the following bill components: generation charge, transmission charge, SL charge, lifeline and inter-class rate subsidies, senior citizen discounts, local franchise and business taxes, including the timelines for *DUs* to file their respective application and post-verification.

On various dates, the *ERC* provisionally approved *MERALCO*'s applications for net over-recoveries of generation, transmission, net lifeline subsidy, SL and net senior citizens discount totalling ₱657.4 million (February 2011 to October 2013) and ₱6,927 million (January 2014 to December 2016). As at February 27, 2023, hearings covering the provisional approval are still ongoing.

Separately, *MERALCO* also filed for recovery of net under-recoveries of generation charge for special programs of ₱250.7 million, excluding carrying charges, covering the period March 2007 to December 2011. As at February 27, 2023, the *ERC* has not acted on such application.

Further, on September 1, 2020, *MERALCO* filed an application with the *ERC* to confirm its net generation charge under-recoveries of ₱2,382 million, net transmission charge over-recoveries of ₱440 million, net lifeline subsidy over-recoveries of ₱31 million, net *SL* over-recoveries of ₱971 million, and net senior citizen discount over-recoveries of ₱3 million from January 2017 to December 2019. In an Order dated December 16, 2020, the *ERC* granted interim relief to implement the refund/collection. *MERALCO* started implementation of the Order in its January 2021 billing. Hearings have been completed on January 21, 2021.

*Application for Approval of the Staggered Recovery and Payment of the Differential
Generation Charge for February 2017 Supply*

On January 31, 2017, *MERALCO* filed an Application seeking the *ERC*'s approval of the staggered recovery and payment scheme for the generation charge for the February 2017 supply month to mitigate the impact of scheduled outages and maintenance of certain generation power plants. On March 6, 2017, the *ERC* provisionally approved the recovery of the incremental fuel cost through a staggered scheme. The incremental fuel cost was included in the March 2017 until May 2017 billings to customers. As at February 27, 2023, *ERC* has not issued its Decision.

Application for the Recovery of Differential Generation Costs

On February 17, 2014, *MERALCO* filed for the recovery of the unbilled generation costs for December 2013 supply month amounting to ₱11,075 million. An amended application was filed on March 25, 2014 to adjust the unbilled generation costs for recovery to ₱1,310 million, following the receipt of the Wholesale Electricity Spot Market ("*WESM*") billing adjustments based on regulated Luzon *WESM* prices. The first hearing was conducted on May 26, 2014. The *ERC* suspended the proceedings, pending resolution of issues of related cases at the *SC* involving generation costs for the November and December 2013 supply months and the regulated *WESM* prices for the said period. As at February 27, 2023, the proceedings remain suspended and *MERALCO* is awaiting further action of the *ERC* on this matter. However, the *SC* issued a Decision dated August 3, 2021 which voided the March 3, 2014 Order of the *ERC* which imposed regulated *WESM* prices for the November and December 2013 supply months. The Decision is now final and executory with the issuance by the *SC* of its Resolution dated October 11, 2022 which denied the motions for reconsideration filed by the *ERC* and the petitioners.



Deferred Purchase Price Adjustment

On October 12, 2009, the *ERC* released its findings on *MERALCO*'s implementation of the collection of the approved pass-through cost under-recoveries for the period June 2003 to January 2007. The *ERC* directed *MERALCO* to refund to its customers ₱268 million of deferred purchase power adjustment ("*PPA*") transmission line costs related to Quezon Power (Philippines) Limited Company ("*QPPL*") and deferred accounting adjustments incurred along with ₱184 million in carrying charges, or an equivalent ₱0.0169 per *kWh*. *MERALCO* implemented the refund beginning November 2009 until September 2010. However, the *ERC* has yet to rule on *MERALCO*'s deferred *PPA* under-recoveries of ₱106 million, which is not a transmission line fee. On November 4, 2009, *MERALCO* filed an *MR* with the *ERC*. As at February 27, 2023, the *MR* is still pending resolution by the *ERC*.

Applications for Recovery of LFT

MERALCO has filed distinct applications with request for provisional authority to implement new *LFT* rates based on Ordinances from the cities of Manila, Quezon, Binan, Makati, Valenzuela, Taguig and Pasig. Some hearings have been completed and are awaiting final approval. Application for recovery of taxes paid have been filed and pending decision by the *ERC*.

SC Decision on the ₱0.167 per kWh Refund

Following the *SC*'s final ruling that directed *MERALCO* to refund affected customers ₱0.167 per *kWh* for billings made from February 1994 to April 2003, the *ERC* approved the release of the refund in four (4) phases. On December 18, 2015, *MERALCO* filed a Motion seeking the *ERC*'s approval for the continuation of the implementation of the refund to eligible accounts or customers under Phases I to IV, three (3) years from January 1, 2016 or until December 31, 2018. In said Motion, *MERALCO* likewise manifested to the *ERC* that, in order to give eligible customers, the opportunity to claim their refund, and, so as not to disrupt the *SC* Refund process, *MERALCO* shall continue implementing the refund even after the December 2015 deadline, until and unless the *ERC* directs otherwise. In its Order dated December 18, 2019, the *ERC* granted *MERALCO*'s Motion and authorized *MERALCO* to continue with the implementation of the *SC* Refund to eligible accounts or customers under Phases I to IV until June 30, 2019 and submit a proposed scheme on how the unclaimed refund will be utilized for purposes of reducing the distribution rates of customers. On February 18, 2019, *MERALCO* filed a Partial Compliance with Manifestation and Motion. On March 8, 2019, *MERALCO* filed a Compliance with Manifestation and Motion. On July 12, 2019, *MERALCO* filed its Compliance with Manifestation informing the *ERC* that on July 1, 2019, *MERALCO* deposited all the unclaimed amounts of the *SC* Refund as of June 30, 2019 in a separate bank account. *MERALCO* further manifested in said Compliance that it shall continue with the processing of the refund claims of eligible customers and should the refund claims of these customers be evaluated to be valid, *MERALCO* shall, for the benefit of the customers, withdraw the refund amount from the bank account, release the same to the concerned customers and accordingly inform the *ERC* of the refunds paid. On September 10, 2019, *MERALCO* filed an Urgent Manifestation and Motion with respect to the Order dated December 19, 2018 of the *ERC*. The *ERC* has yet to rule on the Urgent Manifestation and Motion by *MERALCO*. In its letter dated July 23, 2020, *MERALCO* informed the *ERC* of the updated balance of the *SC* Refund. As at February 27, 2023, *MERALCO* continues to process the refund claims of eligible customers.

In a letter dated February 3, 2021, the *ERC* informed *MERALCO* that it will be undertaking an audit and verification of *MERALCO*'s refunds, which included *MERALCO*'s *SC* refund. The audit has been completed and as at February 27, 2023 *MERALCO* is awaiting further action of the *ERC* on the matter.



See Note 17 – Customers’ Refund.

Violation of the ERC’s Advisories during the Enhanced Community Quarantine (“ECQ”) and Modified ECQ

In a Decision dated August 20, 2020, the *ERC* imposed a ₱19 million fine on *MERALCO* for alleged violation of the following *ERC*’s directives: (1) failure to clearly indicate that the bills were estimated; and (2) failure to comply with the mandated installment payment arrangement.

In addition, the *ERC* also directed *MERALCO* to set to zero the distribution, supply, and metering (“*DSM*”) charges of lifeline consumers whose monthly energy consumption do not exceed 100 *kWh* for one (1) month billing cycle effective in the next billing cycle immediately upon receipt of the *ERC* Decision. The cost of the discount shall not be charged to the non-lifeline consumers.

On September 11, 2020, *MERALCO* filed its Motion for Partial Reconsideration with respect to the directive to set to zero the *DSM* charges of lifeline consumers. On the same date, *MERALCO* also paid the ₱19 million fine imposed by the *ERC*.

As at February 27, 2023, the Motion for Partial Reconsideration remains pending with the *ERC*. However, *MERALCO* implemented the directive to set to zero the *DSM* charges of lifeline consumers in its October 2020 billing subject to the resolution of its Motion for Partial Reconsideration.

3. Basis of Preparation and Statement of Compliance

Basis of Preparation

The parent company financial statements have been prepared on a historical cost basis, except for *MERALCO*’s utility plant and others and investment properties acquired before January 1, 2004, which are carried at deemed cost and fair value through other comprehensive income (“*FVOCI*”) financial assets, which are measured at fair value.

All values are rounded to the nearest million peso, except when otherwise indicated.

Statement of Compliance

The parent company financial statements have been prepared in compliance with *PFRSs*. *MERALCO* also prepares and issues consolidated financial statements in compliance with *PFRSs*. These are available publicly and may be downloaded from www.meralco.com.ph.

4. Significant Accounting Policies, Changes and Improvements

Changes in Accounting Policies and Disclosures

The accounting policies adopted in the preparation of the parent company financial statements are consistent with those of previous year except with respect to the adoption of the following new standards and amendments and improvements to existing standards, which were effective beginning January 1, 2022.



Amendments to PFRS 3, Reference to the Conceptual Framework

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

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

The amendments are effective for annual reporting years beginning on or after January 1, 2022 and apply prospectively. The amendments do not have material effect on the parent company financial statements.

Amendments to PAS 16, Plant and Equipment: Proceeds before Intended Use

The amendments prohibit entities from deducting the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting years beginning on or after January 1, 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest year presented when the entity first applies the amendment. The amendments do not have material effect on the parent company financial statements.

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

The amendments specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a “directly related cost approach”. The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting years beginning on or after January 1, 2022. The amendments do not have material effect on the parent company financial statements.

Annual Improvements to PFRSs 2018-2020 Cycle

Amendments to PFRS 1, First-time Adoption of Philippines Financial Reporting Standards, Subsidiary as a first-time adopter

The amendment permits a subsidiary that elects to apply paragraph D16(a) of *PFRS 1* to measure cumulative translation differences using the amounts reported by the parent, based on the parent’s date of transition to *PFRS*. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of *PFRS 1*.



The amendment is effective for annual reporting years beginning on or after January 1, 2022 with earlier adoption permitted. The amendments do not have material effect on the parent company financial statements.

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

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

The amendment is effective for annual reporting years beginning on or after January 1, 2022 with earlier adoption permitted. The amendments do not have material effect on the parent company financial statements.

Amendments to PAS 41, Agriculture, Taxation in fair value measurements

The amendment removes the requirement in paragraph 22 of *PAS 41* that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of *PAS 41*.

An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting year beginning on or after January 1, 2022 with earlier adoption permitted. The amendments do not have material effect on the parent company financial statements.

Effective beginning on or after January 1, 2023

Amendments to PAS 12, Deferred Tax related to Assets and Liabilities arising from a Single Transaction

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

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

An entity applies the amendments to transactions that occur on or after the beginning of the earliest comparative year presented for annual reporting periods on or after January 1, 2023. The amendments are not expected to have a material effect on the parent company financial statements.

Amendments to PAS 8, Definition of Accounting Estimates

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



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

Amendments to PAS 1 and PFRS Practice Statement 2, Disclosure of Accounting Policies

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

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

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

Effective beginning on or after January 1, 2024

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

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

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

The amendments are effective for annual reporting years beginning on or after January 1, 2024 and must be applied retrospectively. *MERALCO* is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

Effective beginning on or after January 1, 2025

PFRS 17, Insurance Contracts

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

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



model for insurance contracts, covering all relevant accounting aspects. The core of *PFRS 17* is the general model, supplemented by:

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

On December 15, 2021, the *FRSC* amended the mandatory effective date of *PFRS 17* from January 1, 2023 to January 1, 2025. This is consistent with Circular Letter No. 2020-62 issued by the Insurance Commission which deferred the implementation of *PFRS 17* by two (2) years after its effective date as decided by the *IASB*.

PFRS 17 is effective for reporting periods beginning on or after January 1, 2025, with comparative figures required. Early application is permitted. *MERALCO* is currently assessing the impact the amendments will have on current practice and whether existing insurance contracts may require renegotiation.

Deferred Effectivity

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

The amendments address the conflict between *PFRS 10* and *PAS 28* in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in *PFRS 3*. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

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

The amendments do not have an impact on the parent company financial statements.

Significant Accounting Policies

The principal accounting policies adopted in the preparation of the parent company financial statements are as follows:

Utility Plant and Others

Utility plant and others, except land, are stated at cost, net of accumulated depreciation, amortization and impairment losses, if any. Costs include the cost of replacing part of such utility plant and other properties when such cost is incurred, if the recognition criteria are met. All other repair and maintenance costs are recognized as incurred in the parent company statement of income. The present value of the expected cost for the decommissioning of the asset after use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Land is stated at cost less any impairment in value.



MERALCO's utility plant and others acquired before January 1, 2004 are stated at deemed cost. The revalued amount recorded as at January 1, 2004 was adopted as deemed cost as allowed by the transition provisions of *PFRS 1*. The balance of revaluation increment was closed to the retained earnings account.

See *Note 14 – Equity* for the related discussion.

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

Asset Type	Estimated Useful Lives
Subtransmission and distribution	10-40 years, depending on the life of the significant parts
Buildings and improvements	15-40 years
Communication equipment	5-10 years
Office furniture, fixtures and other equipment	5-20 years
Transportation equipment	5-10 years
Others	5-20 years

An item of utility plant and others is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising as a result of the derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the parent company statement of income in the year the asset is derecognized.

The asset's residual values, useful lives and methods of depreciation and amortization are reviewed, and adjusted prospectively, if appropriate, at each reporting year to ensure that the residual values, periods and methods of depreciation and amortization are consistent with the expected pattern of economic benefits from items of utility plant and others.

Construction in Progress

Construction in progress is stated at cost, which includes cost of construction, plant and equipment, capitalized borrowing costs and other direct costs. Construction in progress is not depreciated until such time that the relevant assets are substantially completed and available for their intended use.

Borrowing Costs

Borrowing costs are capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Capitalization of borrowing costs commences when the activities necessary to prepare the qualifying asset for its intended use or sale have been undertaken and expenditures and borrowing costs have been incurred. Borrowing costs are capitalized until the asset is substantially completed and available for its intended use.

Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds, as well as any exchange differences arising from any foreign currency denominated borrowings used to finance the projects, to the extent that they are regarded as an adjustment to interest costs.

All other borrowing costs are expensed as incurred.



Investments in Subsidiaries and Associates and Interest in Joint Ventures

Investments in subsidiaries (entities over which *MERALCO* has control) and associates (entities over which *MERALCO* has significant influence) and interests in joint ventures (entities over which *MERALCO* has joint control) are accounted for under the cost method of accounting in the parent company financial statements. Investments in subsidiaries and associates and interests in joint ventures are carried in the parent company statement of financial position at cost less any impairment in value. *MERALCO* recognizes income from the investments only to the extent that *MERALCO* receives distributions from accumulated profits of the subsidiaries, associates and joint venture arising after the date of acquisition. Distributions received in excess of such profits are regarded as recovery of investment and are recognized as a reduction of the cost of the investment.

Control is achieved when *MERALCO* is exposed, or has the right, to variable returns from its involvement with the investee. Specifically, *MERALCO* controls an investee if and only if *MERALCO* has (a) power over the investee; (b) exposure, or rights, to variable returns from its involvement with the investee; and (c) the ability to use its power over the investee to affect its returns.

When *MERALCO* has less than majority of the voting or similar rights of an investee, it considers all relevant facts and circumstances in assessing whether it has power over an investee, including (a) the contractual arrangement with the other vote holders of the investee; (b) rights arising from other contractual arrangements; and (c) *MERALCO*'s voting rights and potential voting rights.

MERALCO re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one (1) or more of the three (3) elements of control.

Investment Properties

Investment properties, except land, are stated at cost, net of accumulated depreciation and accumulated impairment loss, if any. The carrying amount includes transaction costs and costs of replacing part of an existing investment property at the time such costs are incurred if the recognition criteria are met and excludes the costs of day-to-day servicing of an investment property.

Investment properties include properties that are being constructed or developed for future use.

Land classified as investment property is carried at cost less any impairment in value.

MERALCO's investment properties acquired before January 1, 2004 are stated at deemed cost.

See *Note 14 – Equity* for the related discussions.

Investment properties, except land, are being depreciated on a straight-line basis over the useful life of 40 years.

Investment properties are derecognized either when they have been disposed of or when these are permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss from the derecognition of the investment properties is recognized in the parent company statement of income in the year these are disposed or retired.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner-occupation or the commencement of an operating lease to another party. If owner-occupied property becomes an investment property, *MERALCO* accounts for such property in



accordance with the policy stated under utility plant and others up to the date of the change in use. Transfers are made from investment property when, and only when, there is a change in use, evidenced by the commencement of owner-occupation or the commencement of development with a view to sale. Transfers from investment property are recorded using the carrying amount of the investment property as at the date of change in use.

Intangible Assets

Intangible assets acquired separately are initially measured at cost. Following initial recognition, intangible assets are carried at cost less accumulated amortization and any accumulated impairment loss. The useful lives of intangible assets are assessed at the individual asset level as having either finite or indefinite useful lives.

Intangible assets with finite lives are amortized over the useful economic lives of five (5) to 10 years using the straight-line method and assessed for impairment whenever there is an indication that the intangible assets may be impaired. At a minimum, the amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at each reporting date. Changes in the expected useful life or the expected consumption pattern of future economic benefit embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and treated as change in accounting estimates. The amortization expense of intangible assets with finite lives is recognized in the parent company statement of income.

Intangible assets with indefinite useful lives are not amortized but are assessed for impairment annually either individually or at the cash-generating unit level. The assessment of intangible assets with indefinite useful life is done annually at every reporting date to determine whether such indefinite useful life continues to exist. Otherwise, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the parent company statement of income.

Intangible assets generated within the business are not capitalized and expenditures are charged to profit or loss in the year these are incurred.

Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either (a) in the principal market for the asset or liability, or (b) in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible to *MERALCO*.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a nonfinancial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.



MERALCO uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the parent company financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

For assets and liabilities that are recognized in the parent company financial statements on a recurring basis, *MERALCO* determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting year.

For the purpose of fair value disclosures, *MERALCO* has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy.

Impairment of Nonfinancial Assets

MERALCO assesses at each reporting year whether there is an indication that a nonfinancial asset [utility plant and others, intangible assets, investment properties, investments in associates and interests in joint ventures and receivable from the Bureau of Internal Revenue (“*BIR*”)] other than intangible assets with indefinite useful life, may be impaired. If any such indication exists, *MERALCO* makes an estimate of the asset’s recoverable amount. An asset’s recoverable amount is the higher of an individual asset’s or a cash generating unit’s fair value less costs to sell and its value in use. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. The fair value is the amount obtainable from the sale of the asset in an arm’s-length transaction. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation factors/parameters, quoted share prices for publicly traded securities or other available fair value indicators. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses are recognized in the parent company statement of income.

An assessment is also made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If any such indication exists, *MERALCO* estimates the individual asset’s or cash generating unit’s recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset’s recoverable amount since the last impairment loss was recognized. If a reversal of impairment loss is to be recognized, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined had no impairment loss has been recognized for the asset in prior year. Such reversal is recognized in the parent company statement of income. After such reversal, the



depreciation and amortization expense are adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Intangible assets with indefinite useful lives are tested for impairment annually at every reporting date or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired, either individually or at the cash generating unit level, as appropriate. The amount of impairment is calculated as the difference between the recoverable amount of the intangible asset and its carrying amount. The impairment loss is recognized in the parent company statement of income. Impairment losses relating to intangible assets may be reversed in future years.

Financial Instruments - Initial Recognition and Subsequent Measurement

Financial Assets

Initial Recognition and Measurement

At initial recognition, financial assets are classified and measured at amortized cost, *FVOCI*, and fair value through profit or loss ("*FVPL*").

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and *MERALCO*'s business model for managing them. With the exception of trade receivables that do not contain a significant financing component, *MERALCO* initially measures a financial asset at its fair value, and in the case of a financial asset not at *FVPL*, plus transaction costs.

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

MERALCO's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that *MERALCO* commits to purchase or sell the asset.

Subsequent Measurement

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

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



Financial Assets at Amortized Cost (Debt Instruments)

This category is the most relevant to *MERALCO*. *MERALCO* measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective 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.

Financial assets at amortized cost are subsequently measured using the effective interest rate (“*EIR*”) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired. *MERALCO*’s financial assets at amortized cost includes cash and cash equivalents, trade and other receivables, short-term investments, debt securities at amortized cost and advance payments to a supplier.

Financial Assets at FVOCI (Debt Instruments)

MERALCO measures debt instruments at *FVOCI* if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling, 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.

For debt instruments at *FVOCI*, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the parent company statement of profit or loss and computed in the same manner as for financial assets measured at amortized cost. The remaining fair value changes are recognised in *OCI*. Upon derecognition, the cumulative fair value change recognised in *OCI* is recycled to profit or loss. *MERALCO*’s debt instruments at *FVOCI* include investments in government securities and investments in corporate bonds.

Financial Assets Designated at FVOCI (Equity Instruments)

Upon initial recognition, *MERALCO* can elect to classify irrevocably its equity investments as equity instruments designated at *FVOCI* when they meet the definition of equity under *PAS 32, Financial Instruments: Presentation*, and are not held for trading. The classification is determined on an instrument by instrument basis. Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognized as other income in the parent company statement of profit or loss when the right to receive payment has been established, except when *MERALCO* benefits from such proceeds as a partial recovery of the cost of the financial asset, in which case, such gains are recorded in *OCI*. Equity instruments designated at *FVOCI* are not subject to impairment assessment.

MERALCO elected to classify irrevocably its non-listed equity investments and investment in club shares under this category.



Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from *MERALCO*'s parent company statement of financial position) when:

- The rights to receive cash flows from the asset have expired;
- *MERALCO* has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) *MERALCO* has transferred substantially all the risks and rewards of the asset, or (b) *MERALCO* has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When *MERALCO* has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership.

When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, *MERALCO* continues to recognize the transferred asset to the extent of its continuing involvement. In that case, *MERALCO* also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that *MERALCO* has retained. 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 *MERALCO* could be required to repay.

Modification of Financial Assets

MERALCO derecognizes a financial asset when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new asset, with the difference between its carrying amount and the fair value of the new asset recognized as a derecognition gain or loss in profit or loss, to the extent that an impairment loss has not already been recorded.

MERALCO considers both qualitative and quantitative factors in assessing whether a modification of financial asset is substantial or not. When assessing whether a modification is substantial, *MERALCO* considers the following factors, among others:

- Change in currency
- Introduction of an equity feature
- Change in counterparty
- If the modification results in the asset no longer considered "solely payment for principal and interest"

MERALCO also performs a quantitative assessment similar to that being performed for modification of financial liabilities. In performing the quantitative assessment, *MERALCO* considers the new terms of a financial asset to be substantially different if the present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the present value of the remaining cash flows of the original financial asset.

When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset, *MERALCO*



recalculates the gross carrying amount of the financial asset as the present value of the renegotiated or modified contractual cash flows discounted at the original *EIR* (or credit-adjusted *EIR* for purchased or originated credit-impaired financial assets) and recognizes a modification gain or loss in the parent company statement of comprehensive income.

When the modification of a financial asset results in the derecognition of the existing financial asset and the subsequent recognition of a new financial asset, the modified asset is considered a 'new' financial asset. Accordingly, the date of the modification shall be treated as the date of initial recognition of that financial asset when applying the impairment requirements to the modified financial asset. The newly recognized financial asset is classified as Stage 1 for *ECL* measurement purposes, unless the new financial asset is deemed to be purchased or originated credit-impaired financial assets (“*POCP*”).

Impairment of Financial Assets

MERALCO recognizes an allowance for expected credit losses (“*ECLs*”) for all debt instruments not held at *FVPL*. *ECLs* are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that *MERALCO* expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are measured in a way that reflects the following:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

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

Financial assets are credit-impaired when one (1) or more events that have a detrimental impact on the estimated future cash flows of those financial assets have occurred. For these credit exposures, lifetime *ECLs* are recognized and interest revenue is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the financial assets.

For trade receivables and contract assets, *MERALCO* applies a simplified approach in calculating *ECLs*. Therefore, *MERALCO* does not track changes in credit risk, instead recognizes a loss allowance based on lifetime *ECLs* of each customer segment (e.g. residential, commercial, industrial, etc.) at each reporting date. *MERALCO* has established a provision matrix that is based on its current credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. In determining the *ECLs* of trade receivables, the credit loss experience for each contract status of customers for the current year, adjusted for forward looking factors as well as the economic environment was considered.



For debt instruments, *MERALCO* applies the low credit risk simplification. At every reporting date, *MERALCO* evaluates whether the debt instrument is considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, *MERALCO* reassesses the internal credit rating of the debt instrument. In addition, *MERALCO* considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

MERALCO's debt instruments at *FVOCI* comprise solely of quoted bonds that are graded in the top investment category and, therefore, are considered to be low credit risk investments. It is *MERALCO*'s policy to measure *ECLs* on such instruments on a 12-month basis. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the expected lifetime credit losses.

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

- the financial instrument has a low risk of default
- the borrower has a strong capacity to meet its contractual cash flow obligations in the near term
- 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.

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

Exposures that have not deteriorated significantly since origination, or where the deterioration remains within *MERALCO*'s investment grade criteria, are considered to have a low credit risk. The provision for credit losses for these financial assets is based on a 12-month *ECL*. The low credit risk exemption has been applied on debt investments that meet the investment grade criteria of *MERALCO* from the time of origination.

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

MERALCO considers a financial asset in default when contractual payments are 300 days past due (average days to terminate customer contract). However, in certain cases, *MERALCO* may also consider a financial asset to be in default when internal or external information indicates that *MERALCO* is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by *MERALCO*. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial Liabilities

Initial Recognition and Measurement

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



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

MERALCO's financial liabilities include interest-bearing long-term financial liabilities, customer deposits and refunds, refundable service extension costs, notes payable and trade and other payables.

Subsequent Measurement

Financial Liabilities at FVPL

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

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by *MERALCO* that are not designated as hedging instruments in hedge relationships as defined by *PFRS 9*. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognized in the parent company statement of profit or loss. Financial liabilities designated upon initial recognition at *FVPL* are designated at the initial date of recognition, and only if the criteria in *PFRS 9* are satisfied. *MERALCO* has not designated any financial liability as at *FVPL*.

Loans and Borrowings

This is the category most relevant to *MERALCO*. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the *EIR* method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the *EIR* amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the *EIR*. The *EIR* amortization is included as interest and other financial charges in the parent company statement of profit or loss. This category generally applies to interest-bearing loans and borrowings.

Derecognition

A financial liability (or a part of a financial liability) is derecognized when the obligation under the liability is discharged, cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability or a part of it are substantially modified, such an exchange or modification is treated as a derecognition of the original financial liability and the recognition of a new financial liability, and the difference in the respective carrying amounts is recognized in the parent company statement of comprehensive income.

Exchange or Modification of Financial Liabilities

MERALCO considers both qualitative and quantitative factors in assessing whether a modification of financial liabilities is substantial or not. The terms are considered substantially different if the present



value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the present value of the remaining cash flows of the original financial liability. However, under certain circumstances, modification or exchange of a financial liability may still be considered substantial, even where the present value of the cash flows under the new terms is less than 10% different from the present value of the remaining cash flows of the original financial liability. There may be situations where the modification of the financial liability is so fundamental that immediate derecognition of the original financial liability is appropriate (e.g., restructuring a financial liability to include an embedded equity component).

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the fair value of the new liability is recognized in profit or loss.

When the exchange or modification of the existing financial liability is not considered as substantial, *MERALCO* recalculates the gross carrying amount of the financial liability as the present value of the renegotiated or modified contractual cash flows discounted at the original *EIR* and recognizes a modification gain or loss in profit or loss.

If modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognized as part of the gain or loss on the extinguishment. If the modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the financial instrument and are amortized over the remaining term of the modified financial instrument.

MERALCO has not availed of any reliefs and has not renegotiated the terms of its existing loan agreements with its lenders.

Offsetting of Financial Instruments

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

Redeemable Preferred Stock

MERALCO's peso-denominated redeemable preferred stock has characteristics of a liability and is thus recognized as a liability in the parent company statement of financial position. The corresponding dividends on those shares are recognized as part of "Interest and other financial charges" account in the parent company statement of income. Dividends no longer accrue when such shares have been called for redemption.

Inventories

Inventories are stated at the lower of cost and net realizable value. Costs of acquiring materials and supplies including costs incurred in bringing each item to their present location and condition are accounted using the moving average cost method. Net realizable value is the estimated selling price in the ordinary course of business less the estimated cost to sell or the current replacement cost of the asset.



Prepayments

Prepayments are expenses paid in advance and recorded as asset before they are utilized. Prepayments that are expected to be realized within 12 months from the reporting date are classified as current assets. Otherwise, these are classified as noncurrent assets.

Value-Added Tax ("VAT")

Input *VAT* pertains to the 12% indirect tax paid in the course of trade or business on purchases of goods or services.

Output *VAT* pertains to the 12% tax due on the local sale of goods or services.

If at the end of any taxable month, the output *VAT* exceeds the input *VAT*, the outstanding balance is included under "Trade payables and other current liabilities" account. If the input *VAT* exceeds the output *VAT*, the excess shall be carried over to the succeeding months and included under "Financial and other current assets" account.

Provisions

Provisions are recognized when *MERALCO* has a present obligation, legal or constructive, as a result of a past event, and when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where *MERALCO* expects a provision, or a portion, to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the parent company statement of income, net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liabilities.

Retirement Benefits

MERALCO has a distinct, funded, noncontributory defined benefit retirement plans covering all permanent employees. *MERALCO*'s retirement plan provides for post-retirement benefits in addition to a lump sum payment to employees hired as at December 31, 2003. Retirement benefits for employees of *MERALCO* hired beginning January 1, 2004 were amended to provide for a defined lump sum payment only upon retirement of qualified employees. *MERALCO* also has a contributory provident plan introduced in January 2009 whereby employees hired beginning January 1, 2004 may elect to participate.

The net defined benefit liability or asset of the retirement plan is the aggregate of the present value of the defined benefit obligation at the end of the reporting date reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise of (i) service costs; (ii) net interest on the net defined benefit liability or asset; and (iii) remeasurements of the net defined benefit liability or asset.



Service costs, which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in the parent company statement of income. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the year in the net defined benefit liability or asset that arises from the passage of time, which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in the parent company statement of income.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in *OCI* in the year in which they arise. Remeasurements are not reclassified to profit or loss in subsequent year.

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 *MERALCO*, nor can they be paid directly to *MERALCO*. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected year until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

MERALCO's right to be reimbursed for 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.

The retirement costs under the defined contribution plan are recorded based on *MERALCO*'s contribution to the defined contribution plan as services are rendered by the employee.

Termination Benefits

Termination benefits are provided in exchange for its severance as a result of either an entity's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment.

A liability and expense for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of those benefits and when the entity recognizes related restructuring costs. Initial recognition and subsequent changes to termination benefits are measured in accordance with the nature of the employee benefits, as either post-employment benefits, short-term employee benefits, or other long-term employee benefits.

Employee Leave Entitlements

Employee entitlements to annual leave are recognized as a liability when such accrues to the employees. The undiscounted liability for leave expected to be settled wholly before 12 months after the end of the reporting year is recognized for services rendered by employees up to the end of the reporting year.



Unused sick leaves are accumulated, up to a certain limit, and commuted to cash upon separation or retirement. An actuarial valuation of the obligations on the accumulated unused sick leaves is conducted periodically in accordance with the relevant accounting standards.

Long-term Incentive Plan

The liability relating to the long-term incentive plan comprises the present value of the obligation at the end of the reporting date.

Equity

Common stock is measured at par value for all shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown as a deduction from equity, net of any related tax. The amount of proceeds and/or fair value of consideration received, net of incremental costs incurred directly attributable to the issuance of new shares in excess of par value, is recognized as additional paid-in capital.

Employee stock purchase plan cost represents the cumulative compensation expense recognized based on the amount determined using an option pricing model.

OCI comprises items of income and expense, which are not recognized in profit or loss as required or permitted by *PFRS*.

Treasury shares are recognized at cost and deducted from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of *MERALCO*'s own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized in additional paid-in capital.

Retained earnings include net income, reduced by dividends declared on common stock. Dividends are recognized as liability and deducted from retained earnings when they are declared. Dividend declarations approved after the financial reporting year are disclosed as events after the financial reporting year.

Revenue Recognition

Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which *MERALCO* expects to be entitled in exchange for those goods or services. *MERALCO* assesses its revenue arrangements against specific criteria to determine if it is acting as a principal or as an agent. *MERALCO* has concluded that it is acting as principal in majority of its revenue arrangements.

The following specific recognition criteria must also be met before revenue from contracts with customers is recognized:

Sale of Electricity

Revenues are recognized upon supply of power to the customers and are stated at amounts invoiced to customers, inclusive of pass-through components, and net of discounts and/or rebates. The Uniform Filing Requirements ("*UFR*") on the rate unbundling released by the *ERC* on October 30, 2001 specified the following bill components: (a) generation charge, (b) transmission charge, (c) *SL* charge, (d) distribution charge, (e) supply charge, (f) metering charge, (g) Currency Exchange Rate Adjustment ("*CERA*") I and II, where applicable and (h) inter-class rate and lifeline subsidies. *VAT*, business taxes such as *LFT*, *RPT* (beginning March 2021) the Power Act Reduction (for residential



customers) adjustment, universal charges, and Feed-in-Tariff - Allowance (“*FiT-All*”) are also separately presented in the customer’s billing statement. *VAT* billed and collected on behalf of the national governments, *LFT* and *RPT* billed and collected on behalf of the local government units, universal charges and *FiT-All* [billed and collected on behalf of Power Sector Assets and Liabilities Management Corporation (“*PSALM*”) and National Transmission Corporation (“*TransCo*”), respectively] do not form part of revenues. Revenues are adjusted for the over and/or under-recoveries of pass-through charges.

Interest Income

Interest income is recognized as interest accrues, using the *EIR* method. The *EIR* is the rate that discounts estimated future cash receipts through the expected life of the financial instrument.

Lease Income

Income arising from lease of investment properties and pole positions is accounted for on a straight-line basis over the lease term.

Lease income is included under “Lease income” account in the parent company statement of income.

Receivables

Receivables represent *MERALCO*’s right to all amounts of consideration that are unconditional (i.e., only the passage of time is required before payment of the consideration is due).

Contract Assets

A contract asset is the right to consideration in exchange for goods and services transferred to the customer. If *MERALCO* performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognized for the earned consideration that is conditional.

MERALCO’s contract assets include and under-recoveries of pass-through charges.

Contract Liabilities

A contract liability is the obligation to transfer goods or services to a customer for which *MERALCO* has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before *MERALCO* transfers good or services to the customer, a contract liability is recognized when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognized as revenue when *MERALCO* performs services under the contract.

The following are considered as contract liabilities:

Assets Funded by Customers

In accordance with the Distribution Services and Open Access Rule (“*DSOAR*”), the costs of non-standard connection facilities to connect the customers to *MERALCO*’s distribution network and to provide the customers with ongoing access to the supply of electricity are funded by the customers. *MERALCO* assesses whether the constructed or acquired non-standard connection facilities meet the definition of an asset in accordance with *PAS 16*. If the definition of an asset is met, *MERALCO* recognizes such asset at its acquisition or construction cost with an equivalent credit to the liability account. Such liability to the customers is included under “Other noncurrent liabilities” account in the



parent company statement of financial position, and is recognized as income over the average duration of relationship with the customer. Assets funded by customers do not form part of *MERALCO*'s regulatory asset base until amounts are refunded.

Net Over-recoveries of Pass-through Charges

Generation, transmission and *SL* over-recoveries which resulted from the difference in the power suppliers' billings and recovery of such pass-through costs from consumers are included in "Other noncurrent liabilities" account in the consolidated statement of financial position.

Cost and Expense Recognition

Expenses are decreases in economic benefits during the financial reporting year in the form of outflows or decrease of assets or incurrence of liabilities that result in decrease in equity, other than those relating to distributions to equity participants. These are recognized when incurred.

Short-term Leases and Leases of Low-value Assets

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

Leases

MERALCO considers whether a contract is or contains a lease at the inception of a contract. A lease is a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange of a consideration.

Company as Lessee

At commencement date of the lease, *MERALCO* recognizes a right-of-use ("*ROU*") asset and a corresponding lease liability on the parent company statement of financial position, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, *MERALCO* recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Lease liability is measured at the present value of the unpaid lease payments, discounted using the interest rate implicit in the lease (if readily available) or *MERALCO*'s incremental borrowing rate. Incremental borrowing rate is the rate of interest that *MERALCO* would have to pay to borrow over a similar term and with a similar security the funds necessary to obtain an asset of a similar value to the *ROU*-asset in a similar economic environment.

Lease payments included in the measurement of the lease liability consist of fixed payments, variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee, and payments arising from options reasonably certain to be exercised.



Subsequent to initial measurement, lease liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in the fixed payments.

Company as Lessor

Leases where *MERALCO* does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the year in which these are earned.

Foreign Currency-Denominated Transactions and Translations

Transactions in foreign currencies are initially recorded in the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are re-translated using functional currency closing rate of exchange prevailing at the end of the reporting date. All differences are recognized in the parent company statement of income except for foreign exchange differences that relate to capitalizable borrowing costs on qualifying assets. Nonmonetary items that are measured in terms of historical cost in foreign currency are translated using the exchange rate as at the date of the initial transactions.

Income Taxes

Current Income Tax

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

Deferred Income Tax

Deferred income tax is provided on all temporary differences at the reporting date between the income tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and



- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the assets are realized or the liabilities are settled, based on tax rates and tax laws that are enacted or substantively enacted as at the reporting date.

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

Deferred income tax items are recognized in correlation to the underlying transaction either in profit or loss or directly in equity.

Earnings per Share

Basic earnings per share is calculated by dividing the net income for the year by the weighted average number of common shares outstanding during the year.

Diluted earnings per share is calculated by dividing the net income for the year by the weighted average number of shares outstanding, adjusted for the effects of any dilutive potential common shares.

Contingencies

Contingent liabilities are not recognized in the parent company financial statements. These are disclosed in the notes to parent company financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized unless the realization of the assets is virtually certain. These are disclosed in the notes to parent company financial statements when an inflow of economic benefits is probable.

Events After the Reporting Date

Post reporting date events that provide additional information about *MERALCO*'s financial position at the reporting date (adjusting events) are reflected in the parent company financial statements. Post reporting date events that are non-adjusting events are disclosed in the notes to parent company financial statements, when material.



5. Significant Judgments, Accounting Estimates and Assumptions

The preparation of the parent company financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the accompanying disclosures, and the disclosure of contingent assets and liabilities, at the end of the reporting date. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amounts of the assets or liabilities affected in future years.

Judgments

In the process of applying *MERALCO*'s accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the parent company financial statements.

Determination of Functional Currency

The functional currency of *MERALCO* is the currency of the primary economic environment in which *MERALCO* operates. It is the currency that mainly influences the revenue and cost of rendering services.

Based on the economic substance of the underlying circumstances, the functional and presentation currency of *MERALCO* is the Philippine peso.

Uncertain Tax Position

MERALCO assesses whether it has any uncertain tax position in accordance with *IFRIC 23*. *MERALCO* applies significant judgement in identifying uncertainties over its income tax treatments. *MERALCO* determined, based on its review and assessment of its income tax computations and filings, in consultation with external tax expert, that it is not probable that its uncertain tax treatments will be accepted by the taxation authorities. *MERALCO* quantified the effect of each uncertain tax treatment using the most likely amount which *MERALCO* expects to better predict the resolution of the uncertainty.

Operating Lease Commitments

As Lessor

MERALCO has several lease arrangements as lessor. Based on the terms and conditions of the arrangements, it has evaluated that the significant risks and rewards of ownership of such properties are retained by *MERALCO*. The lease agreements do not transfer ownership of the assets to the lessees at the end of the lease term and do not give the lessees a bargain purchase option over the assets. Consequently, the lease agreements are accounted for as operating leases.

As Lessee

MERALCO has entered into various operating lease agreements used for its operations.

For lease under *PFRS 16*, *MERALCO* recognizes *ROU* assets and lease liabilities measured at the present value of lease payments to be made over the lease term using the *MERALCO*'s incremental borrowing rate.



MERALCO availed exemption of *PFRS 16* for its short-term lease with the term of 12 months or less and low value assets. Accordingly, lease payments on these leases are recognized as expense on a straight-line basis over the lease term.

Arrangement that Contains a Lease

Based on *MERALCO*'s assessment, the *PPAs* and *PSAs* do not qualify to be accounted for as lease and are accounted for as ordinary service contracts, since *MERALCO* does not have the right to direct the use, operate and was not involved in the design of the identified asset.

Principal vs. Agent

MERALCO's revenue recognition requires *MERALCO* to make certain judgments on its revenue arrangements with power generation companies such as *PPAs* and *PSAs*. *MERALCO* has concluded that it is acting as a principal in its revenue arrangements.

Revenue from sale of electricity requires *MERALCO* to bill customers based various billing cycle cut-off dates, while recording of related purchased power cost is based on calendar month as provided in the terms of the *PPAs* and *PSAs*. The difference between the amounts initially billed to customers and the settlement of the actual billings with power generation companies is adjusted to revenue at month end based on *ERC Resolution No. 16, A Resolution Adopting the Rules Governing the Automatic Cost Adjustment and True-up Mechanisms and Corresponding Confirmation Process for Distribution Utilities*.

Moreover, *MERALCO* assessed that revenues from electricity, re-connection and other non-standard connection services arise from a single performance obligation which will be satisfied over the year when the services are expected to be provided.

Contingencies

MERALCO has possible claims from or obligation to other parties from past events and whose existence may only be confirmed by the occurrence or non-occurrence of one (1) or more uncertain future events not wholly within its control. Management has determined that the present obligations with respect to contingent liabilities and claims with respect to contingent assets do not meet the recognition criteria, and therefore has not recorded any such amounts.

See *Note 27 – Contingencies and Legal Proceedings*.

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty as at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed as follows:

Estimating Useful Lives of Utility Plant and Others, Intangible Assets with Finite Lives and Investment Properties

MERALCO estimates the useful lives of utility plant and others, intangible assets with finite lives and, investment properties based on the periods over which such assets are expected to be available for use. The estimate of the useful lives of the utility plant and others, intangible assets with finite lives and investment properties is based on management's collective assessment of industry practice, internal technical evaluation and experience with similar assets. The estimated useful lives are reviewed at least at each reporting date and are updated if expectations differ from previous estimates



due to physical wear and tear, technical or commercial obsolescence and legal or other limitations on the use of such assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in the factors mentioned in the foregoing. The amounts and timing of recorded expenses for any year would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of utility plant and others, intangible assets with finite lives and investment properties would increase recorded operating expenses and decrease noncurrent assets.

The total depreciation and amortization expense of utility plant and others amounted to ₱10,049 million and ₱8,130 million for the years ended December 31, 2022 and 2021, respectively. Total carrying values of utility plant and others, net of accumulated depreciation and amortization, amounted to ₱171,680 million and ₱160,099 million as at December 31, 2022 and 2021, respectively.

Total depreciation of investment properties amounted to ₱4 million for the years ended December 31, 2022 and 2021. Total carrying values of investment properties, net of accumulated depreciation, amounted to ₱1,454 million and ₱1,458 million as at December 31, 2022 and 2021, respectively.

Total amortization of intangible assets with finite lives amounted to ₱366 million and ₱415 million for the years ended December 31, 2022 and 2021, respectively. Total carrying values of intangible assets with finite lives, net of accumulated amortization, amounted to ₱2,201 million and ₱2,041 million as at December 31, 2022 and 2021, respectively.

See *Note 6 – Utility Plant and Others*, *Note 8 – Investment Properties* and *Note 9 – Other Noncurrent Assets*.

Impairment of Nonfinancial Assets

PFRSs requires that an impairment review be performed when certain impairment indicators are present. These conditions include obsolescence, physical damage, significant changes in the manner by which an asset is used, worse than expected economic performance, drop in revenues or other external indicators, among others. Such asset is subject to an annual impairment test and more frequently whenever there is an indication that such asset may be impaired. This requires an estimation of the value in use of the cash generating unit to which the goodwill is allocated. Estimating the value in use requires preparation of an estimate of the expected future cash flows from the cash generating unit and choosing an appropriate discount rate in order to calculate the present value of those cash flows.

Determining the recoverable amount of utility plant and others, intangible assets with finite life, investment properties, investments in subsidiaries and associates and interest in joint ventures, and other noncurrent assets, requires (i) the determination of future cash flows expected to be generated from the continued use as well as ultimate disposition of such assets and (ii) making estimates and assumptions that can materially affect the parent company financial statements. Future events may cause management to conclude that utility plant and others, intangible assets with finite life, investment properties, investments in subsidiaries and interest in joint ventures, and other noncurrent assets are impaired. Any resulting impairment loss or reversal of previously recognized impairment loss could have a material adverse impact on *MERALCO's* financial position and results of operations.



The preparation of estimated future cash flows involves significant estimations and assumptions. While management believes that the assumptions are appropriate and reasonable, significant changes in the assumptions may materially affect the assessment of recoverable values and may lead to future impairment charges under *PFRSs*.

The carrying values of nonfinancial assets as at December 31, 2022 and 2021 subject to impairment review are as follows:

Account	2022	2021
	<i>(Amounts in millions)</i>	
Utility plant and others	₱171,680	₱160,099
Investments in subsidiaries and associates and interests in joint ventures	58,870	43,695
Intangible assets	2,201	2,041
Investment properties	1,454	1,458
Receivable from the <i>BIR</i>	181	181

Allowance for impairment loss on investments in subsidiaries, associates and joint ventures amounted to ₱10,722 million and ₱10,707 million as at December 31, 2022 and 2021, respectively (see Note 7).

See Note 6 – *Utility Plant and Others*, Note 7 – *Investments in Subsidiaries, Associates and Interest in Joint Ventures*, Note 8 – *Investment Properties* and Note 9 – *Other Noncurrent Assets*.

Realizability of Deferred Income Tax Assets

MERALCO reviews the carrying amounts of deferred income tax assets at the end of each reporting date and reduces these 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.

Assessment on the recognition of deferred income tax assets on deductible temporary differences is based on the level and timing of forecasted taxable income for the subsequent reporting year. This forecast is based on past results and future expectations on revenues and expenses as well as future tax planning strategies. Management believes that sufficient taxable profit will be generated to allow all or part of the deferred income tax assets to be utilized. The amounts of the deferred income tax assets considered realizable could be adjusted in the future if estimates of taxable income are revised.

Based on the foregoing assessment, following are the relevant information with respect to deferred income tax assets:

	2022	2021
	<i>(Amounts in millions)</i>	
Recognized deferred income tax assets	₱29,168	₱33,375
Unrecognized deferred income tax assets	664	480

See Note 26 – *Income Taxes and Local Franchise Taxes*.



Provision for ECL of Receivables and Contract Assets

MERALCO applies the *PFRS 9* simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all trade and other receivables and contract assets.

The economic impact of *COVID-19* pandemic to *MERALCO* consumers together with advisories and issuances from the *DOE* and *ERC* directing *MERALCO* and other *DUs* to extend payment terms and suspend service disconnection activities necessitated reassessment of *MERALCO*'s *ECL* model in 2020. *MERALCO* considered resegmentation of all its customer bills starting from the *ECQ* period with the objective of identifying customer groups which were significantly affected by *COVID-19* pandemic based on accumulated number of unpaid bills and measured the expected credit losses considering the expected deferred payment arrangements and expected default upon resumption of service disconnection activities. In 2021, *MERALCO* continued to extend the suspension of disconnection activities in areas under *ECQ*, *MECQ* and granular lockdowns and extended installment payment arrangements to certain customers. In 2022, *MERALCO* provided *ECL* on certain identified trade receivables which have been the subject of disputes from customers. In determining the *ECLs* of trade receivables, *MERALCO* considered the credit loss experience for each contract status of customers for the current year, adjusted for forward looking factors, and taking into account the economic environment.

The contract assets relate to under-recoveries of pass-through charges and have substantially the same risk characteristics as the trade and other receivables. *MERALCO* has concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for contract assets.

MERALCO incorporates forward-looking information in its assessments whether the credit risk has increased significantly since its initial recognition and its measurement of *ECL*. *MERALCO* has considered a range of relevant forward-looking macroeconomic assumptions such as inflation rate, gross domestic product and unemployment rate for the determination of unbiased general industry adjustments and any related specific industry adjustments that support the calculation of *ECLs*.

ECLs for trade and other receivables amounted to ₱2,093 million and ₱202 million for the years ended December 31, 2022 and 2021, respectively. Trade and other receivables, net of allowance for expected credit losses, amounted to ₱36,424 million and ₱32,688 million as at December 31, 2022 and 2021, respectively.

See *Note 11 – Trade and Other Receivables*.

Estimating Net Realizable Value of Inventories

Inventories consist of materials and supplies used in the power distribution and services segments and are valued at the lower of cost or net realizable value. The cost of inventories is written down whenever the net realizable value 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 net realizable value of inventories is reviewed on a periodic basis. Inventory items identified to be obsolete and unusable are written-off and charged as expense in the parent company statement of income.

The carrying values of inventories amounted to ₱6,016 million and ₱5,322 million as at December 31, 2022 and 2021, respectively.

See *Note 12 – Inventories*.



Estimation of Retirement Benefit Costs

The cost of defined benefit retirement plans and other long-term post-employment benefits as well as the present value of the retirement obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. Retirement and other post-employment benefits expense amounted to ₱1,434 million and ₱1,945 million for the years ended December 31, 2022 and 2021, respectively. Retirement liability as at December 31, 2022 and 2021 amounted to ₱1,970 million and ₱4,543 million, respectively. Other long-term post-employment benefit liability as at December 31, 2022 and 2021 amounted to ₱1,316 million and ₱2,091 million, respectively.

In determining the appropriate discount rate, management considers the interest rates of government bonds in the respective currencies, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The underlying bonds are further reviewed for quality, and those having excessive credit spreads are removed from the population of bonds on which the discount rate is based, on the basis that they do not represent high quality bonds.

The mortality rate is based on publicly available mortality tables in the Philippines and is modified accordingly with estimates of mortality improvements. Future salary increases and pension increases are based on expected future inflation rates in the Philippines.

See *Note 23 – Expenses and Income* and *Note 24 – Long-term Employee Benefits*.

Provisions

MERALCO has various claims, assessments and cases as discussed in *Note 27 – Contingencies and Legal Proceedings*. *MERALCO*'s estimate for probable costs for the resolution of these claims, assessments and cases has been developed in consultation with external, if any, and internal counsels handling the defense in these claims, assessments and cases and is based upon thorough analysis of potential outcome.

MERALCO, in consultation with its external legal counsels, does not believe that these claims and legal proceedings will have a material adverse effect on the parent company financial statements. It is possible, however, that future financial performance could be materially affected by changes in the estimates or the effectiveness of management's strategies and actions relating to these proceedings.

MERALCO recognized net provisions on various claims and assessments amounting to ₱5,585 million and ₱9,570 million for the years ended December 31, 2022 and 2021, respectively.

Provisions are measured at the present value of management's best estimate of the expenditures required to settle the present obligation at the end of the reporting year. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the liability. As at December 31, 2022 and 2021, provisions and other noncurrent liabilities are presented net of the effect of the time value of money amounting to ₱5,147 million and ₱860 million, respectively

See *Note 17 – Provisions* and *Note 20 – Trade Payables and Other Current Liabilities*.



Revenue Recognition

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

Revenues from sale of electricity are billed based on customer-specific billing cycle cut-off date for each customer, while recording of related purchased power cost in the accounts is based on calendar month as provided in the terms of the *PPAs* and *PSAs*. The recognition of unbilled revenues for billing cycles with earlier than month-end cut-off dates requires the use of estimates. The difference between the amounts initially recognized based on provisional invoices and the settlement of the actual billings by the generators is taken up in the subsequent year. Also, revenues from sale of electricity are adjusted for the estimated over and/or under-recoveries of pass-through charges, which are subject of various applications for recovery and approval by the *ERC*.

Management believes that such use of estimates will not result in material adjustments in future years.



6. Utility Plant and Others

The movements in utility plant and others are as follows:

2022									
Note	Subtransmission and Distribution	Land	Buildings and Improvements	Communication Equipment	Office Furniture, Fixtures and Other Equipment	Transportation Equipment	Others	Construction in Progress	Total
(Amounts in millions)									
Cost:									
Balance at beginning of year	P212,768	P15,217	P7,188	P1,567	P4,143	P3,291	P4,356	P13,392	P261,922
Additions	408	—	—	6	556	708	328	19,524	21,530
Transfers from construction in progress	14,607	—	111	246	222	—	158	(15,344)	—
Disposals/retirements	(7,307)	—	—	—	(2)	(34)	(6)	—	(7,349)
Reclassifications	(27)	—	—	—	273	—	—	(111)	135
Balance at end of year	220,449	15,217	7,299	1,819	5,192	3,965	4,836	17,461	276,238
Less accumulated depreciation and amortization:									
Balance at beginning of year	90,556	—	3,105	826	2,958	2,255	2,123	—	101,823
Depreciation and amortization	8,946	—	179	93	446	194	191	—	10,049
Disposals/retirements	(7,277)	—	—	—	(2)	(34)	(1)	—	(7,314)
Balance at end of year	92,225	—	3,284	919	3,402	2,415	2,313	—	104,558
	P128,224	P15,217	P4,015	P900	P1,790	P1,550	P2,523	P17,461	P171,680
2021									
Note	Subtransmission and Distribution	Land	Buildings and Improvements	Communication Equipment	Office Furniture, Fixtures and Other Equipment	Transportation Equipment	Others	Construction in Progress	Total
(Amounts in millions)									
Cost:									
Balance at beginning of year	P194,703	P15,217	P6,845	P1,443	P3,919	P3,201	P3,795	P16,867	P245,990
Additions	910	—	—	10	190	150	184	16,647	18,091
Transfers from construction in progress	19,219	—	343	113	31	—	384	(20,090)	—
Disposals/retirements	(1,959)	—	(1)	—	—	(60)	(6)	—	(2,026)
Reclassifications	(105)	—	1	1	3	—	(1)	(32)	(133)
Balance at end of year	212,768	15,217	7,188	1,567	4,143	3,291	4,356	13,392	261,922
Less accumulated depreciation and amortization:									
Balance at beginning of year	85,335	—	2,934	738	2,610	2,133	1,958	—	95,708
Depreciation and amortization	7,179	—	172	88	348	175	168	—	8,130
Disposals/retirements	(1,958)	—	(1)	—	—	(53)	(3)	—	(2,015)
Balance at end of year	90,556	—	3,105	826	2,958	2,255	2,123	—	101,823
	P122,212	P15,217	P4,083	P741	P1,185	P1,036	P2,233	P13,392	P160,099



As at December 31, 2022 and 2021, the net book values of customer-funded assets included in “Utility plant and others” account amounted to ₱5,861 million and ₱5,764 million, respectively. The corresponding liabilities to customers in the same amounts as at December 31, 2022 and 2021 are included in “Other noncurrent liabilities” account in the parent company statements of financial position.

See Note 22 – Revenues and Purchased Power.

Construction in progress mainly pertains to on-going electric capital projects (“ECPs”) and non-ECPs. ECPs are capital projects involving construction of new electric distribution-related facilities and the upgrade and major rehabilitation of existing electrical facilities. Total interest capitalized amounted to ₱398 million and ₱279 million based on average capitalization rate of 5% for the years ended December 31, 2022 and 2021, respectively.

7. Investments in Subsidiaries and Associates and Interests in Joint Ventures

This account consists of the following as at December 31, 2022 and 2021:

	Place of Incorporation	Principal Business Activities	2022		2021	
			Percentage of Ownership		Percentage of Ownership	
			Direct	Indirect	Direct	Indirect
Subsidiaries						
Corporate Information Solutions, Inc. (“CIS”)	Philippines	e-Transactions	100	–	100	–
Customer Frontline Solutions, Inc. (“CFSP”)	Philippines	Teller services	–	95	–	95
CIS Bayad Center, Inc. (“Bayad”)	Philippines	Bills payment collection	–	95	–	95
Meralco Energy, Inc. (“MServ”)	Philippines	Energy systems management	100	–	100	–
eMeralco Ventures, Inc. (“e-MVT”)	Philippines	e-Business development	100	–	100	–
Paragon Vertical Corporation (“Paragon”)	Philippines	Information technology (“IT”) and multi-media services	–	100	–	100
Radius Telecoms, Inc. (“Radius”)	Philippines	Telecommunication services	–	100	–	100
MGen	Philippines	Development of power generation plants	100	–	100	–
Calamba Aero Power Corporation ¹	Philippines	Power generation	–	100	–	100
Atimonan Land Ventures Development Corporation	Philippines	Real estate	–	100	–	100
Atimonan One Energy, Inc. (“AIE”) ²	Philippines	Power generation	–	100	–	100
MPG Holdings Phils., Inc.	Philippines	Holding company	–	100	–	100
MPG Asia Limited (“MPG Asia”)	British Virgin Islands	Holding company	–	100	–	100
MGen Renewable Energy, Inc. (“MGreen”)	Philippines	Renewable energy	–	100	–	100
LagunaSol Corporation (“LagunaSol”) ¹	Philippines	Renewable energy	–	100	–	100
Nortesol III Inc. (“NorteSol”) ¹	Philippines	Renewable energy	–	70	–	70
Powersource First Bulacan Solar, Inc. (“First Bulacan”)	Philippines	Renewable energy	–	60	–	60
Greentech Solar Energy, Inc. (“GSEI”)	Philippines	Renewable energy	–	100	–	100

(Forward)



	Place of Incorporation	Principal Business Activities	2022		2021	
			Percentage of Ownership			
			Direct	Indirect	Direct	Indirect
CACI Power Corporation	Philippines	Power generation	—	60	—	60
PH Renewables Inc. (“ <i>PHRI</i> ”)	Philippines	Power generation	—	60	—	60
Greenenergy For Global Inc. (“ <i>Greenenergy</i> ”)	Philippines	Renewable energy	—	57	—	28
GBPC	Philippines	Holding company	—	100	—	100
ARB Power Ventures, Inc.	Philippines	Holding company	—	100	—	100
Toledo Power Company (“ <i>TPC</i> ”)	Philippines	Power generation	—	100	—	100
Toledo Holdings Corporation	Philippines	Real estate	—	100	—	100
Global Trade Energy Resources Corp.	Philippines	Trading of coal	—	100	—	100
Panay Power Holdings Corporation	Philippines	Holding company	—	89	—	89
Panay Energy Development Corporation (“ <i>PEDC</i> ”)	Philippines	Power generation	—	89	—	89
Panay Power Corporation	Philippines	Power generation	—	89	—	89
GBH Power Resources, Inc.	Philippines	Power generation	—	100	—	100
Global Formosa Power Holdings, Inc.	Philippines	Holding company	—	93	—	93
Cebu Energy Development Corporation (“ <i>CEDC</i> ”)	Philippines	Power generation	—	52	—	52
Global Energy Supply Corporation (“ <i>GESC</i> ”)	Philippines	Retail electricity supplier	—	100	—	100
Mindanao Energy Development Corporation	Philippines	Power generation	—	100	—	100
Global Hydro Power Corporation	Philippines	Power generation	—	100	—	100
Global Luzon Energy Development Corporation (“ <i>GLEDC</i> ”)	Philippines	Power generation	—	57	—	57
Lunar Power Core, Inc.	Philippines	Holding company	—	57	—	57
Global Renewable Power Corporation	Philippines	Renewable energy	—	100	—	100
MSpectrum, Inc. (“ <i>Spectrum</i> ”)	Philippines	Renewable energy	100	—	100	—
Vantage Energy Solutions and Management, Inc. (“ <i>Vantage</i> ”)	Philippines	Retail electricity supplier	100	—	100	—
Meralco Financial Services Corporation (“ <i>Finserve</i> ”)	Philippines	Property management and leasing	100	—	100	—
Lighthouse Overseas Insurance Limited (“ <i>LOIL</i> ”)	Bermuda	Insurance	100	—	100	—
MRAIL, Inc. (“ <i>MRail</i> ”)	Philippines	Engineering, construction and maintenance of mass transit system	100	—	100	—
eSakay, Inc. (“ <i>eSakay</i> ”)	Philippines	Maintenance and operation of transport service networks	100	—	100	—
Meralco Industrial Engineering Services Corporation (“ <i>MIESCOR</i> ”) ²	Philippines	Engineering, construction and consulting services	100	—	99	—
Miescor Builders Inc. (“ <i>MBI</i> ”)	Philippines	Electric transmission and distribution operation and maintenance services	—	100	—	99
Miescor Logistics Inc. (“ <i>MLP</i> ”)	Philippines	General services, manpower/maintenance	—	100	—	99
Miescor Infrastructure Development Corporation (“ <i>MIDC</i> ”) ³	Philippines	Construction and leasing of communication towers and other infrastructure	—	51	—	99

(Forward)



	Place of Incorporation	Principal Business Activities	2022		2021	
			Percentage of Ownership			
			Direct	Indirect	Direct	Indirect
Clark Electric Distribution Corporation (“Clark Electric”)	Philippines	Power distribution	65	–	65	–
Clarion Energy Management Inc. (“Clarion”) ¹	Philippines	Retail electricity supplier	–	65	–	65
Comstech Integration Alliance, Inc. (“Comstech”)	Philippines	Management of power distribution	60	–	60	–
MeridianX Inc.	Philippines	Retail electricity supplier	–	60	–	60
Meridian Power Ventures Limited (“MPV Limited”) ¹	Hongkong	Investment holdings	100	–	100	–
Shin Clark Power Holdings, Inc. (“Shin Clark”)	Philippines	Holding company	60	–	60	–
Shin Clark Power Corporation (“Shin Clark Power”)	Philippines	Power distribution	–	54	–	–
Phoenix Power ¹	Philippines	Retail electricity supplier	100	–	100	–
Associates						
Bauang Private Power Corporation (“BPPC”) ⁴	Philippines	Power generation	38	–	38	–
Aclara Meters Philippines, Inc. (“Aclara Meters”)	Philippines	Sale of metering products and services	35	–	35	–
Indra Philippines, Inc. (“Indra Philippines”)	Philippines	Management and IT consultancy	25	–	25	–
Joint Ventures						
Pure Meridian Hydropower Corporation (“Pure Meridian”)	Philippines	Renewable energy	50	–	50	–
MPioneer Insurance, Inc. (“MPioneer”)	Philippines	Insurance	35	–	35	–
Rockwell Business Center Joint Venture (“RBC JV”)	Philippines	Real estate	30	–	30	–

¹ Has not started commercial operations.

² MIESCOR Retirement Fund has less than 1% equity interest in MIESCOR.

³ On April 8, 2022, MIESCOR signed a 51%-49% joint venture agreement with Connect Infrastructure (Philippines) Pte. Limited, to develop a common tower business and use MIDC as the vehicle.

⁴ Corporate life was shortened to until June 30, 2019.

The movements of investments in subsidiaries and associates and interests in joint ventures are as follows:

	2022	2021
	(Amounts in millions)	
Cost:		
Balance at beginning of year	₱54,402	₱39,517
Additions	15,297	14,949
Return of capital	(23)	(64)
Balance at end of year	69,676	54,402
Allowance for impairment:		
Balance at beginning of year	(10,707)	(10,695)
Impairment for the year	(99)	(12)
Balance at end of year	(10,806)	(10,707)
Net book value	₱58,870	₱43,695



CIS

CIS was incorporated in 1974 to provide information technology services and integrated business solutions to enterprise clients. In 1997, *CIS* engaged in the business of bills payment collection, which was spun off as *Bayad*. *Bayad* offers a network of bills payment collection services in the Philippines operating nationwide with brand name “*Bayad*”, and has now evolved into a full-service fintech company offering a whole suite of financial products and services, available in its extensive physical and digital payment touch points. *Bayad* also provides outsourced tellering and other administrative services through *CFSI*.

MServ

MServ was established as a wholly owned subsidiary of *MERALCO* in June 2000 to provide demand-side energy services to *MERALCO*’s key accounts. It offers integrated energy efficiency solutions including marketing, engineering design capability, turnkey installation management, monitoring and performance assurance of energy management projects.

e-MVI

e-MVI was established on June 22, 2000. Its wholly owned subsidiary, *Paragon*, wholly owns *Radius*, which, in turn, holds a congressional telecommunications franchise to construct, install, establish, operate and maintain for commercial purposes and in the public interest, the business of providing basic and enhanced telecommunications services in the Philippines, and between the Philippines and other countries and territories.

MGen

MGen is *MERALCO*’s power generation investment vehicle.

MGen owns 51% of *SBPL* which operates a 455 *MW* (net) supercritical coal-fired plant in Mauban, Quezon. In 2022, it delivered a total of 2,765 *GWh* to *MERALCO* under an *ERC*-approved *PSA*.

GBPC owns 970 *MW* (net) of operating coal and diesel-fired power plants in the Visayas and Mindanao. *GBPC* also has a 50% interest in Alsons Thermal Energy Corporation (“*ATEC*”), which holds a 75% interest in Sarangani Energy Corporation (“*Sarangani Energy*”). *Sarangani Energy* operates a 2 x 105 *MW* (net) *CFB* plant in Maasim, Sarangani.

Effective March 31, 2021, *MGen* has a 100% interest in *GBPC* upon the acquisition of the combined 86% interest of Beacon Powergen Holdings Inc. (“*BPHF*”), a wholly owned subsidiary of *Metro Pacific* and *JG Summit* in *GBPC* to *MGen* for consideration of ₱21,212 and ₱11,363 million, respectively, net of adjustments in accordance with the terms of the respective Share Purchase Agreements (“*SPA*”).

In 2022, *MGen* settled 100% of the total purchase price consideration in accordance with the terms of *SPA*.

SBPL, which is a joint venture between *MGen* (51%) and New Growth B.V. (49%), a 100% subsidiary of Electricity Generating Public Company Limited of Thailand (“*EGCO*”), owns and operates a new 455 *MW* (net) supercritical coal-fired power plant in Mauban, Quezon.



SBPL and *MERALCO* signed a long-term *PSA* covering all the output of the plant. The *PSA* was approved by the *ERC* on May 19, 2015. In 2022, it delivered a total of 2,765 *GWh* to *MERALCO* under an *ERC*-approved *PSA*.

MGen also has a combined 58% (direct and indirect interests) in *PacificLight Power Pte Ltd.* (“*PacificLight Power*”). *PacificLight Power* owns and operates a 2 x 400 *MW* combined cycle turbine power plant mainly fueled by liquefied natural gas (“*LNG*”) in Jurong Island, Singapore.

RP Energy is a joint venture among *MGen*, *Therma Power, Inc.* (“*TPP*”) and *Taiwan Cogeneration International Corporation – Philippine Branch* (“*TCIC*”) for the construction and operation of a power plant in the Subic Bay Freeport Zone. While *RP Energy* is evaluating other possible configurations or alternative technology and viability of possible offtake, *RP Energy* suspended further development of the project while continuing basic care and management activities for the site.

MGen, through its wholly owned subsidiary, *AIE*, is in the process of transitioning its activities from developing a 2x600 *MW* net ultra-supercritical pulverized coal-fired power plant to 4x600 *MW* of liquefied-natural gas power generation plant in Atimonan, Quezon.

AIE is classified as a Committed Project of National Significance by the *DOE* and has the requisite Department of Environment and Natural Resources (“*DENR*”) approvals and permits. It is also recognized by *BOI* as a registered Pioneer Project.

MGen Renewable Energy, Inc. (“*MGreen*”) is a wholly owned subsidiary of *MGen* engaged in the development, financing, construction and operation of solar-powered generation facilities. It has a 60% equity in *First Bulacan*. *First Bulacan* owns and operates a 80 *MWdc*/50 *MWac* utility scale solar facility located in San Miguel, Bulacan, the largest single operating solar plant in the country, which began commercial operations on May 12, 2021 and has since delivered solar energy to *MERALCO* under an *ERC*-approved *PSA*. The *PSA* is for a period of 20 years.

MGreen is in the final stages of the construction of its 75 *MWac* solar plant in Baras, Rizal through *PHRI*, a joint venture with Mitsui’s local unit *Mit-Renewables Philippine Corporation*. In August 2022, the project company secured a ₱2,650 million, 15-year term project financing facility to fund the ongoing construction of the solar plant. Also under construction is a 68 *MWac* solar plant in Ilocos Norte in partnership with *Pasquin Energy Holdings, Inc.* of *Vena Energy Solar PH B.V.* (“*Vena Energy*”) These two (2) projects are expected to commence operations in the first quarter of 2023.

MGreen has 70% equity interest in *Nortesol*, a company engaged in the development, construction and operation of power plant and related facilities using renewable energy system and hybrid energy system. *Nortesol* is developing a 110 *MWdc*/90 *MWac* floating solar facility in Laguna de Bay while awaiting the leasing policy from the Laguna Lake Development Authority (“*LLDA*”).

Spectrum

Spectrum’s primary purpose is to harness renewable energy (“*RE*”) such as but not limited to, solar, wind, biomass, geothermal and/or hydropower.

Vantage

Vantage is a wholly owned subsidiary of *MERALCO* with the primary purpose of providing retail energy services which involve energy sourcing and trading, wholesale contracting, and aggregating of electricity.



Finserve

Finserve has embarked on investing and managing commercial center operations with *The Strip* along Ortigas Avenue as its flagship project.

Finserve also has a 10% equity interest in AF Payments, Inc. (“*AF Payments*”) since its incorporation in February 2014. *AF Payments* was incorporated primarily to operate and maintain an electronic payment clearing and settlement system through a contactless automated fare collection system for public utility, including generic contactless micropayment solution. It supplies and issues fare media and store value cards or reloadable cards for use in transport and non-transport facilities and operates and maintains the related hardware and software.

Due to the lower than expected penetration rate into the micropayments business, *MERALCO* recognized impairment on its investment in *Finserve* related to its investment in *AF Payments*. The recoverable amount of the investment was measured using the estimate of the value in use of the investment. The valuation analysis involved discounting estimates of free cash flows using the discount rate of 11.9%. The estimated cash flows were based on the most recent financial budgets and forecasts representing best estimate of ranges of economic conditions that will exist over the forecast period. The forecast period covers the remaining service concession agreement term. As at December 31, 2022 and 2021, the investment in *AF Payments* is fully impaired.

LOIL

LOIL, a captive reinsurer, is registered as a Class 1 insurer under The Bermuda Insurance Act 1978 and Related Regulations. *LOIL* was incorporated in Bermuda in 2007 and received its license to operate in the territory in 2008.

MRail

MRail, incorporated in 2009, is engaged in the business of engineering, construction and maintenance of mass transit system.

On June 2, 2014, *MRail* and *DESCO* entered into a Joint Venture Agreement for the general overhaul and rehabilitation of three (3) units of diesel electric locomotives by the Philippine National Railways (“*PNR*”). The project including its warranty period was completed on April 19, 2019. The *MDJV* is in the process of liquidation.

On October 31, 2018, First Balfour, Inc. and *MRail* entered into a joint venture for the rehabilitation of the Line 1 Rectifier Substations, a Light Rail Manila Corporation project. The parties agreed an ownership of 51% and 49%, respectively. The project was completed on July 31, 2021 and is under additional two (2)-year warranty period.

eSakay

eSakay is a wholly owned subsidiary of *MERALCO*. *eSakay* supplies and provides multiple private sector clients with operator services across *EV* types – from *e-Vans* and *eShuttles* to *eMotorcycles* and *eScooters*.



MIESCOR

MIESCOR is a contractor - specialist engaged in engineering, construction and maintenance activities related to power generation, transmission and distribution, as well as industrial plants, water resources and telecommunications.

MIESCOR's services are complemented by its two wholly owned subsidiaries – *MBI* and *MLI*. *MBI* serves as the general construction business unit. It also offers testing, commissioning and distribution utility operation and maintenance services, while *MLI* handles architectural and fit-out construction works including building and facilities logistics management services like warehouse management, fleet management and manpower service management.

In 2021, *MIESCOR* Infrastructure Development Corporation (*MIDC*) was incorporated, and is 51% owned by *MIESCOR* and 49% owned by Connect Infrastructure (*Philippines*) PTE. Limited of the Stonepeak Partner LP group, a leading alternative investment firm. *MIDC* specializes in tower construction, site acquisition, site permitting, tower erection and tower management services to telecommunications companies.

Clark Electric

Clark Electric is a registered private distribution utility granted by Clark Development Corporation (“*CDC*”) a franchise to own, operate and maintain a power distribution system and to distribute power exclusively within its franchise area, which includes the Clark Freeport Zone and the sub-zones as determined pursuant to Presidential Decree No. 66 and the Joint Venture Agreement executed between *CDC* and *MIESCOR*, dated February 19, 1997.

Clark Electric's wholly owned subsidiary, *Clarion*, was incorporated with the primary purpose of providing retail energy sourcing and trading, wholesale contracting and aggregating of electricity.

Comstech

MERALCO has a 60% equity interest in *Comstech*. *Comstech* manages the electric distribution facilities of Pampanga Electric Cooperative II (“*PELCO IP*”) under an Investment Management Contract.

MeridianX, a wholly owned subsidiary of *Comstech*, was incorporated on November 21, 2016 as a retail electricity supplier.

Shin Clark

Shin Clark is a consortium consisting of *MERALCO*, 60% and Axia Power Holdings Philippines Corporation (a wholly-owned subsidiary of Marubeni Corporation), KPIC Netherlands BV [a wholly-owned subsidiary of the Kansai Electric Power, Inc. (“*Kansai*”)], and Chubu Electric Power Co., Inc. (“*Chubu*”), collectively holding 40%. *Shin Clark* through a Joint Venture Agreement (“*JVA*”) with *BCDA*, manages the development, operation, and maintenance of the electric power distribution system in the 9,450-hectare New Clark City located within the Clark Special Economic Zone in the towns of Capas and Bamban, Tarlac. In accordance with the *JVA*, *BCDA* assigned its franchise to operate the electric distribution system in New Clark City, granted to it by the Congress under Republic Act no. 11420, to Shin Clark Power Corporation (“*SCPC*” or “Joint Venture Company”). *BCDA*'s assignment of its franchise to *SCPC*, based on a valuation by a third-party independent appraiser, represents *BCDA*'s contribution to *SCPC* in exchange for a 10% equity interest in *SCPC*. *SCPC* was incorporated and registered with the Securities and Exchange Commission (“*SEC*”) and is



awaiting the Energy Regulatory Commission's ("ERC") approval of its *CPCN* to be able to operate as a distribution utility. *Shin Clark* manages the development, operation, and maintenance of the electric power distribution system in the 9,450-hectare New Clark City located within the Clark Special Economic Zone in the towns of Capas and Bamban, Tarlac, through a Joint Venture Agreement with the Bases Conversion and Development Authority ("BCDA"). On May 10, 2022, Shin Clark Power Corporation ("*Joint Venture Company*") was incorporated and registered with the Securities and Exchange Commission ("SEC") and is awaiting ERC's approval of its *CPCN* to be able to operate as a distribution utility.

Aclara Meters

Aclara Meters is 35% owned by *MERALCO* and 65% owned by *Aclara Technology LLC*. *Aclara Meters* serves the Philippine market for American National Standard Institute ("ANSI")-type Watt-hour meters.

Indra Philippines

Indra Philippines is an *IT* service provider in the country and in the Asia Pacific region, with a wide range of services across various industries. *Indra Philippines* provides services which meet certain of *MERALCO*'s *IT* requirements in the area of system development, outsourcing of Information Systems ("IS") and *IT* operations and management consulting.

Pure Meridian

On January 7, 2016, *MERALCO* and Repower Energy Development Corporation ("*REDC*") entered into a joint venture through, *Pure Meridian*, for the development of mini-hydroelectric power projects.

MPioneer

MPioneer is 35% owned by *MERALCO*, with Pioneer Insurance and Surety Company holding 65%. It is engaged in the non-life insurance business.

RBC JV

RBC JV is a joint venture between Rockwell Land Corporation ("*Rockwell Land*") and *MERALCO* for a pre-agreed cooperation period, pursuant to which *Rockwell Land* built and manages three (3) Business Process Outsourcing-enabled buildings on a non-regulatory asset base property of *MERALCO*. Investment in *RBC JV* represents *MERALCO*'s 30% interest in the joint venture, while *Rockwell Land* has 70% interest in *RBC JV*.



8. Investment Properties

The movements in investment properties are as follows:

	2022		
	Land	Buildings and Improvements	Total
	<i>(Amounts in millions)</i>		
Cost	₱1,427	₱155	₱1,582
Less accumulated depreciation:			
Balance at beginning of year	—	124	124
Depreciation	—	4	4
Balance at end of year	—	128	128
	₱1,427	₱27	₱1,454

	2021		
	Land	Buildings and Improvements	Total
	<i>(Amounts in millions)</i>		
Cost	₱1,427	₱155	₱1,582
Less accumulated depreciation:			
Balance at beginning of year	—	120	120
Depreciation	—	4	4
Balance at end of year	—	124	124
	₱1,427	₱31	₱1,458

Investment properties consist of real properties held for capital appreciation, former substation sites and other non-regulatory asset base real properties. Some of these investment properties are being leased out. The aggregate fair values of the investment properties are as follows:

	2022	2021
	<i>(Amounts in millions)</i>	
Land	₱5,589	₱4,653
Buildings and improvements	94	126

Land pertains primarily to properties where the *BPO* buildings and “Strip” mall are located and other non-regulatory asset base properties.

The fair values of investment properties were determined by independent, professionally qualified appraisers. The fair value represents the price that would be received to sell an investment property in an orderly transaction between market participants at the measurement date.

The fair value disclosures of the investment properties are categorized as Level 3 as there is no active market for identical or similar properties. The inputs include price per square meter ranging from ₱100 to ₱170,000. There have been no changes in the valuation techniques used.



In conducting the appraisal, the independent professional appraisers used one (1) of the following approaches:

a. Market Data or Comparative Approach

Under this approach, the value of the property is based on sales and listings of comparable property registered within the vicinity. This approach requires the establishment of a comparable property by reducing comparative sales and listings to a common denominator with the subject property. This is done by adjusting the differences between the subject property and those actual sales and listings regarded as comparables. The properties used are either situated within the immediate vicinity or at different floor levels of the same building, whichever is most appropriate to the property being valued. Comparison was premised on the factors of location, size and physical attributes, selling terms, facilities offered and time element.

b. Depreciated Replacement Cost Approach

This method of valuation considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets, with allowance for accrued depreciation based on physical wear and tear and obsolescence.

9. Financial and Other Noncurrent Assets

This account consists of:

	<i>Note</i>	2022	2021
<i>(Amounts in millions)</i>			
Financial assets:			
Debt securities at amortized cost	<i>13 and 25</i>	₱19,503	₱24,340
Financial assets at <i>FVOCI</i>	<i>25</i>	2,673	6,936
Restricted cash		4,478	4,698
Advance payments to a supplier	<i>25</i>	349	523
Nonfinancial assets:			
Under recoveries of pass-through charges - net	<i>2 and 11</i>	11,377	10,597
Intangible assets		2,201	2,041
Deferred input <i>VAT</i>		369	1,477
Receivable from the <i>BIR</i>	<i>27</i>	181	181
Others		135	64
		₱41,266	₱50,857



Debt Securities at Amortized Cost

The details of debt securities at amortised cost are as follows:

	2022			2021		
	Current Portion (see Note 13)	Noncurrent Portion	Total	Current Portion (see Note 13)	Noncurrent Portion	Total
<i>(Amounts in millions)</i>						
Government securities	₱16,793	₱11,444	₱28,237	₱11,873	₱21,136	₱33,009
Private debt securities	1,000	8,059	9,059	5,248	3,204	8,452
	₱17,793	₱19,503	₱37,296	₱17,121	₱24,340	₱41,461

This account represents investments in government securities issued by the Republic of the Philippines and private debt securities issued by Philippine listed corporations.

Financial Assets at FVOCI

The details of financial assets at *FVOCI* are as follows:

	2022	2021
<i>(Amounts in millions)</i>		
Investments in debt securities:		
Corporate bonds and other investments	₱2,200	₱6,570
Government Securities	—	3
Investments in shares of stock and club shares	473	363
	₱2,673	₱6,936

Interest income from debt and equity securities amounted to ₱1,150 million and ₱1,316 million for the years ended December 31, 2022 and 2021, respectively.

The rollforward of unrealized gains on quoted *FVOCI* financial assets, net of tax, included in the parent company statements of financial position follows:

	2022	2021
<i>(Amounts in millions)</i>		
Balance at beginning of year	₱325	₱288
Unrealized gains (losses) on change in fair value	(148)	37
Balance at end of year	₱177	₱325

Intangible Assets



The movements of intangible assets are as follows:

2022				
Note	Software	Franchise	Land and Leasehold Rights	Total
(Amounts in millions)				
Cost:				
Balance at beginning of year	₱6,327	₱49	₱442	₱6,818
Additions	683	—	5	688
Reclassification	6 (162)	—	—	(162)
Balance at end of year	6,848	49	447	7,344
Less accumulated amortization:				
Balance at beginning of year	4,424	6	347	4,777
Amortization	347	3	16	366
Balance at end of year	4,771	9	363	5,143
	₱2,077	₱40	₱84	₱2,201
2021				
Note	Software	Franchise	Land and Leasehold Rights	Total
(Amounts in millions)				
Cost:				
Balance at beginning of year	₱5,558	₱49	₱434	₱6,041
Additions	740	—	8	748
Reclassification	6 29	—	—	29
Balance at end of year	6,327	49	442	6,818
Less accumulated amortization:				
Balance at beginning of year	4,028	3	331	4,362
Amortization	396	3	16	415
Balance at end of year	4,424	6	347	4,777
	₱1,903	₱43	₱95	₱2,041

Deferred Input VAT

The amount includes portion of input VAT incurred and paid in connection with purchase of capital assets in excess of ₱1 million per month. As provided for in RA No. 9337 (“EVAT Law”), said portion of input VAT shall be deferred and credited evenly over the estimated useful lives of the related capital assets or 60 months, whichever is shorter, against the output VAT due. Under the Tax Reform for Acceleration and Inclusion (“TRAIN”) Law that was signed by President Duterte on December 19, 2017, input VAT on capital goods purchased after December 31, 2021 shall be fully recognized outright and may be claimed as input tax credits against output tax. The deferred input VAT as of December 31, 2021 will continue to be amortized.

Net Under-Recoveries of Pass-through Charges

This account represents generation, transmission and other pass-through costs incurred by MERALCO as DU determined based on ERC-approved recovery mechanism, which shall be billed to customers, upon confirmation by the ERC. The balance also includes other net under-recoveries of generation, transmission and other pass-through charges of current and prior years, which are the subject of various applications for recovery and approval by the ERC. The amount of net under-recoveries of pass-through charges that will be collected within a year amounted to ₱957 million as at December 31, 2021. This is shown as part of “Trade and other receivables” account in the parent company statement of financial position.

As at December 31, 2022, net under-recoveries of pass-through charges was already recovered.



See Note 11 – Trade and Other Receivables.

Allowance for *ECL* on net under-recoveries of pass-through charges amounted to ₱2,925 million and ₱3,078 million as at December 31, 2022 and 2021, respectively.

10. Cash and Cash Equivalents

This account consists of:

	2022	2021
	<i>(Amounts in millions)</i>	
Cash on hand and in banks	₱6,950	₱14,736
Cash equivalents	32,023	25,895
	₱38,973	₱40,631

Cash in banks earn interest at prevailing bank deposit rates. Cash equivalents are temporary cash investments, which are made for varying periods of up to three (3) months depending on *MERALCO*'s immediate cash requirements and earn interest at the prevailing short-term investment rates.

Interest income on cash in banks and cash equivalents amounted to ₱667 million and ₱466 million for the years ended December 31, 2022 and 2021, respectively.

11. Trade and Other Receivables

This account consists of:

	Note	2022	2021
		<i>(Amounts in millions)</i>	
Trade receivables	21 and 25	₱39,733	₱34,436
Nontrade receivables		1,457	2,006
		41,190	36,442
Less allowance for <i>ECL</i>		4,766	3,754
		₱36,424	₱32,688

Movements in allowance for *ECL* for trade and other receivables are as follows:

	2022	2021
	<i>(Amounts in millions)</i>	
Balance at beginning of year	₱3,754	₱3,501
Provision	2,093	202
Recoveries (write-offs)	(1,081)	51
Balance at end of year	₱4,766	₱3,754

Trade Receivables

Trade receivables include charges for pass-through costs. Pass-through costs consist of generation, transmission and *SL* charges, which represent 66%, 9% and 5%, respectively, of the total billed amount in 2022 and 58%, 9% and 4%, respectively, of the total billed amount in 2021. Billed



receivables are due 10 days after bill date. Trade receivables are noninterest-bearing and are substantially secured by bill deposits. Electricity consumed after the meter reading cut-offs, which will be billed to customers in the immediately following billing period, is included as part of trade receivables.

See *Note 16 – Customers’ Deposits* and *Note 25 – Financial Assets and Financial Liabilities*.

12. Inventories

	2022	2021
	<i>(Amounts in millions)</i>	
Materials and supplies		
At cost	₱6,208	₱5,514
At net realizable value (“ <i>NRV</i> ”)	6,016	5,322
Materials and supplies at <i>NRV</i>	₱6,016	₱5,322

The net realizable value of inventories is net of allowance for inventory obsolescence of ₱192 million as at December 31, 2022 and 2021. There was no inventory written off as at December 31, 2022 and 2021.

13. Financial and Other Current Assets

This account consists of:

	Note	2022	2021
		<i>(Amounts in millions)</i>	
Financial assets:			
Debt securities at amortized cost	9 and 25	₱17,793	₱17,121
Short-term investments	25	204	444
Current portion of advance payments to a supplier		199	182
Nonfinancial assets:			
Prepaid tax		3,792	687
Input <i>VAT</i>		1,008	141
Prepayments and others		2,852	3,031
		₱25,848	₱21,816

Short-term investments are temporary cash placements for varying periods beyond three (3) months but not exceeding 12 months and earn interest at the prevailing short-term placement investment rates.

Prepaid taxes pertain to advanced payment of withholding tax and excess payment of income tax.



14. Equity

Common Stock

	2022	2021
	<i>(In millions, except par value)</i>	
Authorized number of shares - ₱10 par value a share	1,250	1,250
Issued and outstanding - number of shares	1,127	1,127

There was no movement in the number of shares of *MERALCO*'s common stock.

The common shares of *MERALCO* were listed on the *PSE* on January 8, 1992. There are 41,338 and 41,689 shareholders of *MERALCO*'s common shares as at December 31, 2022 and 2021, respectively.

Unappropriated Retained Earnings

The unappropriated retained earnings include the balance of revaluation increment in utility plant and others and investment properties carried at deemed cost, deferred tax assets and unrealized foreign exchange gains totaling to ₱51,172 million and ₱51,113 million as at December 31, 2022 and 2021, respectively. These amounts are restricted for dividend declaration purposes as of the close of the respective reporting year.

The following are cash dividends declared on common shares in 2022 and 2021:

Declaration Date	Record Date	Payment Date	Dividend Per Share	Amount
				<i>(In millions)</i>
July 25, 2022	August 23, 2022	September 14, 2022	₱5.81	₱6,544
February 28, 2022	March 30, 2022	April 26, 2022	10.23	11,526
July 26, 2021	August 23, 2021	September 15, 2021	5.06	5,700
March 1, 2021	March 30, 2021	April 26, 2021	7.82	8,818

The *BOD*-approved dividend policy of *MERALCO* consists of (i) regular cash dividends equivalent to 50% of consolidated core net income ("*CCNI*") for the year, and (ii) special dividend determined on a "look-back" basis. Declaration and payment of special dividend are dependent on the availability of unrestricted retained earnings and free cash. The declaration, record and payment dates shall be consistent with the guidelines and regulations of the Philippine *SEC*.

Treasury Shares

Treasury shares represent 172,412 subscribed shares and the related rights of employees who have opted to withdraw from the *ESPP* in accordance with the provisions of the *ESPP* and which *MERALCO* purchased.



15. Interest-bearing Long-term Financial Liabilities

This account consists of the following:

	2022	2021
	<i>(Amounts in millions)</i>	
Long-term portion of interest-bearing long-term financial liabilities - Long-term debt	₱20,778	₱11,294
Current portion of interest-bearing long-term financial liabilities:		
Long-term debt	440	349
Redeemable preferred stock	1,467	1,470
	1,907	1,819
	₱22,685	₱13,113

All of the redeemable preferred shares have been called as at June 30, 2011, consistent with the terms of the Preferred Shares Subscription Agreement. Accrued interests amounted to ₱249 million as at December 31, 2022 and 2021. Interest is no longer accrued from the time such preferred shares were called for redemption.

The details of interest-bearing long-term financial liabilities are as follows:

Description	2022	2021
	<i>(Amounts in millions)</i>	
<i>Fixed Rate Loans</i>		
₱10.0 Billion Term Loan	₱10,000	₱—
12-year Puttable Bonds	7,000	7,000
₱7.2 Billion Note	4,320	4,680
Total long-term debt	21,320	11,680
Less unamortized debt issuance costs	102	37
	21,218	11,643
<i>Redeemable Preferred Stock</i>	1,467	1,470
	22,685	13,113
Less current portion	1,907	1,819
Long-term portion of interest-bearing financial liabilities	₱20,778	₱11,294

All of the interest-bearing long-term financial liabilities as at December 31, 2022 and 2021 are denominated in Philippine peso. The scheduled maturities of the outstanding long-term debt at nominal values as at December 31, 2022 are as follows:

	Amount
	<i>(In millions)</i>
Less than one (1) year	460
One (1) year up to two (2) years	4,060
More than two (2) years up to three (3) years	7,100
More than three (3) years up to four (4) years	100
More than four (4) years up to five (5) years	9,600
	₱21,320



₱10.0 Billion Term Loan

In December 2022, *MERALCO* obtained a ₱10,000 million, 10-year floating rate loan due in December 2032. The related interest is payable quarterly. The principal is payable in nominal annual amortizations with a balloon payment upon final maturity.

12-year Puttable Bonds

The ₱7,000 million 12-year Puttable Bond is the balance of the total ₱18,000 million Puttable Bonds issued in December 2013, puttable in 10 years. This also includes a call option, whereby *MERALCO* may redeem (in whole but not in part only) the outstanding bonds on the 7th year from issue date at the early redemption price of 101.0%. The call option was not exercised. The put and call options are clearly and closely related to the host instruments, and thus, were not recognized separately.

₱7.2 Billion Note

MERALCO's ₱7,200 million, 10-year Fixed Rate Note Facility is due in February 2024. The principal is payable in nominal annual amortizations with a balloon payment upon final maturity.

Debt Covenants

MERALCO's loan agreements require compliance with debt service coverage of 1.1 times calculated on specific measurement dates. The agreements also contain restrictions with respect to the creation of liens or encumbrances on assets, issuance of guarantees, mergers or consolidations, disposition of a significant portion of its assets and related party transactions.

As at December 31, 2022 and 2021, *MERALCO* is in compliance with all of the covenants of the loan agreements.

The annual interest rates for the interest-bearing long-term financial liabilities range from 4.5% to 6.5% and 4.40% to 4.22% as at December 31, 2022 and 2021, respectively.

Interest expense on interest-bearing long-term financial liabilities, net of capitalized interest, amounted to ₱152 million and ₱262 million for the years ended December 31, 2022 and 2021, respectively.

Unamortized Debt Issuance Costs

The following presents the changes to the unamortized debt issuance costs:

	Note	2022	2021
		(Amounts in millions)	
Balance at beginning of year		₱37	₱48
Additions		75	—
Amortization charged to interest and other financial charges	23	(10)	(11)
Balance at the end of year		₱102	₱37



Redeemable Preferred Stock

The movements in the number of shares of the redeemable preferred stock, which have all been called, are as follows:

	2022	2021
Balance at beginning of year	147,015,281	147,158,808
Redemptions	(352,940)	(143,527)
Balance at end of year	146,662,341	147,015,281

The original “Terms and Conditions” of *MERALCO*’s Special Stock Subscription Agreement, which required an applicant to subscribe to preferred stock with 10% dividend to cover the cost of extension of, or new, distribution facilities, have been amended by the *Magna Carta* and the *DSOAR* effective June 17, 2004 and January 18, 2006, respectively. The amendment sets forth the guidelines for the issuance of preferred stock, only if such instrument is available.

16. Customers’ Deposits

This account consists of:

	2022			2021		
	Current Portion (see Note 20)	Noncurrent Portion	Total	Current Portion (see Note 20)	Noncurrent Portion	Total
<i>(Amounts in millions)</i>						
Bill deposits	₱2,812	₱30,854	₱33,666	₱2,358	₱30,184	₱32,542
Meter deposits	314	–	314	313	–	313
	₱3,126	₱30,854	₱33,980	₱2,671	₱30,184	₱32,855

Bill Deposits

Bill deposits serve to guarantee payment of bills by a customer.

As provided in the *Magna Carta* and *DSOAR*, all captive customers of the *DU* are required to pay a deposit, equivalent to the estimated monthly bill calculated based on applied load. Such deposit shall be updated annually based on the historical 12-month average bill. A captive customer who has paid his electric bills on or before due date for three (3) consecutive years may apply for the full refund of the bill deposit, together with the accrued interests, prior to the termination of his service; otherwise bill deposits and accrued interests shall be refunded within one (1) month from the termination of service, provided all bills have been paid.

Under the amended *DSOAR*, which became effective on April 1, 2010, interest on bill deposits for both residential and non-residential customers shall be computed using the equivalent peso savings account interest rate of the Land Bank of the Philippines (“*Land Bank*”) or other government banks, on the first working day of the year, subject to the confirmation of the *ERC*.

As provided for under *ERC* Resolution No. 1 Series of 2011, *A Resolution Adopting the Revised Rules for the Issuance of Licenses to Retail Electricity Suppliers*, a local *RES* may require security deposits from its contestable customers, which shall earn interest equivalent to the actual interest earnings of the total amount of deposits received from the customers.



On May 10, 2019, *MERALCO* received a copy of the Petition dated April 27, 2019 filed by various partylist representatives which questioned the imposition of bill deposits by the *DU* for its captive customers.

The Petition prayed that the provisions on bill deposits in the Magna Carta be declared as illegal and void and that *MERALCO* and other *DUs* be permanently prohibited from imposing and collecting bill deposit from the captive market. The Petition further prayed that the bill deposit be refunded and/or that combining the bill deposits with the general funds of *MERALCO* be disallowed. Lastly, the Petition prayed for the conduct of an audit of the bill deposits collected by *MERALCO*.

MERALCO filed its Comment to the Petition on October 18, 2019. On October 28, 2019, the *OSG* filed a Manifestation and Motion to drop *COA* as a respondent in the case. In a Resolution dated February 4, 2020, the *SC* required *COA* to file their comments on the Petition. On July 27, 2020, *MERALCO* received a copy of the Comment filed by the *COA*, through the *OSG*.

On September 8, 2020, the *SC* issued a Notice of Resolution noting the Comment filed by the *OSG* and requiring petitioners to file a consolidated reply within ten (10) days from notice. On November 24, 2020, *MERALCO* received the petitioners' Consolidated Reply to the Separate Comment/Opposition of the *ERC*, *MERALCO*, and *COA* dated November 10, 2020.

The following are the movements of the bill deposits account:

	Note	2022	2021
		<i>(Amounts in millions)</i>	
Balance at beginning of year		₱32,542	₱31,529
Additions		3,152	2,733
Refunds		(2,028)	(1,720)
Balance at end of year		33,666	32,542
Less portion maturing within one year	20	2,812	2,358
Noncurrent portion of bill deposits and related interests		₱30,854	₱30,184

Interest expense on bill deposits amounted to ₱21 million each for the years ended December 31, 2022 and 2021.

Meter Deposits

Meter deposits were intended to guarantee the cost of meters installed.

The *Magna Carta* for residential customers (effective July 19, 2004) and *DSOAR* (effective February 2, 2006) for non-residential customers exempt all customer groups from payment of meter deposits beginning July 2004 for residential customers and February 2006 for non-residential customers.

MERALCO implemented refund of said deposits to its customers based on the *ERC* Resolution No. 8, Series of 2008, otherwise known as "Rules to Govern the Refund of Meter Deposits to Residential and Non-Residential Customers" ("*Rules*") which required the refund of meter deposits from the effectivity of said *Rules* on July 5, 2008.

The total amount of refund shall be equivalent to the meter deposit paid by the customer plus the total accrued interest earned from the time the customer paid the meter deposit until the day prior to the start of refund.



In July 2016, *MERALCO* deposited unclaimed meter deposits in a single savings account. As at February 27, 2023, the matter is still pending with the *ERC*.

17. Provisions

Provisions consist of amounts recognized related to certain proceedings and claims against *MERALCO*, among others. The movements follow:

	<i>Note</i>	2022	2021
		<i>(Amounts in millions)</i>	
Balance at beginning of year		₱37,018	₱38,992
Provisions for the year - net		7,588	4,353
Settlements		(24,776)	(6,388)
Reclassification from other noncurrent liabilities and payables		39,622	—
Balance at end of year		59,452	36,957
Less current portion	<i>20</i>	46,841	23,421
Noncurrent portion		₱12,611	₱13,536

The balance of provisions substantially represents the amounts of claims related to a commercial contract which remains unresolved and local taxes being contested as discussed in *Note 27 – Contingencies and Legal Proceedings*, consistent with the limited disclosure as allowed in *PFRS*.

18. Customers' Refund

This account represents the balance of the refund related to the *SC* decision promulgated on April 30, 2003, which is continuously being refunded based on documents presented by qualified claimants. The unclaimed amount is deposited in a separate interest-bearing bank account.

MERALCO implemented the *SC* ruling which ordered the refund of ₱0.167 per *kWh* for billings made from February 1994 to April 2003 in four (4) phases. *MERALCO* continues to process refunds as the eligible customers present their required supporting documents until the *ERC* directs otherwise and approves *MERALCO*'s proposed scheme on how the unclaimed refund shall be utilized for purposes of reducing the distribution rates of consumers.

In 2021, the *ERC* through its appointed consultant conducted an audit and verification of *MERALCO*'s refunds, which included *MERALCO*'s *SC* refund. The audit has been completed and as at February 27, 2023, *MERALCO* is awaiting further action of the *ERC* on the matter.

See *Note 2 – Rate Regulations*.

19. Notes Payable

Notes payable represent unsecured interest-bearing working capital loans obtained from local banks. Annual interest rates were up to 4.0% and 4.8% for the years ended December 31, 2022 and 2021, respectively.

Interest expense on notes payable amounted to ₱1,125 million and ₱1,169 million for the years ended December 31, 2022 and 2021, respectively.



20. Trade Payables and Other Current Liabilities

This account consists of the following:

	Note	2022	2021
<i>(Amounts in millions)</i>			
Trade accounts payable	21 and 22	₱58,940	₱38,922
Provisions	17, 20 and 27	46,841	23,421
Taxes payable		12,009	11,715
Accrued expenses:			
Employee benefits	24	1,987	1,968
Interest	15	218	225
Others		2,130	1,617
Current portions of:			
Refundable service extension costs		1,772	1,660
Bill deposits and related interests	16	2,812	2,358
Meter deposits and related interests	16	314	313
Deferred income		1,022	943
Dividends payable on:			
Common stock	14	1,928	1,162
Redeemable preferred stock	15	249	249
Payable to customers		5,095	6,450
Universal charges payable		2,194	2,345
Fit-All payable		358	957
Regulatory fees payable		220	219
Other current liabilities		1,050	1,326
		₱139,139	₱95,850

Trade Accounts Payable

Trade accounts payable mainly represent obligations to power generating companies, National Grid Corporation of the Philippines (“*NGCP*”) and Independent Electricity Market Operator of the Philippines Inc. (“*IEMOP*”) for cost of power purchased and transmission services. In addition, this account includes liabilities due to local and foreign suppliers for purchases of goods and services, consisting of transformers, poles, materials and supplies, and contracted services, among others.

Trade payables are non-interest-bearing and are generally settled within 15 to 30 days from the receipt of invoice. Other payables are non-interest-bearing and due within one (1) year from incurrence.

See Note 21 –*Related Party Transactions*, Note 22 –*Revenue and Purchased Power* and Note 28 –*Significant Contracts and Commitments*.

Refundable Service Extension Costs

Article 14 of the *Magna Carta*, specifically, “Right to Extension of Lines and Facilities”, requires a customer requesting for an extension of lines and facilities beyond 30-meter service distance from the nearest voltage facilities of the *DU* to advance the cost of the project. The amended *DSOAR*, which became effective April 1, 2010, requires such advances from customers to be refunded at the rate of 75% of the distribution revenue generated from the extension lines and facilities until such amounts are fully refunded. The related asset shall form part of the rate base only as the refund is paid out. Customer advances are non-interest-bearing.



As at December 31, 2022 and 2021, the noncurrent portion of refundable service extension costs of ₱4,653 million and ₱5,334 million, respectively, is presented as “Refundable service extension costs - net of current portion” account in the parent company statements of financial position.

Universal Charges Payable

Universal charges are amounts passed on and collected from customers on a monthly basis by *DUs*. These are charges imposed to recover the stranded debts, stranded contract costs of *NPC*, stranded contract costs of eligible contracts of *DUs*, missionary electrification and environmental charges. *DUs* remit collections monthly to *PSALM* who administers the fund generated from universal charges and disburses the said funds in accordance with the intended purposes.

Payable to Customers

Payable to customers represents amounts credited to customers’s bills or paid by customers in advance and which are being applied to their current consumption.

Taxes

Taxes represent pass-through *VAT*, output *VAT*, withholding taxes and energy taxes payable. Pass-through *VAT* pertains to *VAT* on generation and transmission costs billed to the *DU*, which are in turn billed to the customers. Remittance of such pass-through *VAT* to the generation companies is based on collection of billed receivables from the customers.

21. Related Party Transactions

MERALCO has approval process and limits on the amount and extent of related party transactions.

The following summarizes the total amount of transactions, which have been provided and/or contracted by *MERALCO* to/with related parties for the relevant year. The outstanding balances are unsecured, non-interest bearing and are to be settled in cash.

Pole Attachment Contract with PLDT, Inc. (“PLDT”)

MERALCO has a pole attachment contract with *PLDT* similar to third party pole attachment contracts of *MERALCO* with other telecommunication companies. Under the pole attachment contract, *PLDT* shall use the contracted cable position exclusively for its telecommunication cable network facilities.

Sale of Electricity under Various Service Contracts

MERALCO sells electricity to its subsidiaries, associates, joint ventures and related party shareholder groups within the franchise area such as *PLDT*, *Metro Pacific* and *JG Summit* and their respective subsidiaries, and affiliates for their facilities within *MERALCO*’s franchise area. The rates charged to related parties are the same *ERC*-mandated rates applicable to customers within the franchise area and are covered by standard service agreement. Also, the rates charged to related parties under *RES* are based on the same rate model for other customers.

Purchase of Telecommunication Services from PLDT and its Subsidiaries

MERALCO’s telecommunications carriers include *PLDT* for its wireline and Smart Communications, Inc. and Digitel Mobile Philippines, Inc., for its wireless services. Such services are covered by standard service contracts between the telecommunications carriers and *MERALCO*.



Technical Service Agreement (“TSA”) with Comstech

MERALCO has a *TSA* with *Comstech*. Under the terms of the *TSA*, *MERALCO* shall provide technical services needed to enable *Comstech* to operate and maintain Pampanga Electric Cooperative II’s electric distribution facilities in accordance with the terms and conditions of the Investment and Management Agreement.

MERALCO granted a loan to *Comstech* amounting to ₱280 million. The loan shall be for a period of 10 years, payable in nine (9) annual installments of ₱14 million beginning December 31, 2016. Starting December 2018, annual installment payable is ₱31.5 million. The outstanding balance as at December 31, 2022 and 2021 amounted to ₱95 million and ₱126 million, respectively.

Lease Agreement with Robinsons Land Corporation (“RLC”)

In 2022, *MERALCO* entered into various lease agreements with *RLC* for its temporary office premises for period ranging from 12 months to 15 months.

Purchase of Goods and Services

In the ordinary course of business, *MERALCO* purchases goods and services from its affiliates and sells power, leases its spaces and equipment, and renders services to such affiliates.

PSAs with Related Parties

As discussed in Note 28, *MERALCO* has a long-term *PSA* with *SBPL* and *PEDC*.

Following is a summary of related party transactions, for the years ended December 31, 2022 and 2021, and the outstanding balances as at December 31, 2022 and 2021:

Category	Amount of Transactions		Outstanding Receivable (Liability)		Terms	Conditions
	2022	2021	2022	2021		
(Amounts in millions)						
Sale of electricity:						
<i>JG Summit Group</i>	₱3,919	₱2,704	₱2,257	₱387	10-day; noninterest-bearing	Unsecured, no impairment
<i>PLDT Group</i>	1,224	1,233	86	85	10-day; noninterest-bearing	Unsecured, no impairment
<i>Metro Pacific Group</i>	391	410	40	158	10-day; noninterest-bearing	Unsecured, no impairment
<i>Subsidiaries, affiliates and joint venture</i>	33	28	6	4	10-day; noninterest-bearing	Unsecured, no impairment
Lease of office premises - <i>RLC</i>	48	—	—	—	10-day; noninterest-bearing	Unsecured, no impairment
Purchases of IT services - <i>Indra Philippines</i>	940	922	(377)	(362)	30-day; noninterest-bearing	Unsecured
Purchases of meters and devices – <i>Aclara Meters</i>	147	248	—	(23)	30-day; noninterest-bearing	Unsecured
Revenue from pole attachment - <i>PLDT</i>	689	586	5	73	Advance payment	Unsecured, no impairment
Purchases of wireline and wireless services - <i>PLDT Group</i>	103	90	(13)	(11)	30-day; noninterest-bearing	Unsecured
Donations to One Meralco Foundation	99	71	—	—	None	None
Purchases of services:						
<i>MIESCOR and subsidiaries</i>	3,462	2,728	(396)	(364)	30-day; noninterest-bearing	Unsecured
<i>CIS and subsidiaries</i>	739	727	(52)	(38)	30-day; noninterest-bearing	Unsecured
<i>MPioneer</i>	451	412	(2)	(3)	30-day; noninterest-bearing	Unsecured
<i>MServ</i>	86	117	(9)	(17)	30-day; noninterest-bearing	Unsecured

(Forward)



Category	Amount of Transactions		Outstanding Receivable (Liability)		Terms	Conditions
	2022	2021	2022	2021		
<i>Colinas Verdes Hospital Managers</i>	₱192	₱238	(₱7)	₱—	30-day; noninterest-bearing	Unsecured
<i>eSakay, Inc.</i>	24	11	(53)	(26)	30-day; noninterest-bearing	Unsecured
<i>Radius Telecoms</i>	16	30	8	(127)	30-day; noninterest-bearing	Unsecured
<i>Others</i>	63	41	16	(7)	30-day; noninterest-bearing	Unsecured
Purchases of power:						
<i>PEDC</i>	967	2,257	(272)	(249)	30-day; noninterest-bearing	Unsecured
<i>SBPL</i>	26,795	15,902	(1,773)	(746)	30-day; noninterest-bearing	Unsecured
Income from <i>TSA</i>						
<i>Comstech</i>	27	24	—	5	30-day; noninterest-bearing	Unsecured

Transaction with MERALCO Retirement Benefits Fund (“Retirement Fund”)

MERALCO’s Retirement Fund holds 6,000 common shares of *RP Energy* at par value of ₱100 per share, with total carrying amount of ₱600,000 or an equivalent 3% equity interest in *RP Energy*. The fair value of *RP Energy’s* common shares cannot be reliably measured as these are not traded in the financial market.

As at December 31, 2022 and 2021, the fair value of the total assets being managed by the *Retirement Fund* amounted to ₱29.8 billion and ₱33.1 billion, respectively.

See *Note 24 – Long-Term Employee Benefits*.

Compensation of Key Management Personnel

The compensation of key management personnel of *MERALCO* by benefit type is as follows:

	2022	2021
	<i>(Amounts in millions)</i>	
Short-term employee benefits	₱643	₱549
Long-term employee incentives and retirement benefits	280	280
Total compensation to key management personnel	₱923	₱829

All directors are entitled to a reasonable per diem for their attendance in meetings of the *BOD* and Board Committees plus an additional compensation, provided that the total value of such additional compensation, in whatever form so given, shall not exceed one (1) percent of the income before income tax of *MERALCO* during the preceding year.

Each of the directors is entitled to a per diem of ₱140,000 for every *BOD* meeting attended. Each member of the Audit, Risk Management, Remuneration and Leadership Development, Finance, Related Party Transactions and Nomination and Governance Committees is entitled to a fee of ₱24,000 for every committee meeting attended. Also, the members of the *BOD* are entitled to a stock grant based on a pre-approved number of shares for each director which was implemented beginning May 2013 as approved by the stockholders. The directors have the option to receive the number of shares granted of the equivalent cash value.

As at December 31, 2022, there are no agreements between *MERALCO* and any of its key management personnel providing for benefits upon termination of employment or retirement, except with respect to benefits provided under (i) a defined benefit retirement plan, (ii) a program which



aims to address capability refresh and organizational optimization requirements, and (iii) a contributory provident plan. Post-retirement benefits under the defined benefit retirement plan cover employees hired up to December 31, 2003 only. The provident plan, which is implemented on a voluntary basis, covers employees hired beginning January 1, 2004.

22. Revenues and Purchased Power

Revenues

The revenues from sale of electricity are from the distribution and supply of electricity to customers within *MERALCO* franchise area.

Contract Assets and Contract Liabilities

MERALCO's contract balances are as follows:

	2022	2021
	<i>(Amounts in millions)</i>	
Contract assets – under-recoveries of pass-through charges – net	₱11,377	₱10,597
Contract liabilities:		
Nonrefundable liability related to asset funded by customers	869	866
Over-recoveries from transmission, lifeline subsidy and <i>SL</i> charges	559	597

Income recognized from the nonrefundable liability related to assets funded by customers amounted to ₱203 million and ₱114 million for the years ended December 31, 2022 and 2021, respectively.

Purchased Power

The details of purchased power are as follows:

	2022	2021
	<i>(Amounts in millions)</i>	
Generation costs	₱269,804	₱186,668
Transmission costs	42,798	34,083
	₱312,602	₱220,751

Purchased power costs for the captive customers are pass-through costs and are revenue-neutral to *MERALCO* as a *DU*.

Generation costs include line rentals, market fees and must-run unit charges billed by *IEMOP*.



The details of purchased power are as follows:

	2022	2021
	<i>(Amounts in millions)</i>	
First Gas Power Corporation (“FGPC”) and FGP Corp. (“FGP”)	₱76,145	₱51,164
NGCP	42,798	34,123
IEMOP	38,378	20,723
QPPL	28,793	16,289
SBPL	26,795	15,973
South Premiere Power Corporation (“SPPC”)	25,679	25,643
San Miguel Energy Corporation (“SMEC”)	21,302	15,337
First Nat Gas Power Corporation (“FNPC”)	14,971	9,309
Masinloc Power Partners Co. Ltd. (“MPPCL”)	14,820	8,522
AC Energy Philippines, Inc. (“AC Energy”)	10,562	10,790
Therma Luzon, Inc. (“TLP”)	4,161	2,219
Southwest Luzon Power Generation Corporation	2,157	1,823
First Gen Hydro Power Corporation (“FGHPC”)	1,378	2,507
Energy Development Corporation (“EDC”)	1,015	—
PEDC	969	2,257
Solar Philippines Tarlac Corporation (“Solar Philippines Tarlac”)	370	425
Sem-Calaca Power Corporation (“Sem-Calaca”)	—	2,853
Others	2,309	794
	₱312,602	₱220,751

Generation and transmission costs over- or under-recoveries result from the lag in the billing and recovery of generation and transmission costs from consumers. As at December 31, 2022 and 2021, the total transmission costs and *SL* charge over-recoveries included in “Other noncurrent liabilities” account in the parent company statements of financial position amounted to ₱484 million and ₱532 million, respectively.

Generation and transmission costs include *kWh* consumption of *MERALCO* offices and facilities (“company use”) amounting to ₱477 million and ₱351 million for the years ended December 31, 2022 and 2021, respectively.

23. Expenses and Income

Salaries, Wages and Employee Benefits

	Note	2022	2021
		<i>(Amounts in millions)</i>	
Salaries, wages and related employee benefits		₱9,744	₱9,465
Retirement benefits	24	1,279	1,844
Other long-term post-employment benefits expense	24	155	101
		₱11,178	₱11,410



Depreciation and Amortization

	<i>Note</i>	2022	2021
		<i>(Amounts in millions)</i>	
Utility plant and others	6	₱10,049	₱8,130
Intangible assets	9	366	415
Investment properties	8	4	4
		₱10,419	₱8,549

Other Expenses

	<i>Note</i>	2022	2021
		<i>(Amounts in millions)</i>	
Rent and utilities		₱763	₱537
Materials used	12	438	498
Insurance		413	371
Advertising		239	169
Transportation and travel		221	155
Communication	21	119	98
Others		820	533
		₱3,013	₱2,361

24. Long-term Employee Benefits

Liabilities for long-term employee benefits consist of the following:

	2022	2021
	<i>(Amounts in millions)</i>	
Retirement benefits liability	₱648	₱4,543
Other long-term post-employment benefits	1,316	2,091
Long-term incentives	3,756	2,541
	5,720	9,175
Less current portion	3,750	—
	₱1,970	₱9,175

Defined Benefit Retirement Plan

The features of MERALCO's defined benefit plan are discussed in *Note 4 – Significant Accounting Policies, Changes and Improvements*.

Actuarial valuation is prepared annually by an independent actuary engaged by MERALCO.

Expense recognized for defined benefit plan (included in "Salaries, wages and employee benefits" account in the parent company statements of income)

	2022	2021
	<i>(Amounts in millions)</i>	
Current service costs	₱992	₱1,357
Net interest costs	226	435
Retirement benefits expense	₱1,218	₱1,792



Retirement Benefits Liability

	2022	2021
	<i>(Amounts in millions)</i>	
Defined benefit obligation	₱30,497	₱37,637
Fair value of plan assets	(29,849)	(33,094)
Retirement benefits liability	₱648	₱4,543

Changes in the net retirement benefits liability are as follows:

	2022	2021
	<i>(Amounts in millions)</i>	
Retirement benefits liability at beginning of year	₱4,543	₱11,507
Net retirement benefits expense	1,218	1,792
Total amounts recognized in <i>OCI</i>	(5,113)	(8,756)
Retirement benefits liability at end of year	₱648	₱4,543

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

	2022	2021
	<i>(Amounts in millions)</i>	
Defined benefit obligation at beginning of year	₱37,637	₱45,245
Interest costs	1,806	1,661
Benefits paid	(2,515)	(2,604)
Current service costs	992	1,357
Actuarial losses (gains) due to:		
Changes in financial assumptions	(9,175)	(8,427)
Experience adjustments	1,752	405
Defined benefit obligation at end of year	₱30,497	₱37,637

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

	2022	2021
	<i>(Amounts in millions)</i>	
Fair value of plan assets at beginning of year	₱33,094	₱33,738
Interest income	1,580	1,226
Return on plan assets, excluding amount included in net interest on the net defined obligation	(2,310)	734
Benefits paid	(2,515)	(2,604)
Fair value of plan assets at end of year	₱29,849	₱33,094

The Board of Trustees (“*BoT*”) which manages the *Retirement Fund*, is chaired by the Chairman of *MERALCO*, who is neither an executive nor a beneficiary. The other members of the *BoT* are (i) an executive member of the *BOD*; (ii) two (2) senior executives; (iii) an independent member of the *BOD*; and (iv) a member of the *BOD* who represents the largest shareholder group, all of whom are not beneficiaries of the plan.



The *Retirement Fund* follows a conservative approach by investing in fixed income, money market and equity assets to diversify the portfolio in order to minimize risk while maintaining an adequate rate of return. The assets of the *Retirement Fund* are managed by four (4) local and one (1) foreign

trustee banks whose common objective is to maximize the long-term expected return of plan assets. The *BoT*, periodically reviews and approves the strategic mandate of the portfolio to ensure the ability of the *Retirement Fund* to service its short-term and long-term obligations.

The major categories of plan assets are as follows:

	2022	2021
	<i>(Amount in millions)</i>	
Investments quoted in active markets:		
Quoted equity investments:		
Holding firms	₱2,388	₱2,912
Banks	846	954
Property	607	894
Telecommunication	420	601
Electricity, energy, power and water	372	446
Food, beverages and tobacco	366	572
Retail	88	199
Transportation services	264	284
Construction, infrastructure and allied services	—	9
Others	1,681	2,138
Quoted debt instruments:		
“AAA” rated securities	9,359	9,870
Government securities	8,984	9,362
Cash and cash equivalents	2,257	2,172
Property	1,853	1,853
Receivables	363	827
Others	1	1
Fair value of plan assets	₱29,849	₱33,094

Marketable equity securities, government securities, bonds and commercial notes are investments held by the trustee banks.

Other Long-term Post-employment Benefits Expense (included in “Salaries, wages and employee benefits” account in the parent company statements of income)

	2022	2021
	<i>(Amounts in millions)</i>	
Interest costs	₱104	₱74
Current service costs	51	27
	₱155	₱101



Other Long-term Post-employment Benefits Liability

Changes in the present value of other long-term post-employment benefits liability are as follows:

	2022	2021
	<i>(Amounts in millions)</i>	
Balance at beginning of year	₱2,091	₱2,007
Interest costs	104	74
Current service costs	51	27
Benefits paid	(60)	(112)
Actuarial losses due to change in assumptions	(870)	95
Balance at end of year	₱1,316	₱2,091

Actuarial Assumptions

The principal assumptions used as at December 31, 2022 and 2021 in determining retirement benefits and other long-term post-employment benefits obligations are shown below:

	2022	2021
Annual discount rate	7.12%	4.96%
Future range of annual salary increases	4.00%-10.00%	4.00%-10.00%

Sensitivity Analysis

The sensitivity analysis below has been determined based on a method that extrapolates the impact on the defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting year. The calculation of the defined benefit obligation is sensitive to the assumptions set above. The following table summarizes how the impact on the defined benefit obligation at the end of the reporting year would have increased (decreased) as a result of a change in the respective assumptions, keeping all other assumptions constant. There have been no changes in the method and assumptions used in the sensitivity analysis from prior year.

The sensitivity analysis may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation from one another.

	% Change	Effect on Present Value of Defined Benefit Obligation	
		2022	2021
		<i>(Amounts in millions)</i>	
Annual discount rate	+1.0%	(₱3,252)	(₱4,450)
	-1.0%	3,858	5,672
Future range of annual salary increases	+1.0%	1,105	1,634
	-1.0%	(986)	(1,442)

Funding

MERALCO contributes to the *Retirement Fund* from time to time such amounts of money required under accepted actuarial principles to maintain the *Retirement Fund* in a sound condition, subject to the provisions of the *Plan*.

The amount of the annual contributions to the *Retirement Fund* is determined through an annual valuation report performed by an independent actuary.



The following is the maturity profile of the undiscounted benefit obligation (amounts in millions):

Less than one (1) year	₱3,629
One (1) year up to five (5) years	16,050
More than five (5) years up to 10 years	16,757
More than 10 years up to 15 years	12,643
More than 15 years up to 20 years	14,226
More than 20 years	32,148

Risk

The *Retirement Fund* is exposed to the following risks:

Credit Risk

The *Retirement Fund*'s exposure to credit risk arises from its financial assets which comprise of cash and cash equivalents, investments and receivables. The credit risk results from the possible default of the issuer of the financial instrument, with a maximum exposure equivalent to the carrying amount of the instruments.

The credit risk is minimized by ensuring that the exposure to the various chosen financial investment structures is limited primarily to government securities and bonds or notes duly recommended by the Trust Committees of the appointed fund managers of the *Retirement Fund*.

Share Price Risk

The *Retirement Fund*'s exposure to share price risk arises from the shares of stock it holds and being traded at the *PSE*. The share price risk emanates from the volatility of the stock market.

The policy is to limit investment in shares of stock to blue chip issues or issues with good fair values or those trading at a discount to its net asset value so that in the event of a market downturn, the *Retirement Fund* may still consider to hold on to such investments until the market recovers.

By having a balanced composition of holdings in the equities portfolio, exposure to industry or sector-related risks is reduced. The mix of various equities in the portfolio reduces volatility and contributes to a more stable return over time. Equity investments are made within the parameters of the investment guidelines approved by the *BoT*. The *BoT* also meets periodically to review the investment portfolio based on financial market conditions. Share prices are also monitored regularly.

Liquidity Risk

Liquidity risk is the risk that the *Retirement Fund* is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn.

Liquidity risk is being managed to ensure that adequate fixed income and cash deposits are available to service the financial obligations of the *Retirement Fund*. The schedule of the maturities of fixed income investment assets are staggered by tenure or term. Policies are established to ensure that all financial obligations are met, wherein the timing of the maturities of fixed income investments are planned and matched to the due date of various obligations. Thus, for this investment class, maturities are classified into short-, medium- and long-term. A certain percentage of the portfolio is kept as cash to manage liquidity and settle all currently maturing financial obligations.



Defined Contribution Provident Plan

MERALCO has a defined contributory Provident Plan effective January 1, 2009, intended to be a Supplemental retirement benefit for employees hired beginning 2004, the participation of which is voluntary. Each qualified employee-member who chooses to participate in the plan shall have the option to contribute up to a maximum of 25% of his base salary. *MERALCO* shall match the member's contribution up to 100% of employee's contribution or 10% of the member's monthly base salary, subject to a certain threshold. Upon resignation, the member shall be entitled to the total amount credited to his personal retirement account immediately preceding his actual retirement date, subject to provisions of the Provident Plan. *MERALCO*'s contribution to the Provident Plan amounted to ₱61 million and ₱52 million for the years ended December 31, 2022 and 2021, respectively.

Retirement Benefits Cost (included in "Salaries, Wages and Employee Benefits" account in the parent company statements of income)

	2022	2021
	<i>(Amounts in millions)</i>	
Expense recognized for defined benefit plan	₱1,218	₱1,792
Expense recognized for defined contribution plan	61	52
Retirement benefits expense	₱1,279	₱1,844

Long-term Incentive Plan ("LTIP")

MERALCO's *LTIP* covers qualified employees and is based on *MERALCO*'s achievement of specified level of *CCNI* approved by the *BOD* and determined on an aggregate basis for a three (3)-year period as well as executives' attainment of a minimum level of performance rating. Employees invited to *LTIP* must serve a minimum uninterrupted period to be entitled to an award. Further, the employee should be on active employment at the time of pay-out.

25. Financial Assets and Financial Liabilities

Financial assets consist of cash and cash equivalents, short-term investments and trade and other receivables, which are generated directly from operations, advance payments to a supplier, financial assets at *FVOCI* and debt securities at amortized cost. The principal financial liabilities consist of bank loans, redeemable preferred shares, trade and nontrade payables, which are incurred to finance operations in the normal course of business. Accounting policies related to financial assets and financial liabilities are set out in *Note 4 – Significant Accounting Policies, Changes and Improvements*.

The following table sets forth the financial assets and financial liabilities:

	Financial Assets at Amortized Cost	<i>FVOCI</i> Financial Assets	Liabilities Carried at Amortized Cost	Total Financial Assets and Liabilities
<i>(Amounts in millions)</i>				
Assets as at December 31, 2022				
<i>Noncurrent</i>				
Other noncurrent assets	₱24,330	₱2,673	₱–	₱27,003
<i>Current</i>				
Cash and cash equivalents	38,973	–	–	38,973
Trade and other receivables	36,424	–	–	36,424
Financial and other current assets	18,196	–	–	18,196
Total assets	₱117,923	₱2,673	₱–	₱120,596

(Forward)



	Financial Assets at Amortized Cost	FVOCI Financial Assets	Liabilities Carried at Amortized Cost	Total Financial Assets and Liabilities
<i>(Amounts in millions)</i>				
Liabilities as at December 31, 2022				
<i>Noncurrent</i>				
Interest-bearing long-term financial liabilities - net of current portion	P=	P=	P20,778	P20,778
Customers' deposits - net of current portion	—	—	30,854	30,854
Refundable service extension costs - net of current portion	—	—	4,653	4,653
<i>Current</i>				
Notes payable	P=	P=	P27,529	P27,529
Trade payables and other current liabilities	—	—	75,561	75,561
Customers' refund	—	—	2,905	2,905
Current portion of interest-bearing long-term financial liabilities	—	—	1,907	1,907
Total liabilities	P=	P=	P164,187	P164,187

	Financial Assets at Amortized Cost	FVOCI Financial Assets	Liabilities Carried at Amortized Cost	Total Financial Assets and Liabilities
<i>(Amounts in millions)</i>				
Assets as at December 31, 2021				
<i>Noncurrent</i>				
Other noncurrent assets	P29,562	P6,936	P=	P36,498
<i>Current</i>				
Cash and cash equivalents	40,631	—	—	40,631
Trade and other receivables	32,688	—	—	32,688
Financial and other current assets	17,746	—	—	17,746
Total assets	P120,627	P6,936	P=	P127,563

Liabilities as at December 31, 2021				
<i>Noncurrent</i>				
Interest-bearing long-term financial liabilities - net of current portion	P=	P=	P11,294	P11,294
Customers' deposits - net of current portion	—	—	30,184	30,184
Refundable service extension costs - net of current portion	—	—	5,334	5,334
<i>Current</i>				
Notes payable	—	—	27,654	27,654
Trade payables and other current liabilities	—	—	54,557	54,557
Customers' refund	—	—	2,929	2,929
Current portion of interest-bearing long-term financial liabilities	—	—	1,819	1,819
Total liabilities	P=	P=	P133,771	P133,771

Fair Values

The fair values of the financial assets and financial liabilities are amounts that would be received to sell the financial assets or paid to transfer the financial liabilities in orderly transactions between market participants at the measurement date. Set out below is a comparison of carrying amounts and fair values of *MERALCO*'s financial instruments:

	2022		2021	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<i>(Amounts in millions)</i>				
Financial assets				
Debt securities at amortized cost	P37,296	P36,122	P41,461	P42,106
Financial assets at amortized cost - Advance payments to a supplier	548	596	705	768
Financial assets at FVOCI	2,673	2,673	6,936	6,936
	P40,517	P39,391	P48,920	P49,810
Financial liabilities				
Financial liabilities carried at amortized cost - Interest-bearing long-term financial liabilities	P21,218	P21,111	P11,643	P12,094



The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

Cash and Cash Equivalents, Trade and Other Receivables, Short-term Investments, Restricted Cash, Trade Payables and Other Current Liabilities and Notes Payable

Due to the short-term nature of transactions, the fair values of these instruments approximate their carrying amounts as at reporting date.

Advance Payments to a Supplier

The fair values of advance payments to a supplier were computed by discounting the instruments' expected future cash flows using the rates of 6.39% and 4.31% as at December 31, 2022 and 2021, respectively.

Financial Assets at FVOCI

The fair values were determined by reference to market bid quotes as at reporting date.

Debt Securities at Amortized Cost

The fair values were determined by discounting the expected future cash flows using the interest rate as at reporting date.

Meter Deposits and Customers' Refund

Meter deposits and customers' refund are due and demandable. Thus, the fair values of these instruments approximate their carrying amounts.

Bill Deposits

The carrying amount of bill deposits approximates their fair values as bill deposits are interest-bearing.

Interest-bearing Long-term Financial Liabilities

The fair values of interest-bearing long-term debt (except for redeemable preferred stock) were computed by discounting the instruments' expected future cash flows using the rates ranging from 4.08% to 7.01% and 0.82% to 4.33% as at December 31, 2022 and 2021, respectively.

Redeemable Preferred Stock

The carrying amount of the preferred stock represents the fair value. Such preferred shares have been called and are payable anytime upon presentation by such shareholder of their certification. This is included under "Interest-bearing long-term financial liabilities" account.

Refundable Service Extension Costs

The fair values of refundable service extension costs cannot be reliably measured since the timing of related cash flows cannot be reasonably estimated and are accordingly measured at cost.



Fair Value Hierarchy

Below is the list of financial assets and financial liabilities that are classified using the fair value hierarchy:

	2022				2021			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<i>(Amounts in millions)</i>								
Financial assets								
Debt securities at amortized cost	₱36,122	₱–	₱–	₱36,122	₱42,856	₱–	₱–	₱42,856
Advance payments to a supplier	–	596	–	596	–	768	–	768
Financial assets at <i>FVOCI</i>	2,200	–	473	2,673	6,573	–	363	6,936
	₱38,322	₱596	₱473	₱39,391	₱49,429	₱768	₱363	₱50,560
Financial liabilities								
Interest-bearing long-term financial liabilities	₱–	₱21,111	₱–	₱21,111	₱–	₱12,094	₱–	₱12,094

For the years ended December 31, 2022 and 2021, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

Financial Risk Management Objectives and Policies

The main risks arising from the financial instruments are interest rate risk, foreign currency risk, commodity price risk, credit risk and liquidity risk. The importance of managing these risks has significantly increased in light of the considerable change and volatility in the Philippine and international financial markets. The *BOD* reviews and approves policies for managing each of these risks. Management monitors the market price risk arising from all financial instruments. The policies for managing these risks are as follows:

Interest Rate Risk

MERALCO's exposure to the changes in market interest rates relate to changes of fair value of its long-term financial assets and to the fluctuation of future cash flows in relation to its long-term interest-bearing financial liabilities.

MERALCO's policy is to manage its interest rate risk exposure using a mix of fixed and variable rate debts. The strategy, which yields a reasonably lower effective cost based on market conditions, is adopted. Refinancing of fixed rate loans may also be undertaken to manage interest cost. All borrowings bear fixed interest rate as at December 31, 2022 and 2021.

Foreign Currency Risk

The revaluation of any of foreign currency-denominated financial assets and financial liabilities as a result of the appreciation or depreciation of the Philippine peso is recognized as foreign exchange gains or losses as at the end of each reporting year. The extent of foreign exchange gains or losses is largely dependent on the amount of foreign currency-denominated financial instruments. While an insignificant percentage of *MERALCO*'s revenues and liabilities is denominated in *U.S.* dollars, a substantial amount of *MERALCO*'s expenditures for electricity capital projects and a portion of the operating expenses are denominated in foreign currencies, mostly in *U.S.* dollars. As such, a strengthening or weakening of the Philippine peso against the *U.S.* dollar will decrease or increase in Philippine peso terms, the principal amount of *MERALCO*'s foreign currency-denominated liabilities and the related interest expense, foreign currency-denominated capital expenditures and operating expenses.



The following table shows the parent company foreign currency-denominated financial assets and financial liabilities as at December 31, 2022 and 2021, translated to Philippine peso at ₱55.76 and ₱51.00 to US\$1, respectively.

	2022		2021	
	U.S. Dollar	Peso Equivalent	U.S. Dollar	Peso Equivalent
<i>(Amounts in millions)</i>				
Financial assets:				
Cash and cash equivalents	\$63	₱3,491	\$83	₱4,217
Trade and other receivables	41	2,286	24	1,224
Debt securities at amortized cost	30	1,693	21	1,070
Financial assets at <i>FVOCI</i>	11	596	14	727
Advance payments to a supplier	6	335	9	444
	151	8,401	151	7,682
Financial liabilities -				
Trade payables and other liabilities	(7)	(374)	(5)	(240)
	\$144	₱8,027	\$146	₱7,442

All of *MERALCO*'s long-term financial liabilities are denominated in Philippine peso. However, an insignificant portion of its trade payables is denominated in *U.S.* dollar. Thus, the impact of ₱1 movement of the Philippine peso against the *U.S.* dollar will not have a significant impact on *MERALCO*'s obligations.

The following table demonstrates the sensitivity to a reasonably possible change in the *U.S.* dollar exchange rate vis-a-vis the Philippine peso, with all other variables held constant, of *MERALCO*'s income before income tax for the years ended December 31, 2022 and 2021 (due to changes in the fair value of financial assets and financial liabilities). There is no other impact on *MERALCO*'s equity other than those already affecting the parent company statements of income.

	2022		2021	
	Appreciation (Depreciation) of U.S. Dollar <i>(In %)</i>	Effect on Income before Income Tax <i>(In millions)</i>	Appreciation (Depreciation) of U.S. Dollar <i>(In %)</i>	Effect on Income before Income Tax <i>(In millions)</i>
<i>U.S.</i> dollar-denominated financial assets	+5	₱401	+5	₱372
and financial liabilities	-5	(401)	-5	(372)

Foreign exchange gain or loss for the year is computed based on management's best estimate of a +/-5 percent change in the closing Philippine peso to *U.S.* dollar conversion rate using the balances at financial reporting date of *U.S.* dollar-denominated cash and cash equivalents, receivables and other assets and liabilities. There has been no change in the methods and assumptions used by management in the above analysis.

Commodity Price Risk

Commodity price risk is the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in world prices or index of the commodity. *MERALCO*'s exposure to price risk is minimal. The cost of fuel is part of *MERALCO*'s generation costs that are recoverable through the generation charge in the billings to customers.



Credit Risk

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

Trade and Other Receivables and Contract Assets

MERALCO as a franchise holder serving public interest cannot refuse customer connection. To mitigate risk, the *DSOAR* allows *MERALCO* to collect bill deposit equivalent to one (1) month's consumption to secure credit. Also, as a policy, disconnection notices are sent three (3) days after the bill due date and disconnections are carried out beginning on the third day after receipt of disconnection notice.

Customer credit risk is managed by each business segment subject to *MERALCO*'s procedures and controls relating to customer credit risk management. *MERALCO* manages and controls credit risk by setting limits on the amount of risk that it is willing to accept for individual counterparties and by monitoring exposures in relation to such limits.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss pattern (i.e. residential, industrial, commercial). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

The provision matrix is initially based on *MERALCO* business segment's historical observed default rates. Each business segment of *MERALCO* will calibrate the matrix to adjust the historical credit loss experience with forward-looking information.

At every reporting date, historical observed default rates are updated and changes in the forward-looking estimates are analyzed. The assumptions used in determining the historical default rates, forecast of economic conditions, economic impact of *COVID-19* pandemic to *MERALCO* customers and *ECLs* involved significant estimation. The amount of *ECLs* is sensitive to changes in circumstances and forecast of economic conditions. The historical credit loss experience, expected deferred payment arrangements, expected default upon resumption of service disconnection activities and forecast of economic conditions may also not be representative of customers' actual default in the future.

Set out below is the information about the credit risk exposure of *MERALCO*'s trade and other receivables and contract assets using a provision matrix:

	2022					Other receivables	Total
	Billed trade electric receivables						
	Contract Status						
	Active	Active - Disconnected	Active – Pending to Terminate	Terminated			
(Amounts in millions, except ECL rate)							
ECL Rate	1.89%	2.48%	2.16%	82.00%	0.96%		
Estimated total gross carrying amount	₱30,864	₱1,969	₱1,927	₱4,973	₱1,457		₱41,190
Expected credit loss	583	49	42	4,078	14		4,766





	2021					Total
	Billed trade electric receivables				Other receivables	
	Contract Status					
	Active	Active - Disconnected	Active – Pending to Terminate	Terminated		
<i>(Amounts in millions, except ECL rate)</i>						
ECL Rate	2.47%	5.52%	5.09%	81.13%	7.38%	
Estimated total gross carrying amount	₱23,858	₱3,324	₱4,013	₱3,241	₱2,006	₱36,442
Expected credit loss	589	183	204	2,630	148	3,754

Financial Instruments and Cash and Cash Equivalents

With respect to placements of cash with financial institutions, these institutions are subject to *MERALCO*'s accreditation evaluation based on liquidity and solvency ratios and on the bank's credit rating. *MERALCO* transacts derivatives only with similarly accredited financial institutions. In addition, *MERALCO*'s deposit accounts in banks are insured by the Philippine Deposit Insurance Corporation up to ₱500,000 per bank account.

MERALCO invests only in quoted debt securities with very low credit risk. *MERALCO*'s debt instruments at *FVOCI* comprised solely of quoted bonds that are graded in the top investment category (Very Good and Good) by credit rating agencies and therefore, are considered to be low credit risk investments.

Finally, credit quality review procedures are in place to provide regular identification of changes in the creditworthiness of counterparties. Counterparty limits are established and reviewed periodically based on latest available financial information of counterparties, credit ratings and liquidity. *MERALCO*'s credit quality review process allows it to assess any potential loss as a result of the risks to which it may be exposed and to take corrective actions.

There are no significant concentrations of credit risk in *MERALCO*.

The table below shows the maximum exposure to credit risk for the components of the parent company statements of financial position. The maximum exposure is equivalent to the nominal amount of the accounts.

	Gross Maximum Exposure	
	2022	2021
	<i>(Amounts in millions)</i>	
Cash in banks and cash equivalents	₱38,742	₱40,261
Trade and other receivables:		
Electricity	34,981	30,696
Nontrade receivables	1,443	1,992
Financial current assets:		
Short-term investments	204	444
Current portion of advance payments to a supplier	199	182
Debt securities at amortized cost	17,793	17,121
Financial noncurrent assets:		
Debt securities at amortized cost	19,503	24,340
Financial assets at <i>FVOCI</i>	2,673	6,936
Advance payments to a supplier	349	523
Restricted cash	4,478	4,698



Gross Maximum Exposure		
	2022	2021
	₱120,365	₱127,193

The credit quality of financial assets is managed by *MERALCO* using “High Grade”, “Standard Grade” and “Sub-standard Grade” for accounts, which are neither impaired nor past due using internal credit rating policies.

The following tables show the credit quality by asset class:

2022						
	Neither Past Due nor Impaired			Past Due but not Impaired	Impaired Financial Assets	Total
	High Grade	Standard Grade	Sub-standard Grade			
(Amounts in millions)						
Cash in banks and cash equivalents	₱38,742	₱—	₱—	₱—	₱—	₱38,742
Trade and other receivables:						
Electricity	6,126	2,838	12,725	13,292	4,752	39,733
Nontrade receivables	949	—	—	494	14	1,457
Financial current assets:						
Short-term investments	204	—	—	—	—	204
Debt securities at amortized cost	17,793	—	—	—	—	17,793
Advance payments to a supplier	199	—	—	—	—	199
Financial noncurrent assets:						
Debt securities at amortized cost	19,503	—	—	—	—	19,503
Financial assets at <i>FVOCI</i>	2,673	—	—	—	—	2,673
Advance payments to a supplier	349	—	—	—	—	349
Restricted cash	4,478	—	—	—	—	4,478
	₱91,016	₱2,838	₱12,725	₱13,786	₱4,766	₱125,131
2021						
	Neither Past Due nor Impaired			Past Due but not Impaired	Impaired Financial Assets	Total
	High Grade	Standard Grade	Sub-standard Grade			
(Amounts in millions)						
Cash in banks and cash equivalents	₱40,261	₱—	₱—	₱—	₱—	₱40,261
Trade and other receivables:						
Electricity	5,756	2,712	12,115	10,113	3,740	34,436
Nontrade receivables	1,394	—	—	598	14	2,006
Financial current assets:						
Short-term investments	444	—	—	—	—	444
Debt securities at amortized cost	17,121	—	—	—	—	17,121
Advance payments to a supplier	182	—	—	—	—	182
Financial noncurrent assets:						
Debt securities at amortized cost	24,340	—	—	—	—	24,340
Financial assets at <i>FVOCI</i>	6,936	—	—	—	—	6,936
Advance payments to a supplier	523	—	—	—	—	523
Restricted cash	4,698	—	—	—	—	4,698
	₱101,655	₱2,712	₱12,115	₱10,711	₱3,754	₱130,947

Credit ratings are determined as follows:

- High Grade

High grade financial assets include cash in banks, cash equivalents, short-term investments, debt securities at amortized cost, *FVOCI* financial assets and advance payments to a supplier transacted with counterparties of good credit rating or bank standing. Consequently, credit risk is



minimal. These counterparties include large prime financial institutions, large industrial companies and commercial establishments, and government agencies. For trade receivables, these consist of current month's billings (less than 30 days) that are expected to be collected within 10 days from the time bills are delivered.

■ Standard Grade

Standard grade financial assets include trade receivables that consist of current month's billings (less than 30 days) that are expected to be collected before due date (10 to 14 days after bill date).

■ Sub-standard Grade

Sub-standard grade financial assets include trade receivables that consist of current month's billings, which are not expected to be collected within 60 days.

Liquidity Risk

Liquidity risk is the risk that *MERALCO* will be unable to meet its payment obligations when these fall due. *MERALCO* manages this risk through monitoring of cash flows in consideration of future payment of obligation and collection of its trade receivables. *MERALCO* also ensures that there are sufficient, available and approved working capital lines that it can draw from at any time.

MERALCO maintains an adequate amount of cash, cash equivalents and financial assets at *FVOCI*, which may be readily converted to cash in any unforeseen interruption of its cash collections. *MERALCO* also maintains accounts with several relationship banks to avoid significant concentration of cash with one (1) institution.

The following table sets out the maturity profile of the financial liabilities and contract liabilities based on contractual undiscounted payments plus future interest:

	2022				
	Less than 3 Months	Over 3–12 Months	Over 1–5 Years	More than 5 Years	Total
	(Amounts in millions)				
Note payable	₱85	₱28,004	₱–	₱–	₱28,089
Trade payables and other current liabilities	70,662	–	–	–	70,662
Customers’ refund	2,905	–	–	–	2,905
Interest-bearing long-term financial liabilities:					
Fixed rate borrowings	133	736	11,672	–	12,541
Floating rate borrowings	163	590	2,972	12,501	16,226
Redeemable preferred stock	1,467	–	–	–	1,467
Customers’ deposits	391	2,736	6,171	24,683	33,981
Refundable service extension costs	345	1,427	4,404	249	6,425
Nonrefundable liability related to asset funded by customers	127	127	127	488	869
Over-recoveries from transmission, lifeline subsidy and <i>SL</i> charges	–	–	559	–	–
Total undiscounted financial liabilities	₱76,278	₱33,620	₱25,905	₱37,921	₱173,165



2021					
	Less than 3 Months	Over 3–12 Months	Over 1–5 Years	More than 5 Years	Total
<i>(Amounts in millions)</i>					
Note payable	₱222	₱28,530	₱—	₱—	₱28,752
Trade payables and other current liabilities	50,225	—	—	—	50,225
Customers' refund	2,929	—	—	—	2,929
Interest-bearing long-term financial liabilities:					
Fixed rate borrowings	412	494	4,185	—	5,091
Bonds payable	85	256	341	7,656	8,338
Redeemable preferred stock	1,470	—	—	—	1,470
Customers' deposits	616	2,055	6,037	24,147	32,855
Refundable service extension costs	345	1,315	4,405	929	6,994
Nonrefundable liability related to asset funded by customers	127	127	127	485	866
Over-recoveries from transmission, lifeline subsidy and <i>SL</i> charges	—	—	597	—	597
Total undiscounted financial liabilities	₱56,431	₱32,777	₱15,692	₱33,217	₱138,117

The maturity profile of bill deposits is not determinable since the timing of each refund is linked to the cessation of service, which is not reasonably predictable. However, *MERALCO* estimates that the amount of bill deposits (including related interests) of ₱2,812 million will be refunded within a year. This is shown as part of “Trade payables and other current liabilities” account in the parent company statement of financial position as at December 31, 2022.

Capital Management

The primary objective of *MERALCO*'s capital management is to enhance shareholder value. The capital structure is reviewed with the end view of achieving a competitive cost of capital and at the same time ensuring that returns on, and of, capital are consistent with the levels approved by its regulators for its core distribution business.

The capital structure optimization plan is complemented by efforts to improve capital efficiency to increase yields on invested capital. This entails efforts to improve the efficiency of capital assets, working capital and non-core assets.

MERALCO monitors capital using, among other measures, consolidated debt to equity ratio, which is gross consolidated debt divided by consolidated equity attributable to the holders of the parent. *MERALCO* considers long-term debt, redeemable preferred stock and notes payable as debt.

	2022	2021
<i>(Amounts in millions, except debt to equity ratio)</i>		
Consolidated long-term debt	₱72,875	₱60,364
Consolidated notes payable	29,491	28,834
Redeemable preferred stock	1,467	1,470
Consolidated debt (a)	₱103,833	₱90,668
Consolidated equity attributable to the holders of the parent (b)	₱109,664	₱95,204
Consolidated debt to equity ratio (a)/(b)	0.95	0.95



26. Income Taxes and Local Franchise Taxes

Income Taxes

The components of net deferred income tax assets and liabilities are as follows:

	<i>Note</i>	2022	2021
<i>(Amounts in millions)</i>			
Deferred income tax assets:			
Provisions for probable losses and expenses from claims	17 and 20	₱23,789	₱28,779
Unfunded retirement benefits cost and unamortized past service cost	24	2,362	2,058
Accrued employee benefits	24	1,395	1,068
Allowance for expected credit losses	11	1,188	935
Allowance for excess of cost over net realizable value of inventories	12	48	48
Actuarial losses	24	—	92
Others		386	395
		29,168	33,375
Deferred income tax liabilities:			
Revaluation increment in utility plant and others	14	5,483	5,519
Actuarial gains	24	2,329	922
Capitalized interest		756	686
Capitalized duties and taxes deducted in advance		398	412
Others		210	151
		9,176	7,690
		₱19,992	₱25,685

Provision for (benefit from) income tax consists of:

	2022	2021
<i>(Amounts in millions)</i>		
Current	₱1,658	₱7,827
Deferred	4,187	603
	₱5,845	₱8,430

The deferred tax assets charged directly to *OCI* amounted to ₱1,506 million and ₱2,435 million for the years ended December 31, 2022 and 2021, respectively.



A reconciliation between the provision for income tax computed at statutory income tax rate of 25% for the years ended December 31, 2022 and 2021, and provision for income tax as shown in the parent company statements of income is as follows:

	2022	2021
	<i>(Amounts in millions)</i>	
Income tax computed at statutory tax rate	₱6,884	₱7,432
Income tax effects of:		
Interest income subjected to lower final tax rate	(454)	(445)
Nondeductible interest expense	113	111
Nontaxable income	(75)	(93)
Difference in calculation of tax deductible costs and expenses	25	(1,526)
Effect of create law in the provision for:		
Current income tax	—	(824)
Deferred income tax	—	4,525
Unrecognized deferred tax assets	(607)	(1,081)
Others	(41)	331
	₱5,845	₱8,430

MERALCO elected to adopt the itemized deductions in 2022 and Optional Standard Deduction (“*OSD*”) in lieu of itemized deductions in 2021 beginning with its first quarter income tax return.

Certain deferred tax assets and liabilities expected to be recovered or settled in subsequent taxable years, for which the related income and expense were not considered in determining gross income for income tax purposes, were not recognized. This is because the manner by which *MERALCO* expects to recover or settle the underlying assets and liabilities would not result in any future tax consequence under the current method of computing the taxable income.

The deferred income tax assets and liabilities expected to be recovered or settled in taxable years 2023 onwards were measured at the tax rate of 25% since *MERALCO* is expecting to adopt itemized deductions in computing its income tax liabilities for the said taxable years.

MERALCO’s net deferred tax assets as at December 31, 2022 and 2021, which were not recognized in the taxable year 2022 and 2021 amounted to ₱664 million and ₱480 million, respectively.

On November 26, 2020, the Senate approved on 3rd and final reading Senate Bill No. 1357, otherwise known as the “Corporate Recovery and Tax Incentives for Enterprises Act” (“*CREATE*”), which seeks to reduce the corporate income tax rates and to rationalize the current fiscal incentives by making it time-bound, targeted, and performed-based.

LFT

Consistent with the decisions of the *ERC*, *LFT* is a recoverable charge of the *DU* from the particular province or city imposing and collecting the *LFT*. It is presented as a separate line item in the customer’s bill and computed as a percentage of the sum of generation, transmission, distribution services and related *SL* charges.

The Implementing Rules and Regulations (“*IRR*”) issued by the *ERC* provide that *LFT* shall be paid only on its distribution wheeling and captive market supply revenues. Pending the promulgation of guidelines from the relevant government agencies, *MERALCO* is paying *LFT* based on the sum of the foregoing charges in the customers’ bill.



In *ERC* Resolution No. 2, Series of 2021, or the Rules on Recovery of Pass-Through Taxes (Real Property, Local Franchise, and Business Taxes) of *DUs*, the *ERC* amended and modified the rules with respect to the recovery of any local franchise tax, including the filing of applications for recovery.

27. Contingencies and Legal Proceedings

Overpayment of Income Tax related to SC Refund

With the decision of the *SC* for *MERALCO* to refund ₱0.167 per *kWh* to customers during the billing period February 1994 to May 2003, *MERALCO* overpaid income tax in the amount of ₱7,107 million for taxable years 1994 to 1998 and 2000 to 2001. Accordingly, on November 27, 2003, *MERALCO* filed a claim for the recovery of such excess income taxes paid. After examination of the books of *MERALCO* for the covered periods, the *BIR* determined that *MERALCO* had in fact overpaid income taxes in the amount of ₱6,690 million. However, the *BIR* also maintained that *MERALCO* is entitled to a refund amount of only ₱894 million, which pertains to taxable year 2001, and is of the position that the period for filing a claim had prescribed in respect of the difference between *MERALCO*'s overpayment and the refund amount *MERALCO* is entitled to. To date, ₱713 million of the ₱894 million has been applied to tax due with the issuance of tax credit certificates ("*TCCs*") by the *BIR*.

As at December 31, 2022 and 2021, the amount of unissued *TCCs* of ₱181 million is presented as part of "Financial and other noncurrent assets" account in the parent company statements of financial position.

See Note 9 – *Financial and other Noncurrent Assets*.

MERALCO filed a Petition with the Court of Tax Appeals ("*CTA*") assailing the denial by the *BIR* of its income tax refund claim of ₱5,796 million for the years 1994 - 1998 and 2000, arising from the *SC* decision (net of ₱894 million as approved by the *BIR* for taxable year 2001, "Overpayment of Income Tax related to *SC* Refund"). In a decision dated December 6, 2010, the *CTA*'s Second Division granted *MERALCO*'s claim and ordered the *BIR* to refund or to issue *TCC* in favor of *MERALCO* in the amount of ₱5,796 million in proportion to the tax withheld on the total amount that has been actually given or credited to its customers.

On appeal by the *BIR* to the *CTA* En Banc, *MERALCO*'s Petition was dismissed on the ground of prescription in the Decision of the *CTA* En Banc dated May 8, 2012. On an *MR* by *MERALCO* of the said dismissal, the *CTA* En Banc partly granted *MERALCO*'s motion and issued an Amended Decision dated November 13, 2012, ruling that *MERALCO*'s claim is not yet barred by prescription and remanding the case back to the *CTA* Second Division for further reception of evidence.

The *BIR* filed an *MR* of the above Amended Decision, while *MERALCO* filed its Motion for Partial Reconsideration or Clarification of Amended Decision. Both parties filed their respective Comments to the said Motions, and these were submitted for resolution at the *CTA* En Banc.

In a Resolution promulgated on May 22, 2013, the *CTA* denied the said Motions of the *BIR* and *MERALCO*, and the *CTA* Second Division was ordered to receive evidence and rebuttal evidence relating to *MERALCO*'s level of refund to customers, pertaining to the excess charges it made in taxable years 1994-1998 and 2000, but corresponding to the amount of ₱5,796 million, as already determined by the said court.



On July 12, 2013, the *BIR* appealed the *CTA En Banc's* Amended Decision dated November 13, 2012 and Resolution dated May 22, 2013 via Petition for Review with the *SC*. As at February 27, 2023, the case is pending resolution by the *SC*.

LFT Assessments of Municipalities

Certain municipalities have served assessment notices on *MERALCO* for *LFT*. As provided in the Local Government Code (“*LGC*”), only cities and provincial governments may impose taxes on establishments doing business in their localities. On the basis of the foregoing, *MERALCO* and its legal counsel believe that *MERALCO* is not subject or liable for such assessments.

RPT Assessments

On October 22, 2015, the *SC* ruled on an appeal of *MERALCO* declaring, among others, that the transformers, electric posts, transmission lines, insulators and electric meters are not exempted from *RPT* under the *LGC*. Thereafter, *MERALCO* began the process of settlement with the affected *LGUs* and filed for the recovery of the resulting *RPT* payments with the *ERC*.

With the development, *PEPOA* and *PHILRECA* filed separate petitions for rule-making proposing the pass-through of *RPT*.

In 2021, acting on petitions filed by *PEPOA* and *PHILRECA*, which proposed the pass-through of *RPT*, *ERC* issued Resolution No. 2, Series of 2021, “Rules on Recovery of Pass-Through Taxes (Real Property, Local Franchise, and Business Taxes”. Under such resolution, the *ERC* approved the recovery of *RPT*, *LFT* and Business Taxes as pass-through charges and therefore excluded among the financial building blocks in the annual revenue requirement of *PBR*.

Accordingly, *MERALCO* filed for recovery of such *RPT* paid and intends to recover the same in the regulatory reset process.

Subsequently, *PEPOA* filed another petition for rule-making to amend certain provisions of Resolution No. 2, Series of 2021 to cover full recovery as pass-through costs of: (i) local taxes (*RPT*, *LFT* and business tax) levied by *LGUs* during the years prior to the Resolution to address tax arrearages; (ii) *RPT* assessed by *LGUs* on assets located outside the *DU's* franchise area but are used to provide public service within the franchise area. *MERALCO* had submitted its comments and several public consultations were conducted. As at February 27, 2023, the Petition is pending with the *ERC*.

See Note 17 – Provisions.

Mediation with NPC

The *NPC* embarked on a Power Development Program (“*PDP*”), which consisted of contracting generating capacities and the construction of its own, as well as private sector, generating plants, following a crippling power supply crisis. To address the concerns of the creditors of *NPC*, namely, Asian Development Bank and the World Bank, the Department of Energy (“*DOE*”) required that *MERALCO* enter into a long-term supply contract with the *NPC*.

Accordingly, on November 21, 1994, *MERALCO* entered into a 10-year Contract for Sale of Electricity (“*CSE*”) with *NPC* which commenced on January 1, 1995. The *CSE* including the rates and amounts charged to *MERALCO* therein, were approved by the *BOD* of *NPC* and the then Energy Regulatory Board, respectively.



Further, the *DOE* asked *MERALCO* to provide a market for half of the output of the Camago-Malampaya gas field to enable its development and production of natural gas, which was to generate significant revenues for the Philippine Government and equally significant foreign exchange savings for the country to the extent of the fuel imports, which the domestic volume of natural gas will displace.

MERALCO's actual purchases from *NPC* exceeded the contract level in the first seven (7) years of the *CSE*. However, the 1997 Asian crisis resulted in a significant curtailment of energy demand.

While the events were beyond the control of *MERALCO*, *NPC* did not honor *MERALCO*'s good faith notification of its off-take volumes. A dispute ensued and both parties agreed to enter into mediation.

The mediation resulted in the signing of a Settlement Agreement ("*SA*") between the parties on July 15, 2003. The *SA* was approved by the respective BODs of *NPC* and *MERALCO*. The net settlement amount of ₱14,320 million was agreed upon by *NPC* and *MERALCO* and manifested before the *ERC* through a Joint Compliance dated January 19, 2006. The implementation of the *SA* is subject to the approval of the *ERC*.

Subsequently, the *OSG* filed a "Motion for Leave to Intervene with Motion to Admit Attached Opposition to the Joint Application and Settlement Agreement between *NPC* and *MERALCO*". As a result, *MERALCO* sought judicial clarification with the Regional Trial Court ("*RTC-Pasig*"). Pre-trials were set, which *MERALCO* complied with and attended. However, the *OSG* refused to participate in the pre-trial and opted to seek a Temporary Restraining Order ("*TRO*") from the *CA*.

In a Resolution dated December 1, 2010, the *CA* issued a *TRO* against the *RTC-Pasig*, *MERALCO* and *NPC* restraining the respondents from further proceeding with the case. Subsequently, in a Resolution dated February 3, 2011, the *CA* issued a writ of preliminary injunction enjoining the *RTC-Pasig* from conducting further proceedings pending resolution of the Petition. In a Decision dated October 14, 2011, the *CA* resolved to deny the Petition filed by the *OSG* and lifted the injunction previously issued. The said Decision likewise held that the *RTC-Pasig* committed no error in finding the *OSG* in default due to its failure to participate in the proceedings. The *RTC-Pasig* was thus ordered to proceed to hear the case *ex-parte*, as against the *OSG*, and with dispatch. The *OSG* filed a *MR* which was denied by the *CA* in its Resolution dated April 25, 2012. The *OSG* filed a Petition for Review on Certiorari with the *SC*. *MERALCO*'s Comment was filed on October 29, 2012. Subsequently, a Decision dated December 11, 2013 was rendered by the First Division of the *SC* denying the Petition for Review on Certiorari by the *OSG* and affirming the Decision promulgated by the *CA* on October 14, 2011.

With the dismissal of the petition filed by the Office of the Solicitor General ("*OSG*") with the *CA*, *MERALCO* filed a motion for the reception of its evidence *ex-parte* with the *RTC-Pasig* pursuant to the ruling of the *CA*. In a Decision dated May 29, 2012, the *RTC-Pasig* declared the *SA* valid and binding, independent of the pass-through for the settlement amount which is reserved for the *ERC*. The *OSG* has filed a Notice of Appeal with the *RTC-Pasig* on June 19, 2012. After both parties filed their respective appeal briefs, the *CA* rendered a Decision dated April 15, 2014 denying the appeal and affirming the *RTC* Decision, which declared the *SA* as valid and binding. The *OSG* filed a Petition for Review with the *SC*. On November 10, 2014, *MERALCO* filed its comment to the Petition. *PSALM* likewise filed its comment to the Petition. In a Resolution dated July 8, 2015, the *SC* resolved to serve anew its Resolutions requiring *NPC* to comment on the Petition. In compliance, *NPC* submitted its Comment dated September 8, 2015. *MERALCO* submitted its Motion for Leave to File and to Admit Attached Reply on October 12, 2015. Pursuant to the *SC* Resolution dated November 11, 2015, the *OSG* filed a Consolidated Reply to the comments filed by *NPC*, *MERALCO*



and *PSALM*. *MERALCO* then filed a Motion for Leave to File and to Admit the Attached Rejoinder. The parties have filed their respective memoranda. In a Resolution dated September 28, 2022, the *SC* denied the Petition filed by the *OSG* and affirmed the validity of the *SA*. The implementation of the *SA* is subject to the approval of the *ERC*.

Sucat-Araneta-Balintawak Transmission Line

The Sucat-Araneta-Balintawak transmission line is a two (2)-part transmission line, which completed the 230 *kV* line loop within Metro Manila. The two (2) main parts are the Araneta to Balintawak leg and the Sucat to Araneta leg, which cuts through Dasmariñas Village, Makati City.

On March 10, 2000, certain residents along Tamarind Road, Dasmariñas Village, Makati City “the *Plaintiffs*”, filed a case against *NPC* with the *RTC-Makati*, enjoining *NPC* from further installing high voltage cables near the *Plaintiffs*’ homes and from energizing and transmitting high voltage electric current through said cables because of the alleged health risks and danger posed by the same through the electromagnetic field emitted by said lines. Following its initial status quo Order issued on March 13, 2000, *RTC-Makati* granted on April 3, 2000 the preliminary injunction sought by the *Plaintiffs*. The decision was affirmed by the *SC* on March 23, 2006, which effectively reversed the decision of the *CA* to the contrary. The *RTC-Makati* subsequently issued a writ of execution based on the Order of the *SC*. *MERALCO*, in its capacity as an intervenor, was constrained to file an Omnibus Motion to maintain status quo because of the significant effect of a de-energization of the Sucat-Araneta line to the public and economy. Shutdown of the 230 *kV* line will result in widespread and rotating brownouts within *MERALCO*’s franchise area with certain power plants unable to run at their full capacities.

On September 8, 2009, the *RTC-Makati* granted the motions for intervention filed by intervenors, *MERALCO* and *NGCP* and dissolved the Writ of Preliminary Injunction issued, upon the posting of the respective counter bonds by defendant *NPC*, intervenors *MERALCO* and *NGCP*, subject to the condition that *NPC* and intervenors will pay for all damages, which the *Plaintiffs* may incur as a result of the Writ of Preliminary Injunction.

In its Order dated February 5, 2013, the *RTC-Makati* granted the *Plaintiffs*’ motion and directed the re-affle of the case to another branch after the judicial dispute resolution failed.

This case remains pending and is still at the pre-trial stage. During the pre-trial stage, *Plaintiffs* filed a Manifestation stating that they are pursuing the deposition of a supposed expert in electromagnetic field through oral examination without leave of court in late January or early February 2016 or on such date as all the parties may agree amongst themselves at the Consulate Office of the Philippines in Vancouver, Canada. *NPC* and intervenors filed their Opposition and Counter-Manifestation. Intervenor *NGCP* filed a Motion to Prohibit the Taking of the Deposition of the said expert. Intervenor *MERALCO* intends to file its Comment/Opposition in due course. As at February 27, 2023, *MERALCO* is awaiting further action of the *SC* on the matter.

Petition for Dispute Resolution against PEMC, TransCo, NPC and PSALM

On September 9, 2008, *MERALCO* filed a Petition for Dispute Resolution, against *PEMC*, *TransCo*, *NPC* and *PSALM* with the *ERC* as a result of the congestion in the transmission system of *TransCo* arising from the outages of the San Jose-Tayabas 500 *kV* Line 2 on June 22, 2008, and the 500 *kV* 600 Mega Volt-Ampere Transformer Bank No. 2 of *TransCo*’s San Jose, Bulacan substation on July 11, 2008. The Petition seeks to, among others, direct *PEMC* to adopt the *NPC*- Time-of-Use (“*TOU*”) rate or the new price determined through the price substitution methodology of *PEMC* as approved by the *ERC*, as basis for its billing during the period of the congestion and direct *NPC* and *PSALM* to



refund the transmission line loss components of the line rentals associated with *NPC/PSALM* bilateral transactions from the start of *WESM* operation on June 26, 2006.

In a Decision dated March 10, 2010, the *ERC* granted *MERALCO*'s petition and ruled that there is double charging of the transmission line costs billed to *MERALCO* by *NPC* for the Transition Supply Contract ("*TSC*") quantities to the extent of 2.98% loss factor, since the effectivity of the *TSC* in November 2006. Thus, *NPC* was directed to refund line rental adjustment to *MERALCO*. In the meantime, the *ERC* issued an Order on May 4, 2011 allowing *PEMC* to submit an alternative methodology for the segregation of line rental into congestion cost and line losses from the start of the *WESM*. *PEMC* has filed its compliance submitting its alternative methodology.

On September 8, 2011, *MERALCO* received a copy of *PEMC*'s compliance to the *ERC*'s directive and on November 11, 2011, *MERALCO* filed a counter-proposal which effectively simplifies *PEMC*'s proposal.

In an Order of the *ERC* dated June 21, 2012, *MERALCO* was directed to submit its computation of the amount of the double charging of line loss on a per month basis from June 26, 2006 up to June 2012. On July 4, 2012, *MERALCO* filed its Compliance to the said Order. Thereafter, the *ERC* issued an Order directing the parties to comment on *MERALCO*'s submissions. Hearings were conducted on October 2, 2012 and October 16, 2012 to discuss the parties' proposal and comments.

In an Order dated March 4, 2013, the *ERC* approved the methodology proposed by *MERALCO* and *PEMC* in computing the double charged amount on line losses by deducting 2.98% from the *NPC-TOU* amount. Accordingly, the *ERC* determined that the computed double charge amount to be collected from *NPC* is ₱5.2 billion, covering the period November 2006 to August 2012 until actual cessation of the collection of the 2.98% line loss charge in the *NPC-TOU* rates imposed on *MERALCO*. In this regard, *NPC* was directed by the *ERC* to refund said amount by remitting to *MERALCO* the equivalent amount of ₱73.9 million per month until the over-recoveries are fully refunded. In the said Order, the *ERC* likewise determined that the amount to be collected from the successor generating companies ("*SGCs*") is ₱4.7 billion. Additionally, *MERALCO* was directed to file a petition against the following *SGCs*: *MPPCL*, Aboitiz Power Renewables, Inc. ("*APRI*"), *TLI*, *SMEC* and *Sem-Calaca*, within 30 days from receipt thereof, to recover the line loss collected by them. On April 19, 2013, *MERALCO* filed a Motion for Clarification with the *ERC* regarding the directives contained in the March 4, 2013 Order. On April 30, 2013 and May 8, 2013, *PSALM* and *NPC*, respectively, filed motions seeking reconsideration of the March 4, 2013 Order. *MERALCO* filed a motion seeking for an additional 15 days from its receipt of the *ERC*'s Order resolving its Motion for Clarification, within which to file its Petition against the *SGCs*.

In an Order dated July 1, 2013, the *ERC* issued the following clarifications/resolutions: (i) *SPPC* should be included as one of the *SGCs* against whom a petition for dispute resolution should be filed by *MERALCO*; (ii) amount to be refunded by *NPC* is not only ₱5.2 billion but also the subsequent payments it received from *MERALCO* beyond August 2012 until the actual cessation of the collection of the 2.98% line loss charge in its *TOU* rates; (iii) petition to be filed by *MERALCO* against the *SGCs* should not only be for the recovery of the amount of ₱4.7 billion but also the subsequent payments beyond August 2012 until the actual cessation of the collection of the 2.98% line loss charge in its *TOU* rates; (iv) "*SCPC Ilijan*" pertains to *SPPC* instead. Thus, the refundable amount of ₱706 million pertaining to "*SCPC Ilijan*" should be added to *SPPC*'s refundable amount of ₱1.1 billion; (v) grant the Motion for Extension filed by *MERALCO* within which to file a petition against the following *SGCs*: *MPPCL*, *APRI*, *TLI*, *SMEC*, *Sem-Calaca* and *SPPC*; and (vi) deny the respective *MRs* filed by *NPC* and *PSALM*.



On September 12, 2013, *MERALCO* filed a Manifestation with Motion with the *ERC* seeking approval of its proposal to offset the amount of ₱73.9 million per month against its monthly remittances to *PSALM*. *PSALM* and *NPC* filed their comments *Ad Cautelam* and Comment and Opposition *Ad Cautelam*, respectively, on *MERALCO*'s Manifestation with Motion. On November 4, 2013, *MERALCO* filed its reply. As at February 27, 2023, *MERALCO*'s Manifestation with Motion is pending resolution by the *ERC*.

On October 24, 2013, *MERALCO* received *PSALM*'s Petition for Review on Certiorari with the *CA* (With Urgent *TRO* and/or Writ of Preliminary Mandatory Injunction Applications) questioning the March 4, 2013 and July 1, 2013 Orders of the *ERC*.

On February 3, 2014, *MERALCO* filed a Comment with Opposition to the Application for *TRO* or Writ of Preliminary Injunction dated January 30, 2014. *PEMC* filed a Comment and Opposition Re: Petition for Certiorari with Urgent *TRO* and/or Writ of Preliminary Mandatory Injunction dated January 6, 2014. On June 4, 2014, the *CA* issued a Resolution declaring that *PSALM* is deemed to have waived the filing of a Reply to the comment and opposition of *MERALCO* and *PEMC* and directing the parties to submit their simultaneous memoranda within 15 days from notice. On December 1, 2014, the *CA* issued a decision dismissing the Petition for Certiorari filed by *PSALM* against the *ERC*, *MERALCO* and *PEMC* and affirming the *ERC*'s ruling on the refund of the ₱5.2 billion of transmission line losses double charged by *PSALM* and *NPC*. On January 30, 2015, *PSALM* filed its *MR* on the December 1, 2014 Decision of the *CA*. *MERALCO* has filed its Opposition to the *MR*. In a Resolution dated August 11, 2015, the *CA* denied *PSALM*'s *MR*. On October 27, 2015, *MERALCO* received *PSALM*'s Petition for Review with the *SC*. The Petition has been given due course and the parties have filed their respective memoranda. As at February 27, 2023, *MERALCO* is still awaiting further action of the *SC* on the Petition.

Petition for Dispute Resolution against SPPC, MPPCL, APRI, TLI, SMEC and Sem-Calaca

On August 29, 2013, *MERALCO* filed a Petition for Dispute Resolution against *SPPC*, *MPPCL*, *APRI*, *TLI*, *SMEC* and *Sem-Calaca*. Said Petition seeks the following: 1) refund of the 2.98% transmission line losses in the amount of ₱5.4 billion, inclusive of the ₱758 million line loss for the period September 2012 to June 25, 2013, from said *SGCs*; and 2) approval of *MERALCO*'s proposal to correspondingly refund to its customers the aforementioned line loss amounts, as and when the same are received from the *SGCs*, until such time that the said over-recoveries are fully refunded, by way of automatic deduction of the amount of refund from the computed monthly generation rate. On September 20, 2013, *MERALCO* received the *SGCs*' Joint Motion to Dismiss. On October 7, 2013, *MERALCO* filed its Comment on the said Joint Motion.

On October 8, 2013, *MERALCO* received the *SGCs* Manifestation and Motion, which sought, among other things, the cancellation of the scheduled initial hearing of the case, including the submission of the parties respective Pre-trial Briefs, until the final resolution of the *SGC*'s Joint Motion to Dismiss. On October 11, 2013, *MERALCO* filed its pre-trial brief. On October 14, 2013, *MERALCO* filed its Opposition to the *SGC*'s Manifestation and Motion. On October 24, 2013, *MERALCO* received the *SGC*'s Reply to its Comment on the Joint Motion to Dismiss. On October 29, 2013, *MERALCO* filed its Rejoinder. Thereafter, the *SGC*'s filed their Sur-Rejoinder dated November 4, 2013. As at February 27, 2023, the Joint Motion to Dismiss is pending resolution by the *ERC*.

Petition for Dispute Resolution with NPC on Premium Charges

On June 2, 2009, *MERALCO* filed a Petition for Dispute Resolution against *NPC* and *PSALM* with respect to *NPC*'s imposition of premium charges for the alleged excess energy it supplied to *MERALCO* covering the billing periods May 2005 to June 2006. The premium charges amounting to



₱315 million during the May-June 2005 billing periods have been paid but are the subject of a protest by *MERALCO*, and premium charges of ₱318 million during the November 2005, February 2006 and April to June 2006 billing periods are being disputed and withheld by *MERALCO*. *MERALCO* believes that there is no basis for the imposition of the premium charges. The hearings on this case have been completed. As at February 27, 2023, the Petition is pending resolution by the *ERC*.

SC TRO on MERALCO's December 2013 Billing Rate Increase

On December 9, 2013, the *ERC* gave clearance to the request of *MERALCO* to implement a staggered collection over three (3) months covering the December 2013 billing month for the increase in generation charge and other bill components such as *VAT*, *LFT*, transmission charge, and *SL* charge. The generation costs for the November 2013 supply month increased significantly because of the aberrant spike in the *WESM* charges on account of the non-compliance with *WESM* Rules by certain plants resulting in significant power generation capacities not being offered and dispatched, and the scheduled and extended shutdowns, and the forced outages, of several base load power plants, and the use of the more expensive liquid fuel or bio-diesel by the natural gas-fired power plants that were affected by the Malampaya Gas Field shutdown from November 11 to December 10, 2013.

On December 19, 2013, several party-list representatives of the House of Representatives filed a Petition against *MERALCO*, *ERC* and *DOE* before the *SC*, questioning the *ERC* clearance granted to *MERALCO* to charge the resulting price increase, alleging the lack of hearing and due process. It also sought for the declaration of the unconstitutionality of the *EPIRA*, which essentially declared the generation and supply sectors competitive and open, and not considered public utilities. A similar petition was filed by a consumer group and several private homeowners' associations challenging also the legality of the *AGRA* that the *ERC* had promulgated. Both petitions prayed for the issuance of *TRO*, and a Writ of Preliminary Injunction.

On December 23, 2013, the *SC* consolidated the two (2) Petitions and granted the application for *TRO* effective immediately and for a period of 60 days, which effectively enjoined the *ERC* and *MERALCO* from implementing the price increase. The *SC* also ordered *MERALCO*, *ERC* and *DOE* to file their respective comments to the Petitions. Oral Arguments were conducted on January 21, 2014, February 4, 2014 and February 11, 2014. Thereafter, the *SC* ordered all the Parties to the consolidated Petitions to file their respective Memorandum on or before February 26, 2014 after which the Petitions will be deemed submitted for resolution of the *SC*. *MERALCO* complied with said directive and filed its Memorandum on said date.

On February 18, 2014, acting on the motion filed by the Petitioners, the *SC* extended for another 60 days or until April 22, 2014, the *TRO* that it originally issued against *MERALCO* and *ERC* on December 23, 2013. The *TRO* was also similarly applied to the generating companies, specifically *MPPCL*, *SMEC*, *SPPC*, *FGPC*, and the *NGCP*, and the *PEMC* (the administrator of *WESM* and market operator at that time) who were all enjoined from collecting from *MERALCO* the deferred amounts representing the ₱4.15 per *kWh* price increase for the November 2013 supply month.

In the meantime, on January 30, 2014, *MERALCO* filed an Omnibus Motion with Manifestation with the *ERC* for the latter to direct *PEMC* to conduct a re-run or re-calculation of the *WESM* prices for the supply months of November to December 2013. Subsequently, on February 17, 2014, *MERALCO* filed with the *ERC* an Application for the recovery of deferred generation costs for the December 2013 supply month praying that it be allowed to recover the same over a six (6)-month period.

On March 3, 2014, the *ERC* issued an Order voiding the Luzon *WESM* prices during the November and December 2013 supply months on the basis of the preliminary findings of its Investigating Unit



(“*IU*”) that these are not reasonable, rational and competitive, and imposing the use of regulated rates for the said period. *PEMC* was given seven (7) days upon receipt of the Order to calculate these regulated prices and implement the same in the revised *WESM* bills of the concerned *DUs* in Luzon. *PEMC*’s recalculated power bills for the supply month of December 2013 resulted in a net reduction of the December 2013 supply month bill of the *WESM* by ₱9.3 billion. Due to the pendency of the *TRO*, no adjustment was made to the *WESM* bill of *MERALCO* for the November 2013 supply month. The timing of amounts to be credited to *MERALCO* is dependent on the reimbursement of *PEMC* from associated generator companies. However, several generating companies, including *MPPCL*, *SN Aboitiz Power, Inc.*, *Team (Philippines) Energy Corporation*, *PanAsia Energy, Inc.* (“*PanAsia*”), and *SMEC*, have filed *MRs* questioning the Order dated March 3, 2014. *MERALCO* has filed a consolidated comment to these *MRs*. In an Order dated October 15, 2014, the *ERC* denied the *MRs*. The generating companies have appealed the Orders with the *CA*. *MERALCO* has filed a motion to intervene and a comment in intervention. The *CA* consolidated the cases filed by the generation companies. In a Decision dated November 7, 2017, the *CA* set aside *ERC* Orders dated March 3, 2014, March 27, 2014, May 9, 2014 and October 15, 2014 and declared the orders null and void. The Decision then reinstated and declared valid *WESM* prices for the November and December 2013 supply months. *MERALCO* and the *ERC* have filed their respective motions for reconsideration. Several consumers also intervened in the case and filed their respective motions for reconsideration. In a Resolution dated March 29, 2019, the *CA* denied the motions for reconsideration and upheld its Decision dated November 7, 2017.

MERALCO and several consumers have elevated the *CA* Decision and Order to the *SC* where the case is pending. In a Resolution dated November 4, 2020, the *SC* consolidated *ERC*’s and *MERALCO*’s petitions and transferred *MERALCO*’s petition to the member-in-charge of *ERC*’s petition which was the lower-numbered case. The petitions filed by the consumers were denied by the *SC*.

In view of the pendency of the various submissions before the *ERC* and mindful of the complexities in the implementation of the *ERC*’s Order dated March 3, 2014, the *ERC* directed *PEMC* to provide the market participants additional 45 days to comply with the settlement of their respective adjusted *WESM* bills. In an Order dated May 9, 2014, the parties were then given an additional non-extendible period of 30 days from receipt of the Order within which to settle their *WESM* bills. However, in an Order dated June 6, 2014 and acting on an intervention filed by *Angeles Electric Corporation*, the *ERC* deemed it appropriate to hold in abeyance the settlement of *PEMC*’s adjusted *WESM* bills by the market participants.

On April 22, 2014, the *SC* extended indefinitely the *TRO* issued on December 23, 2013 and February 18, 2014 and directed generating companies, *NGCP* and *PEMC* not to collect from *MERALCO*. In a Decision promulgated on August 3, 2022, the *SC* affirmed the December 9, 2013 *ERC* letter approving *MERALCO*’s proposal to implement a staggered collection over three (3) months covering the December 2013 billing month. However, it voided the *ERC* March 3, 2014 Order which voided the Luzon *WESM* prices during the November and December 2013 supply months and imposed the use of regulated rates for said period. The *ERC* and the petitioners filed motions for reconsideration which were denied with finality in the *SC* Resolution dated October 11, 2022. The implementation of any staggered collection is subject to the approval of the *ERC*.

ERC IU Complaint

On December 26, 2013, the *ERC* constituted the *IU* under its Competition Rules to investigate possible anti-competitive behavior by the industry players and possible collusion that transpired in the *WESM* during the supply months of November 2013 and December 2013. *MERALCO* participated in the proceedings and submitted a Memorandum.



An investigating officer of the *IU* filed a Complaint dated May 9, 2015 against *MERALCO* and *TMO* for alleged anti-competitive behavior constituting economic withholding in violation of Section 45 of the *EPIRA* and Rule 11, Section 1 and 8(e) of the *EPIRA IRR*. In an Order dated June 15, 2015, the *ERC* directed *MERALCO* to file its comment on the Complaint. *MERALCO* and *TMO* have filed their respective answers to the Complaint.

In an Order dated September 1, 2015, the *ERC* directed the investigating officer to file his reply to *MERALCO*. In a Manifestation and Motion to Set the Case for Hearing dated November 9, 2015, the investigating officer manifested that he would no longer file a reply and that the case be set for hearing.

On May 24, 2016, the *ERC* promulgated Resolution No. 14, Series of 2016, which resolved to divide the Commission into two (2) core groups for the conduct of hearings and to designate the commissioners to act as presiding officers in anti-competition cases. The raffle pursuant to said Resolution was conducted on June 15, 2016.

In a Notice of Pre-Trial Conference dated June 16, 2016, the *ERC* set the pre-trial conference on August 18, 2016 and required *MERALCO* and *TMO* to submit their respective pre-trial briefs. However, on July 27, 2016, the complainant filed two (2) omnibus motions for the consolidation and deferment of the pre-trial conferences. Hence, in an Order dated August 1, 2016, the respondents were given 10 days to submit their comments on the Motion for Consolidation, with the complainant given five (5) days to file his reply. As such, the pre-trial conferences as scheduled were deferred until further notice and all parties were granted 20 days to submit their respective pre-trial briefs.

In the meantime, *MERALCO* likewise filed an Urgent Motion to Dismiss with Motion to Suspend Proceedings which was adopted by *TMO* in its Manifestation and Motion filed on July 28, 2016. *MERALCO* maintained that the Complaint should be dismissed due to the absence of subject matter jurisdiction as it is now the Philippine Competition Commission (“*PCC*”) which has original and primary jurisdiction over competition-related cases in the energy sector. On August 23, 2016, *MERALCO* filed an Urgent Motion Ad Cautelam for suspension of proceeding including period to file pre-trial brief and judicial affidavit.

In a Motion dated August 25, 2016, complainant filed a Motion to defer the submission of the complainant’s pre-trial brief and judicial affidavit. In an Order dated June 13, 2017, the *ERC* denied the motion to consolidate but upheld the authority of private counsel to represent the complainants. *MERALCO* filed a Motion for Partial Reconsideration to question such authority.

In an Order dated February 2, 2017, the *ERC* denied the motion to dismiss and asserted jurisdiction over the Complaint. *MERALCO* filed its *MR* to the Order on February 23, 2017. In an Order dated June 20, 2017, the *ERC* denied the *MR*. On September 19, 2017, *MERALCO* filed a Petition for Certiorari with the *CA*. In a Resolution dated October 2, 2017, the *CA* required respondents to file their Comment on the Petition within 10 days and held in abeyance its resolution on the prayer for injunctive relief until the comments have been filed. *MERALCO* was likewise given five (5) days to file its reply. In a Manifestation dated October 23, 2017, the *ERC* stated that it is a nominal party in the case as the quasi-judicial tribunal that issued the assailed ordinances. The *IU* filed its own Comment dated December 19, 2017. In a Manifestation and Motion dated December 22, 2017, the *OSG* informed the *CA* that it will no longer represent the *IU* and will instead participate as “tribune of the people”. In the meantime, *TMO* also filed a separate Petition for Review on Certiorari with the *CA*. In a Resolution dated January 10, 2018, the *CA* ordered the consolidation of the petitions of *TMO* and *MERALCO*. In a Decision dated May 23, 2018, the *CA* denied the consolidated Petitions filed by



MERALCO, *TMO*, and *APRI*, and ruled that the jurisdiction to resolve the *IU* cases remains with the *ERC* because the Philippine Competition Act (“*PCA*”) does not apply retroactively.

On June 20, 2018, *MERALCO* filed an *MR* with the *CA*. The *ERC* likewise filed its Motion for Partial Reconsideration on the ground that it retained concurrent jurisdiction together with the *PCC* over cases involving alleged anti-competitive conduct supposedly because the *PCA* did not repeal Section 45 of the *EPIRA*.

In Resolution dated January 28, 2019, the *CA* denied the motions for reconsideration filed by all of the parties. While it sustained its finding that the *PCC* now holds original, exclusive, and primary jurisdiction over all competition-related cases, the *CA* reiterated its view that the *PCA* has no retroactive effect.

The *ERC* has elevated the matter to the *SC*. *MERALCO*, *TMO* and *APRI* have all filed their respective manifestations before the *SC*. In a Resolution dated September 29, 2021, the *SC* affirmed the *CA* in that the *ERC* had jurisdiction over these cases as they were filed before the enactment of the *PCA*. However, the *SC* did not rule on whether the *PCC* and the *ERC* now have concurrent jurisdiction as these issues were not fully litigated.

In the meantime, the *ERC* called for a conference on March 26, 2021 in order to discuss updates and developments regarding the case. On April 14, 2021, *MERALCO* filed an Urgent Motion Ad Cautelam to Suspend Proceedings in view of the pendency of the case before the *SC*. The *ERC* then issued an Order dated August 13, 2021, setting the pre-trial conference on August 27, 2021. *MERALCO* filed a Manifestation and Urgent Omnibus Motion Ad Cautelam to (A) Resolve the Urgent Motion Ad Cautelam to Suspend Proceedings dated April 14, 2021 and (B) Cancel the August 27, 2021 Pre-Trial Conference dated August 20, 2021. The pre-trial conference proceeded on August 27, 2021. However, the *ERC* stated that, after the pre-trial conference and before the case can proceed with trial on the merits, the *ERC* will first resolve *MERALCO*’s motions. The *ERC* also issued an open court order denying the motion of the *ERC IU* that the case be resolved through the submission of the position papers and other supporting documents. The *ERC IU* filed a Motion for Reconsideration to which *MERALCO* filed an opposition. As at February 27, 2023, *MERALCO* is awaiting further action by the *ERC* on the matter.

Ombudsman Cases Against MERALCO Directors

On January 30, 2018, *MERALCO* received an Order dated January 22, 2018 from the Office of the Ombudsman directing *MERALCO*’s directors to comment on a complaint-affidavit for syndicated estafa filed by certain consumer group which charged that there was conspiracy between *MERALCO* directors and the *ERC* regarding the alleged misappropriation of the bill deposits received from *MERALCO* consumers. On February 9, 2018, *MERALCO*’s directors filed their Counter-Affidavits where they refuted the arguments of the consumer group. In a Resolution dated May 18, 2018, the criminal complaint for syndicated estafa was dismissed for insufficiency of evidence. The case was referred to the *COA* for the conduct of audit on the bill deposits collected by *MERALCO* from the public consumers and to inform the Ombudsman of the compliance therewith. The consumer group filed a Motion for Partial Reconsideration dated June 16, 2018 to which *MERALCO* filed its Comment. The consumer group’s Motion for Partial Reconsideration was denied through an Order dated July 30, 2018. *NASECORE* filed an *Urgent Motion for Immediate Execution* dated September 21, 2018 praying that the Ombudsman issue a writ of execution to implement the Resolution dated May 18, 2018.

On February 28, 2018, *MERALCO* received an Order dated February 20, 2018 from the Office of the Ombudsman directing *MERALCO*’s directors to comment on a complaint-affidavit for syndicated



estafa filed by certain consumer group which charged that there was conspiracy between *MERALCO* directors and the *ERC* regarding the *MERALCO*'s investment activities in other businesses for being violative of its legislative franchise and the *EPIRA*. On March 12, 2018, *MERALCO*'s directors filed their Counter-Affidavits where they refuted the arguments of the consumer group. On May 4, 2018, *MERALCO* filed a Manifestation with Motion for Early Resolution of even date. Another Motion to Resolve and Dismiss was also filed by *MERALCO* on June 2, 2021. In a Joint Resolution dated February 22, 2022, the Ombudman dismissed the cases.

Others

Liabilities for certain local taxes amounting to ₱535 million and ₱423 million as at December 31, 2022 and 2021, respectively, are included in the "Other noncurrent liabilities" account in the parent company statements of financial position.

Management and its internal and external counsels believe that the probable resolution of these issues will not materially affect *MERALCO*'s financial position and results of operations.

28. Significant Contracts and Commitments

Independent Power Producers ("IPPs")

FGPC and FGP

In compliance with the *DOE*'s program to create a market for Camago-Malampaya gas field and enable its development, *MERALCO* contracted 1,500 *MW* of the 2,700 *MW* output of the Malampaya gas field.

Accordingly, *MERALCO* entered into separate 25-year *PPAs* with *FGPC* (March 14, 1995) and *FGP* (July 22, 1999) for a minimum number of *kWh* of the net electric output of the Sta. Rita and San Lorenzo power plants, respectively, from the start of their commercial operations. The *PPA* with *FGPC* terminates on August 17, 2025, while that of *FGP* ends on October 1, 2027.

On January 7, 2004, *MERALCO*, *FGP* and *FGPC* signed an Amendment to their respective *PPAs*. The negotiations resulted in certain new conditions including the assumption of *FGP* and *FGPC* of community taxes at current tax rate, and subject to certain conditions increasing the discounts on excess generation, payment of higher penalties for non-performance up to a capped amount, recovery of accumulated deemed delivered energy until 2011 resulting in the non-charging of *MERALCO* of excess generation charge for such energy delivered beyond the contracted amount but within a 90% capacity quota. The amended terms under the respective *PPAs* of *FGP* and *FGPC* were approved by the *ERC* on May 31, 2006.

Under the respective *PPAs* of *FGP* and *FGPC*, the fixed capacity fees and fixed operating and maintenance fees are recognized monthly based on the actual Net Dependable Capacity tested and proven, which is usually conducted on a semi-annual basis.

QPPL

MERALCO entered into a *PPA* with *QPPL* on August 12, 1994, which was subsequently amended on December 1, 1996. The *PPA* is for a period of 25 years from the start of commercial operations up to May 31, 2025.



In a Letter Agreement signed on February 21, 2008, the amount billable by *QPPL* included a transmission line charge reduction in lieu of a previous rebate program. The Letter Agreement also provides that *MERALCO* shall advance to *QPPL* US\$2.85 million per annum for 10 years beginning 2008 to assist *QPPL* in consideration of the difference between the transmission line charge specified in the Transmission Line Agreement (“*TLA*”) and the *ERC*-approved transmission line charge in March 2003. *QPPL* shall repay *MERALCO* the same amount at the end of the 10-year period in equal annual payments without adjustment. However, if *MERALCO* is able to dispatch *QPPL* at a plant capacity factor of no less than 86% in any particular year, *MERALCO* shall not be required to pay US\$2.85 million on that year. In January 2018, *QPPL* began repayment of the amount advanced by *MERALCO*. As at December 31, 2022, the remaining amount for repayment by *QPPL* is US\$7.125 million. This arrangement did not have any impact on the rates to be charged to consumers and hence, did not require any amendment in the *PPA*, as approved by the *ERC*.

See Note 9 – *Financial and other Noncurrent Assets*.

Committed Energy Volume to be Purchased

The following are forecasted purchases/payments to *FGPC*, *FGP* and *QPPL* corresponding to the Minimum Energy Quantity (“*MEQ*”) provisions of the contracts. The forecasted fixed payments include capacity charge and fixed operation and maintenance cost escalated using the *U.S.* and Philippine Consumer Price Index.

Year	MEQ (In million kwh)	Equivalent Amount (In Millions)
2023	15,346	₱31,297
2024	15,379	30,712
2025	10,739	19,088
2026	4,042	6,226
2027-2032	3,367	5,224

PSAs with Privatized Plants and IPPAs

MERALCO has a *PSA* with *MPPCL* which was approved by the *ERC* on December 17, 2012, and entered into Supplemental Agreement on April 8, 2016, for the extension of the term of the *PSA* for an additional period of three (3) years up to December 25, 2022.

On December 6, 2019, *MERALCO* and *TLI* executed a new short-term *PSA* for the purchase of 250 *MW* capacity and energy from *TLI*'s power plant for the period of December 26, 2019 to December 25, 2020. On December 19, 2019, the *DOE* issued a Certificate of Exemption from *CSP* in favor of *MERALCO* for the new short-term *PSA*. On December 23, 2019, *MERALCO* filed an application with the *ERC* for the approval of its new short-term *PSA* with *TLI*. On August 7, 2020, *MERALCO* and *TLI* filed a Joint Manifestation with Motion with the *ERC* seeking approval of the extension of the *PSA* for five days or until December 30, 2020. As at February 27, 2023, hearings have been completed. The case, including the motion, is still pending approval of the *ERC*.

The *ERC*, for the *MPPCL* case, issued an Order dated October 11, 2016 resolving to consider *MERALCO*'s “Manifestation and Motion” as a new application for approval of *PSA*. In view of the said Order, *MERALCO* and *MPPCL* filed a Joint Application for approval of the Supplemental Agreement extending the term of their *PSA* for an additional three (3) years. On December 19, 2019, *MERALCO* and *MPPCL* entered into an Agreement to Amend the Supplemental Agreement, whereby the Parties resolved to extend the *PSA* for an additional period of one (1) year reckoned from the date of the approval by the *ERC* of the said Agreement to Amend. On June 8, 2020, *MERALCO* and *MPPCL* filed a Joint Manifestation and Omnibus Motion to seek *ERC* approval of said Agreement to



Amend. On April 14, 2021, due to exigent and emergency reasons (e.g. unforecasted supply deficiency and to account for outages of power plants with bilateral contracts with *MERALCO*), *MERALCO* and *MPPCL* further agreed to enter into an Amendment Agreement to amend the December 19, 2019 Agreement to Amend, to instead extend the *PSA* for an additional period of one (1) year from May 26, 2021. On even date, (a) *MERALCO* and *MPPCL* filed a Joint Manifestation and Omnibus Motion to seek *ERC* approval of the said Amendment Agreement; and (b) *MERALCO* sought confirmation from the *DOE* that the extension of the *ERC*-approved 2011 *PSA*, as embodied in the Amendment Agreement, is exempted from the conduct of a *CSP*. In its letter dated July 30, 2021, the *DOE* denied *MERALCO*'s request for certificate of exemption from *CSP*. As at February 27, 2023, the *ERC* has yet to act on the parties' Joint Manifestation and Omnibus Motion.

Philippine Power and Development Company ("Philpodeco")

On May 15, 2014, *MERALCO* and *Philpodeco* executed a *PSA*. *Philpodeco* operates three (3) run-of-river hydro power plants, namely: (i) Palakpakin, a 448 *kW* hydro power plant located at Barangay Prinza, Calauan, Laguna; (ii) Calibato, a 75 *kW* Calibato hydro power plant located at Barangay Sto. Angel, San Pablo City, Laguna; and (iii) Balugbog, a 528 *kW* hydro power plant located at Barangay Palina, Nagcarlan, Laguna. The *PSA* has a term of five (5) years from the delivery period commencement date.

On June 2, 2014, *MERALCO* filed an application with the *ERC* for the approval of its *PSA* with *Philpodeco*. This *PSA* provides that *MERALCO* shall accept all the energy deliveries of *Philpodeco* as measured by the latter's billing meter. Hearings on this case have been completed and *MERALCO* has submitted its *FOE*. On January 25, 2019, *MERALCO* filed an Urgent Motion to Resolve the case. On May 22, 2019, *MERALCO* filed a Manifestation with Motion to Resolve seeking *ERC* confirmation of the extension of the term of the *PSA* with *Philpodeco* from May 15, 2019 to October 25, 2019. On October 24, 2019, *MERALCO* wrote *DOE* asking for exemption from the requirement for *CSP* for a further extension of the term of the *PSA* with *Philpodeco* from October 25, 2019 to May 15, 2020. On the same date, *MERALCO* also filed a Manifestation with Motion to Resolve seeking *ERC* confirmation of the said extension of term. In its letter to *Philpodeco* dated December 18, 2019, the *DOE* has taken the position that "xxx [u]nder Section 45(b) of Republic Act No. 9136, *ERC* is the sole authority mandated to review and approve *PSAs*." On May 15, 2020, the *PSA* with *Philpodeco* expired. As at February 27, 2023, the case is pending decision by the *ERC*.

Bacavalley Energy Inc. ("BEI")

MERALCO signed a *CSE* with *BEI* on November 12, 2010. *BEI* owns and operates a four (4) *MW* renewable energy generation facility powered by landfill gas in San Pedro, Laguna. The *CSE* has a term of two (2) years from the delivery period commencement date.

Purchases from *BEI*, an embedded renewable energy generator, are *VAT* zero-rated and exempt from power delivery service charge. *MERALCO* filed an application for the approval of the *CSE* with the *ERC*, for the provisional implementation of the contract on December 15, 2010. In an order dated January 31, 2011, the *ERC* provisionally approved the said application.

After a series of negotiations, *MERALCO* and *BEI* signed the Letter Agreements dated March 1, 2013 and March 5, 2013, extending the *CSE* between said parties for another two (2) years from March 16, 2013, or until March 15, 2015. In its Order December 9, 2013, the *ERC* allowed the *CSE* to be extended until March 15, 2015. On March 12, 2015, *MERALCO* and *BEI* executed a Letter of Agreement extending the *CSE* until March 15, 2016. On March 16, 2015, *MERALCO* filed a Manifestation with Motion to the *ERC* for approval of the extended term. On March 1, 2016, *BEI* requested for the extension of the *CSE* for another two (2) years. In its letter dated April 7, 2016,



MERALCO denied *BEP*'s request to extend the *CSE*. On May 18, 2018 and January 25, 2019, *MERALCO* filed Urgent Motions to Resolve the case. As at February 27, 2023, the contract term expired and the case is pending decision by the *ERC*.

Pangea Green Energy Philippines, Inc. ("PGEP")

On May 31, 2012, *MERALCO* signed a *CSE* with *PGEP*, a biomass power plant located in Payatas, Quezon City using methane gas extracted from the Payatas landfill as its fuel. Its plant has a total nominal generating capacity of 1,236 *kW*. The *CSE* is for a period of two (2) years from the delivery period commencement date.

On June 15, 2012, *MERALCO* filed an application for approval of the *CSE*. On August 28, 2012, the *ERC* issued an Order provisionally approving the application. On August 29, 2013, the *ERC* extended the provisional authority in its Order dated August 12, 2013. On March 2, 2015, *MERALCO* and *PGEP* executed a Letter of Agreement extending the *CSE* until February 29, 2016.

On March 4, 2015, *MERALCO* filed a Manifestation with Motion with the *ERC* for the approval of the extended term. On September 16, 2015, *MERALCO* received a letter from *PGEP* seeking the termination of the *CSE* effective October 15, 2015. The termination of the *CSE* was thereafter formalized in the Letter Agreement dated October 29, 2015 where the parties agreed to terminate the *CSE* effective October 9, 2015, which was *PGEP*'s Facility Registration Date with the *WESM*. On January 8, 2016, *MERALCO* filed a Manifestation with Motion with the *ERC* seeking approval of the extended term of March 4, 2015 until October 9, 2015. On May 17, 2018 and January 25, 2019, *MERALCO* filed Urgent Motions to Resolve the case. In its Order dated February 18, 2019, the *ERC* directed *MERALCO* to submit certain documents to facilitate its evaluation of the application. On March 29, 2019, *MERALCO* filed its Compliance with Manifestation. As at February 27, 2023, the contract term has expired and the case is pending decision by the *ERC*.

TMO

On March 4, 2013, *MERALCO* signed an Interconnection Agreement with *TMO* for their 243 *MW* generating facility at the Navotas Fish Port Complex, Navotas City, which is an interconnection at *MERALCO*'s Grace Park-Malabon 115 *kV* line. *TMO* is an embedded generator. *TMO* shall construct at its own cost, operate and maintain the 115 *kV* line connecting its generating facility to *MERALCO*'s system. *TMO* and *MERALCO* subsequently signed a Supplement to the Interconnection Agreement dated July 3, 2014 covering the construction of a second line from the connection point at the Grace Park-Malabon 115 *kV* line to the *TMO* switchyard.

On September 27, 2013, *MERALCO* signed a *PSA* with *TMO* for the output of the barge-mounted, bunker oil-fired diesel engines moored at the Fish Port Complex in Navotas, Manila. On September 30, 2013, *MERALCO* filed an application with the *ERC* for the approval of the *PSA*. In an Order dated November 4, 2013, the *ERC* granted the prayer for provisional authority. After hearing and submission of the required documents, including the *FOE*, the case is now submitted for decision.

On December 17, 2014, *MERALCO* and *TMO* entered into an Amendment to the *PSA* based on the power situation outlook for 2015 and 2016 issued by the *NGCP* that the reserve capacity will be below the Contingency Reserves due to the maintenance shutdowns and forced outages of major power plants in Luzon. The amendment to the *PSA* was filed for approval with the *ERC* on January 21, 2015. In an Order dated April 6, 2015, the *ERC* approved the amendment in the *PSA* between *MERALCO* and *TMO* with modification. In an Order dated July 1, 2015, the *ERC* clarified that the provisional approval, while not specifically modifying nor stating any condition with respect to the implementation of the outage provisions of the amendment, covers the increase in outage allowance and the minor change in operating procedures.



On June 16, 2015, *MERALCO* received the Omnibus Motion for Partial Reconsideration and Deferment of Implementation of the Order dated April 6, 2015; Urgent Resolution of the Application; and Confidential Treatment filed by *TMO*.

In an Order dated April 5, 2016, the *ERC* ruled that the provisional authority granted to *MERALCO* and *TMO* is extended unless revoked or made permanent. On June 10, 2016 and July 5, 2016, respectively, *MERALCO* and *TMO* filed a Motion for Clarification of the *ERC* Order dated April 5, 2016. Said motions are still pending decision by the *ERC*. On January 3, 2017, *MERALCO* filed a Manifestation with Motion informing the *ERC* of the extension of the term of the *PSA* from June 26, 2017 to June 25, 2018. In an Order dated June 6, 2017, the *ERC* noted *MERALCO*'s Manifestation and Motion and confirmed one (1) year extension of the *PSA*. *MERALCO* and *TMO* were further directed to strictly comply with the provisions of *ERC* Resolution No. 1, Series of 2016, in particular, the one (1) time limit for renewal of the *PSA*. As at February 27, 2023, the contract term has expired and the case is pending decision by the *ERC*.

SBPL

On September 26, 2019, *MERALCO* and *SBPL* began implementation of the *PSA* which was approved by the *ERC*, subject to *ERC*'s subsequent issuance of a certificate of compliance to replace the provisional authority to operate. The *PSA* is for a period of 20 years from the start of commercial operations up to September 25, 2039.

PEDC

To address the *SC* Decision in *Alyansa Para sa Bagong Pilipinas, Inc. vs. ERC, et al.* (G.R. No. 227670, 3 May 2019) that effectively required all *PSA* applications for *ERC* approval filed on or after June 30, 2015 to undergo *CSP*, which includes the 2016 20-year *PSA* between *MERALCO* and *PEDC*, a *CSP* was conducted in 2021 to cover the 70 MW required contract capacity of *MERALCO* for contract period ending January 25, 2037. The same capacity was won by *PEDC* under the new 15-year *PSA* with *MERALCO* ("2021 *PEDC PSA*"). The application for approval of the new *PSA* with *PEDC* was filed on January 22, 2022. Through a "Notice of Resolution" dated February 23, 2022, the *ERC* granted provisional authority to implement the 2021 *PEDC PSA*, and on April 1, 2022, the 2021 *PEDC PSA* was implemented by *MERALCO* and *PEDC*.

On March 18, 2022, *PEDC* issued to *MERALCO* a Notice of Change in Circumstance, claiming that the Ukraine-Russia conflict had a significant negative financial impact to *PEDC* due to the price spike in coal prices and if the current situation continues, *PEDC*'s losses will be massive and ruinous unless an adjustment in contract price pursuant to the 2021 *PEDC PSA* is implemented. Thus, on April 13, 2022, *PEDC* (joined by *MERALCO*) filed an *Urgent Motion for Contract Price Adjustment* with the *ERC*. Meanwhile, on April 22, 2022, *MERALCO* received *PEDC*'s Notice of Termination, effective six months thereafter, or until October 22, 2022. After the lapse of October 22, 2022, with the *Urgent Motion for Contract Price Adjustment* still pending with the *ERC*, *PEDC* has continued with its obligations under the 2021 *PEDC PSA*. On December 4, 2022, *PEDC* sent to *MERALCO* a Notice of End of Supply, which formally informed *MERALCO* of *PEDC*'s decision to cease supply of energy beginning midnight of December 5, 2022, because without the *ERC*'s action on the *Urgent Motion for Contract Price Adjustment*, *PEDC* was already placed in severe financial stress and in danger of breaching its financial covenants. As at February 27, 2023, further *ERC* action on the *Urgent Motion for Contract Price Adjustment* is pending.



First Bulacan

On May 12, 2021, *MERALCO* and *First Bulacan* began implementation of the *PSA* which was approved by the *ERC*, subject to *ERC*'s subsequent issuance of a certificate of compliance to replace the provisional authority to operate. The *PSA* is for a period of 20 years from the start of commercial operations.

Solar Philippines Tanauan Corporation ("Solar Philippines Tanauan")

On December 22, 2016, *MERALCO* signed a 20-year *PSA* with *Solar Philippines Tanauan* for the purchase of 50 *MW* of electric output from its solar plant in Tanauan, Batangas. On February 27, 2017, after conduct of a *CSP* wherein *Solar Philippines Tanauan* was declared as the winning power supplier, the application for approval of the *PSA* with *Solar Philippines Tanauan* was filed. In a Decision promulgated on February 28, 2020, the *ERC* approved the *PSA* with modification.

Solar Philippines Tarlac Phase I

On October 6, 2017, after being declared the winning power supplier in a *CSP*, *MERALCO* signed a 20-year *PSA* with *Solar Philippines Tarlac* for the purchase of up to 85 *MW* of electric output from Phase one (1) of its solar plant in Tarlac. The application for approval of the *PSA* with *Solar Philippines Tarlac* was filed on October 19, 2017. Hearings have been completed and parties await *ERC* resolution on *Solar Philippines Tarlac*'s opposition to a consumer group's intervention, which shall prompt submission of case for final decision. Meanwhile, in an Order promulgated on June 8, 2018, the *ERC* granted Interim Relief to provisionally implement the *PSA*. On July 3, 2018, *Solar Philippines Tarlac* filed a Motion for Partial Reconsideration of the said Order. *MERALCO* and *Solar Philippines Tarlac* agreed on a way forward, subject to resolution of the Motion for Partial Reconsideration, and began implementation of the *PSA* on August 20, 2018. On July 13, 2018, *MERALCO* filed its *Comment with Opposition* in so far as the adjustment of the timelines under the *PSA* is concerned. On November 26, 2018, a consumer group filed its *Comment with Opposition*, likewise with respect to *Solar Philippines Tarlac*'s motion for the adjustment of the timelines under the *PSA*. In its Order dated January 23, 2019, the *ERC* partially granted the Motion for Partial Reconsideration filed by *Solar Philippines Tarlac* and allowed the 2% annual escalation under the *PSA*. On June 25, 2019, the *ERC* promulgated its Order leaving the adjustment of the timelines set under the *PSA* to the discretion of *MERALCO* and *Solar Philippines Tarlac*. Meanwhile, the 20-year term of the *PSA* began on commencement date last August 20, 2018. As at February 27, 2023, the parties are awaiting *ERC*'s final decision on the Joint Application.

FNPC

Following conduct and completion of a *CSP*, *MERALCO* confirmed effectivity of the *PSA* with *FNPC* dated December 13, 2017, for the purchase of 414 *MW* electric energy generated by the San Gabriel Gas Plant beginning *ERC* approval and ending on February 23, 2024. A joint application for approval of the *PSA* with *FNPC* was filed on March 19, 2018. Pursuant to an *ERC* Order granting interim relief, on June 26, 2018, *MERALCO* and *FNPC* began implementing the *PSA*. On July 13, 2022, *MERALCO* received the *ERC* Decision approving the joint application subject to certain modifications and conditions. On July 28, 2022, *FNPC* filed a motion seeking reconsideration and to hold in abeyance the implementation of the *ERC* Decision. As at February 27, 2023, further *ERC* action remain pending on the *FNPC*'s Motion for Reconsideration and to Hold in Abeyance the Execution of the *ERC* Decision.



Solar Philippines Tarlac Phase 2

On February 22, 2019, after being declared the winning power supplier in a *CSP*, *MERALCO* signed a 20-year *PSA* with *Solar Philippines Tarlac* for the purchase of up to 50 *MW* of electric output from Phase 2 of its solar plant in Tarlac. The application for approval of the *PSA* with *Solar Philippines Tarlac* was filed on March 18, 2019. As at February 27, 2023, the case is pending decision by the *ERC*.

SMEC, AC Energy and SPPC – Baseload PSAs

On September 13, 2019, after being declared the winning power suppliers in a *CSP*, *MERALCO* signed three (3) *PSAs* for baseload capacity with *AC Energy* for 200 *MW*, *SMEC* for 330 *MW*, and *SPPC* for 670 *MW*. On October 22, 2019, the joint applications for approval of these three (3) baseload *PSAs* were filed before the *ERC*. In its letters to *MERALCO*, all dated December 23, 2019, the *ERC* granted provisional authority to implement *MERALCO*'s three (3) *PSAs* for baseload capacity with *AC Energy*, *SPPC* and *SMEC*. On January 30, 2020, *MERALCO* received the orders of the *ERC* granting provisional authority to implement *MERALCO*'s *PSA* for baseload capacity with *AC Energy*. On March 16, 2020, *MERALCO* received the orders of the *ERC* granting provisional authority to implement *MERALCO*'s *PSAs* for baseload capacity with *SPPC* and *SMEC*. In its Orders dated November 26, 2020, the *ERC* granted interim relief authorizing continued implementation of the *PSAs*, until revoked or until the issuance of a final decision by the *ERC*. As at February 27, 2023, the three (3) *PSA* applications are pending final decision by the *ERC*.

On April 18, 2022, *SMEC* and *SPPC* issued to *MERALCO* Notices of Change in Circumstances, claiming that the worsening conflict between Russia and Ukraine and other geopolitical and economic factors related and/or emanating therefrom had impacted *SMEC* and *SPPC*'s capability to perform their obligations under the respective *PSAs* in terms of unexpected increase in fuel cost. Thus, on May 12, 2022, *SMEC* and *SPPC* (joined by *MERALCO*) filed Joint Motions for Price Adjustment with the *ERC*. On June 27, 2022 and July 22, 2022, *SMEC*, *SPPC* and *MERALCO* filed motions for urgent resolution of the Joint Motion. On August 30, 2022, the *ERC* conducted a clarificatory hearing with *SMEC*, *SPPC* and *MERALCO* to clarify several issues in connection with the Joint Motions for Price Adjustment. On October 3, 2022, the *ERC*, voting 3-2, promulgated its Orders dated September 29, 2022, denying the Joint Motions for Price Adjustment. On October 5, 2022, *SMEC* and *SPPC* notified *MERALCO* that it will continue with its obligations under their respective baseload *PSAs* with *MERALCO* under protest and without prejudice to their rights and remedies under pertinent laws and contract. On November 4, 2022, *SMEC* and *SPPC* filed Petitions for Certiorari with prayer for issuance of *TRO* and Writ of Preliminary Injunction (“*WPI*”) with the *CA*, assailing the *ERC* Orders dated September 29, 2022. On November 25, 2022, the *CA* issued a *TRO* for the *SPPC* case, hence, after the *TRO* bond was posted by *SPPC*, on December 7, 2022, *SPPC* stopped accepting *MERALCO* nominations. On January 25, 2023, the *CA* issued a *WPI* for the *SPPC* case, which shall remain in effect until the main case is finally decided. Meanwhile, for the *SMEC* case, on January 13, 2023, the *CA* denied *SMEC*'s prayer for *TRO* and *WPI*. As at February 27, 2023, *SPPC* has suspended its obligations under its baseload *PSA* with *MERALCO*, while *SMEC* has continued with its obligations under its baseload *PSA* with *MERALCO*.

FGHPC, AC Energy and SPPC – Mid-merit PSAs

On September 16, 2019, after being declared the winning power suppliers in a *CSP*, *MERALCO* signed three (3) *PSAs* for mid-merit capacity with *FGHPC* for 100 *MW*, *AC Energy* for 110 *MW*, and *SPPC* for 290 *MW*. On October 22, 2019, the joint applications for approval of these three (3) *PSAs* were filed before the *ERC*. On January 30, 2020, *MERALCO* received the orders of the *ERC* granting provisional authority to implement *MERALCO*'s the *PSA* for mid-merit capacity with *AC Energy*. On



March 16, 2020, *MERALCO* received the orders of the *ERC* granting provisional authority to implement *MERALCO*'s other *PSAs* for mid-merit capacity with *FGHPC* and *SPPC*. In its Orders dated November 26, 2020, the *ERC* granted interim relief authorizing continued implementation of the *PSAs*, until revoked or until the issuance of a final decision by the *ERC*. As at February 27, 2023, the three (3) *PSA* applications are pending final decision by the *ERC*.

Excellent Energy Resources, Inc. ("EERI") and MPPCL - Baseload PSAs

On March 2, 2021, after being declared the winning power suppliers in a *CSP* 1,800 *MW* baseload capacity from greenfield power plants was conducted, *MERALCO* signed two (2) *PSAs* with *EERI* with commercial operations date in December 2024 for 1,200 *MW*, and with *MPPCL* with commercial operations date in May 2025 for 600 *MW*. The joint applications for approval of *MERALCO*'s *PSAs* with *MPPCL* and *EERI* were filed with the *ERC* on March 18, 2021 and March 24, 2021, respectively. As at February 27, 2023, the two (2) *PSA* applications are pending final decision by the *ERC*.

Under the *PSAs* approved by the *ERC*, fixed capacity fees and fixed operating maintenance fees are recognized monthly based on their contracted capacities. The annual projection of these payments is shown in the table below:

Year	Contracted Capacity	Fixed Payment Amount
	<i>(In Megawatt)</i>	<i>(In millions)</i>
2023	2,867	₱61,942
2024	2,967	64,887
2025	2,956	61,743
2026	3,455	74,383
2027-2032	17,130	339,573

Interim Power Supply Agreements ("IPSAs")

On January 24, 2017, in view of the Malampaya shutdown that was to coincide with the scheduled outage of other plants, *MERALCO* signed an *IPSA* with Strategic Power Development Corporation ("*SPDC*") for the supply of 100 *MW* per hour of electric power from 0901H to 1000H and from 2001H to 2100H, and 150 *MW* per hour of electric power from 1001H to 2000H, from January 28, 2017 until February 16, 2017. An application for approval of such *IPSA* was filed before the *ERC* on February 9, 2017. The said *IPSA* was effective immediately, on the condition that disallowances and penalties that the *ERC* may impose as a result thereof shall be for the account of *SPDC*. *MERALCO* and *SPDC*, in a letter agreement dated February 15, 2017, agreed to extend the term of the *IPSA* until March 25, 2017 under the same terms and conditions of the *IPSA*. On February 16, 2017, *MERALCO* and *SPDC* filed a Joint Manifestation with Motion with the *ERC* apprising the Honorable Commission of the extended term and praying that the same be duly considered and approved accordingly. The hearings on this case have been completed and *MERALCO* filed its *FOE* on July 21, 2017. As at February 27, 2023, the contract term has expired and *MERALCO* awaits the *ERC*'s final decision on the *IPSA*.

On April 15, 2019, in view of the *NGCP* forecast that low voltage situations will occur for the weekdays of May up to the first half of June 2019 every time the Luzon peak demand exceeds 11,200 *MW*, *MERALCO* signed two (2) separate *IPSAs* with: (i) *MEI* for the purchase of 70 *MW* of electric power, subject to a net dependable capacity test, from April 26, 2019 to June 25, 2019, from *MEI*'s Gas Turbine Power Plant in Navotas Fishport Complex, Navotas City; and (ii) *TMO* for the purchase of up to 200,000 *kW* contract capacity and associated energy, subject to restatement based on the results of capacity test, from April 26, 2019 to April 25, 2020, from *TMO*'s 242 *MW*-installed



capacity, barge-mounted, bunker-fired diesel power generating and interconnection facilities in Navotas City. For the said *IPSAs*, *MERALCO* also received the *DOE*'s grant of exemption from the requirement for *CSP*. The applications for approval of said *IPSAs* were filed before the *ERC* on April 17, 2019. In accordance with the said *IPSAs*, with the filing of the joint applications and *DOE*'s exemption, the mutual obligations to sell and purchase power under said agreements were implemented beginning April 26, 2019. On July 1, 2019, *MERALCO* filed its Compliance with Formal Offer of Evidence on the *TMO IPSA Joint Application*. In addition, in light of the declarations of yellow and red alerts in the *Luzon Grid* by *NGCP*, *MERALCO* and *MEI*, in a Letter Agreement dated June 20, 2019, agreed to extend their *IPSA* until September 25, 2019. Further, given continuing declarations of yellow and red alerts in the *Luzon grid* by *NGCP*, *MERALCO* and *MEI*, in a Letter Agreement dated September 23, 2019, agreed to further extend their *IPSA* until April 25, 2020. *MERALCO* also received the *DOE*'s grant of exemption from the requirement for *CSP* for said periods. In a Letter Agreement dated January 28, 2020, *MERALCO* and *MEI* agreed on another extension of their *IPSA* from April 26, 2020 to June 25, 2020 in view of *DOE*'s forecast, presented to *MERALCO* in a meeting with the *DOE* on January 16, 2020, which showed red alert situation in the *Luzon grid* for the period from April to June 2020. *MERALCO* wrote *DOE* on January 29, 2020 to request for exemption from the requirement for *CSP* for said period. However, the *PSA* with *MEI* was not extended as the *DOE* did not issue any exemption to be able to further extend the *PSA*. Thus, on April 25, 2020, the *PSA* with *MEI* expired. On even date, the *PSA* with *TMO* also expired. As at February 27, 2023, the cases remain pending with the *ERC*.

On September 28, 2021, in view of the Malampaya shutdown set for October 2021 that was to coincide with the scheduled outage of other plants, *MERALCO* signed a Contract for Supply of Electric Energy ("*CSEE*") with *PSALM* for the supply of 90 *MW* for the period of ten (10) months from September 26, 2021 to July 25, 2022. On even date, the *DOE* issued a Certificate of Exemption from *CSP* in favor of *MERALCO* for the *CSEE*. With the *DOE*'s grant of exemption from the requirement for *CSP*, the parties began implementation of the *CSEE* on September 29, 2021. The application for approval of the *CSEE* with *PSALM* was filed on December 29, 2021. As at February 27, 2023, the hearings with the *ERC* of the application for approval of the *CSEE* with *PSALM* are on-going.

On February 4, 2022, after being declared the winning power supplier in a *CSP*, *MERALCO* signed a 5-month *PSA* with *SPPC* for 170 *MW* contract capacity. The application for approval of *MERALCO*'s emergency *PSA* with *SPPC* was filed with the *ERC* on March 22, 2022. On July 25, 2022, the contract term has expired, thus, on September 2, 2022, *MERALCO* and *SPPC* jointly filed a Manifestation with the *ERC*, informing it of the expiration of the *PSA*'s contract term and that the application for approval of the *PSA* is already deemed moot. As at February 27, 2023, the contract term has expired and the *ERC* has not issued its final decision on this *PSA*.

On December 14, 2022, in connection with the sudden and unforeseen suspension of *MERALCO*'s baseload *PSA* with *SPPC* for 670 *MW* and after receiving from the *DOE* a Certificate of Exemption from the conduct of a competitive selection process ("*COE-CSP*") pursuant to the 2021 Revised *CSP Circular*, *MERALCO* signed a 1-month *PSA* with *GNPower Dinginin Ltd. Co. ("GNPD")*. The *GNPD* emergency power supply agreement ("*EPSA*") was implemented on December 15, 2022 and submitted to the *ERC* for assessment of the application for filing. As at February 27, 2023, the contract term has expired and the *ERC* has not set this *PSA* for hearing.

Cagbalete Island Microgrid Electrification Expansion Capital Expenditure Project ("Cagbalete Microgrid Project")

On July 23, 2019, *MERALCO* inaugurated the first phase of its power microgrid in Cagbalete Island, Quezon Province as part of its continuing initiative of rural energization using sustainable energy.



The microgrid is a hybrid generating plant that features a 60 kW PV system, 150 kWh battery energy storage system and two (2) units of 30 kW diesel generators, which shall provide 24 x 7 power to the residents of the island.

On May 31, 2019, *MERALCO* filed an application dated May 29, 2019 to implement the proposed *Cagbalete Microgrid Expansion Project* to allow *MERALCO* to serve the rest of the residents in Cagbalete Island. The *Cagbalete Microgrid Expansion Project* with an estimated cost of ₱219 million, will utilize a scaled-up hybrid generation system by similarly using solar photovoltaic (“PV”) panels, diesel generators and lithium-ion battery storage as main components. Hearings have been completed and *MERALCO* filed its *FOE* on August 15, 2019. In an Order dated August 27, 2020, the *ERC* requested additional information regarding the *Cagbalete Microgrid Expansion Project*. *MERALCO* filed its Compliance on October 15, 2020. On November 20, 2020, *MERALCO* filed another Manifestation reiterating the urgency of immediately implementing the *Cagbalete Microgrid Expansion Project*. On May 12, 2021, *MERALCO* filed a Manifestation with Urgent Motion for Resolution to urge the *ERC* to resolve the instant Application. On May 19, 2021, *MERALCO* submitted the letter from the Office of Municipal Mayor of Mauban, Quezon Province which certified that no generation company has applied to the Municipality of Mauban to secure a permit in order to build and operate an electricity generating facility in the island of Cagbalete. On May 31, 2021, *MERALCO* filed a Supplemental Submission and Very Urgent Motion for Resolution to urge the *ERC* to resolve the instant Application. As at February 27, 2023, *MERALCO* is awaiting further action by the *ERC*.

Agreement and Registration with PEZA

MERALCO has a concession agreement with *PEZA* for 25 years, whereby *MERALCO* has been contracted to operate the distribution system of *CEZ* beginning May 26, 2014.

MERALCO executed a tripartite agreement with *PEZA* and *TLI* for the billing and settlement of the supply of power from *TLI* to *CEZ* and its locators. Said tripartite agreement is from December 26, 2019 until December 25, 2021. With the extension of the *PSA* of *PEZA* with *TLI* for another year to expire on December 25, 2022, the tripartite agreement is likewise extended until December 25, 2022.

On December 29, 2014, *MERALCO* secured its Certificate of Registration No.10-01-U from *PEZA*, which confirms *MERALCO* as an Ecozone Utilities Enterprise at the *CEZ*.

29. Earnings Per Share

Basic and diluted earnings per share are calculated as follows:

	2022	2021
	<i>(In millions, except per share data)</i>	
Net income (a)	₱21,693	₱21,299
Weighted average common shares outstanding (b)	1,127	1,127
Per Share Amounts:		
Basic and diluted earnings per share (a/b)	₱19.25	₱18.90



Basic and diluted earnings per share amounts are calculated by dividing net income for the year by the weighted average number of common shares outstanding during the year. There are no potential dilutive common shares in 2022 and 2021.

There are no other transactions involving common shares or potential common shares between the reporting date and the date of completion of these parent company financial statements.

30. Other Matters

RCOA

The transition period for *RCOA* commenced on December 26, 2012 in accordance with the joint statement released by the *ERC* and the *DOE* on September 27, 2012 and the Transitory Rules for the Implementation of *RCOA* (*ERC* Resolution No. 16, Series of 2012). The commercial operations of *RCOA* started on June 26, 2013.

On May 12, 2016, the *ERC* issued Resolutions No. 10 and 11, Series of 2016, which:

1. Provided for mandatory contestability. Failure of a contestable customer to switch to *RES* upon date of mandatory contestability (December 26, 2016 for those with average demand of at least one (1) *MW* and June 26, 2017 for at least 750 *MW*) shall result in the physical disconnection from the *DU* system unless it is served by the supplier of last resort ("*SoLR*"), or, if applicable, procures power from the *WESM*;
2. Prohibits *DUs* from engaging in the supply of electricity to the contestable market except in its capacity as a *SoLR*;
3. Mandates Local *RESs* to wind down their supply businesses within a period of three (3) years;
4. Imposes upon all *RESs*, including *DU*-affiliate *RESs*, a market-share cap of 30% of the total average monthly peak demand of all contestable customers in the competitive retail electricity market; and,
5. Prohibits *RESs* from transacting more than 50% of the total energy transactions of its supply business, with its affiliate contestable customers.

On November 29, 2017, the *DOE* issued two (2) *DOE* Circulars, namely: DC 2017-12-0013, entitled, Providing Policies on the Implementation of *RCOA* for Contestable Customers in the Philippines Electric Power Industry and DC 2017-12-0014, entitled Providing Policies on the Implementation of *RCOA* for *RES* in the Philippine Electric Power Industry. The *DOE* Circulars became effective on December 24, 2017.

Under the *DOE* Circular No. DC 2017-12-0013, it is provided that voluntary participation for contestable customers under *RCOA*-Phase 2 shall now be allowed upon effectivity of said Circular, while voluntary participation of contestable customers with a monthly average peak demand of 500 *kW* to 749 *kW* for the preceding 12 months and demand aggregation for electricity end users within a contiguous area with an aggregate average peak demand of not less than 500 *kW* for the preceding 12-month period, will also be allowed by June 26, 2018 and December 26, 2018, respectively.

On December 28, 2020, the *ERC* released Resolution No. 12, Series of 2020, entitled "A Resolution Prescribing the Timeline for the Implementation of Retail Competition and Open Access ("*RCOA*")".



In said Resolution, the *ERC* expanded the coverage of *RCOA* for end-users with an average monthly peak demand of at least 500 *KW* in the preceding 12 months, on a voluntary basis.

On September 24, 2021, *MERALCO* received a copy of the *SC* Decision wherein, among other matters, the *ERC* was also directed to promulgate the supporting guidelines to *DOE* Circular No. DC 2017-12-0013 and DC 2017-12-0014.

Retail Aggregation

On June 16, 2022, the *ERC* issued Resolution No. 04, Series of 2022 entitled “*A Resolution Adopting the Rules for the Electric Retail Aggregation Program.*” Under said Resolution, the aggregation of the electricity requirements of end-users, whose total monthly average peak demand is at least 500 *kW*, is allowed to accommodate a wider consumer base availing of the benefits of *RCOA* to further promote competition in the Competitive Retail Electricity Market. Implementation of such aggregation shall become effective by December 26, 2022. Meanwhile, industry stakeholders are clarifying certain provisions in the Resolution to allow for the smooth implementation of Retail Aggregation.

Pre-Emptive Mitigating Measure in the WESM

In December 2014, in its Resolution No. 20, Series of 2014, the *ERC* adopted and established a permanent pre-emptive mitigation measure in the *WESM*. The *ERC* set a cumulative price threshold (“*CPT*”) amounting to an average spot price of ₱9,000 per *MWh* over a rolling 7-day period or 168-hour trading interval. Once this *CPT* for said period is breached, it triggers the imposition of a price cap amounting to ₱6,245 per *MWh*. The price cap shall be imposed until after a determination that succeeding *GWAP* rolling average is already below the *CPT*. The pre-emptive measure has taken effect beginning January 9, 2015.

The imposition of the mitigating measure was questioned by the Philippine Independent Power Producers Association (“*PIPPA*”) in the *RTC-Pasig* through a Petition for Declaratory Relief with Application for *TRO* and/or Writ of Preliminary Injunction. The Petition prayed for, among others, that the *ERC* Resolutions pertaining to the secondary cap mechanism be declared void *ab initio*. The original petition was subsequently amended to reflect the promulgation of the subsequent *ERC* resolutions extending the effectivity of the *WESM* price cap. On July 21, 2014, *MERALCO* filed its Motion for Leave to Intervene and to Admit Attached Comment in Intervention. The *RTC-Pasig* admitted *MERALCO*’s intervention and comment in its Order dated October 28, 2014. However, in a Motion for Leave to Admit Supplement Petition, *PIPPA* moved for leave to file a supplemental petition to include *ERC* Resolution No. 20, Series of 2014 which provides for a permanent mitigating measure in the *WESM*. In an Order dated May 5, 2015, the *RTC-Pasig* denied the Motion for Leave to File and Admit Supplemental Petition. *PIPPA* filed a Motion for Partial Reconsideration which was denied by the *RTC-Pasig* in its Resolution dated September 10, 2015. *PIPPA* filed a Petition for Certiorari with the *CA*. The *CA* denied the Petition for Certiorari in its Decision dated June 9, 2017. *PIPPA* filed a *MR* dated July 19, 2017. In a Resolution dated August 16, 2017, the parties were directed to file their comments to the *PIPPA*’s *MR*. *MERALCO* has filed its comment on the *MR*. On April 4, 2018, the *CA* rendered a resolution denying the *MR* filed by *PIPPA*.

On September 29, 2015, the *WESM* Tripartite Committee issued a Joint Resolution further extending the interim offer price cap of ₱32,000 per *MWh* until December 31, 2015. In its Joint Resolution No. 3, Series of 2015, the *WESM* Tripartite Committee resolved to set the *WESM* offer price cap at ₱32,000 per *MWh* and the *WESM* offer price floor of negative ₱10,000 per *MWh* effective



January 2016, provided that an annual review shall be undertaken considering the relevant costs assumptions at the time of review.

On December 7, 2015, the *RTC-Pasig* rendered a Decision dismissing the Petition for Declaratory Relief. The *MR* filed by *PIPPA* was denied in a Resolution dated June 16, 2016. *PIPPA* appealed the *RTC-Pasig* Decision with the *SC*. *MERALCO* has filed its comment thereto. *PIPPA* filed a Consolidated Reply on July 17, 2017. As at February 28, 2022, the case is pending before the *SC*.

On May 9, 2017, the *ERC* issued Resolution No. 4, Series of 2017, entitled, “A Resolution Adopting Amendments to the Pre-emptive Mitigating Measure in the *WESM*”. They adopted a recalculated cumulative price threshold level of ₱1,080,000 and a shorter five (5)-day (120-hour) rolling average period. This is equivalent to ₱9,000 per *MWh* over said period.

The *ERC* has expressed its intent to further amend the pre-emptive mitigating measure in the *WESM* to increase consumer safety nets against price spikes. The highlight of the amendments would be the lowering of the rolling average period from five (5) days to three (3) days, and the regional/island imposition of the Secondary Price Cap mechanism when the grid interconnection is on outage. In its Resolution No. 7, Series of 2021, promulgated on July 28, 2021, the *ERC* shortened the rolling average period to seventy-two (72) hours and approved the regional/island imposition of the Secondary Price Cap mechanism.

PEZA – ERC Jurisdiction

On September 13, 2007, *PEZA* issued “Guidelines in the Registration of Electric Power Generation Facilities/Utilities/Entities Operating Inside the Ecozones” and “Guidelines for the Supply of Electric Power in Ecozones” (“*Guidelines*”). Under these Guidelines, *PEZA* effectively bestowed upon itself franchising and regulatory powers in Ecozones operating within the legislative franchise areas of *DUs* which are under the legislatively-authorized regulatory jurisdiction of the *ERC*. The *Guidelines* are the subject of an injunction case filed by the *DUs* in *RTC-Pasig*.

On February 4, 2015, the *RTC-Pasig* issued an Order setting a clarificatory hearing on April 15, 2015. During the said hearing, *MERALCO* manifested that it previously filed a Motion to Withdraw as plaintiff on the basis of letter agreements between *MERALCO* and *PEZA*, which is pending before the *RTC-Pasig*. *MERALCO* submitted the Tripartite Agreement among *PEZA*, *PEPOA* and *MERALCO* for approval of the *RTC-Pasig*. In a Decision dated July 3, 2015, the *RTC-Pasig* approved the Compromise Agreement between *PEZA*, *PEPOA* and *MERALCO*. In the hearing on February 10, 2016, the *RTC-Pasig* dismissed the petition upon motion by *PEZA*. The *ERC* filed a *MR* which is pending resolution by the *RTC-Pasig*.

Purchase of Subtransmission Assets (“STAs”)

On April 17, 2012, *MERALCO* and *TransCo* filed a joint application for the approval of the Batch 4 contract to sell with the *ERC*. On April 22, 2013, the *ERC* issued a Decision on *MERALCO*’s joint application for the acquisition of the Batch 4 contract to sell. On June 21, 2013 and July 3, 2013, *MERALCO* and *TransCo* filed a Motion for Partial Reconsideration and *MR*, respectively, regarding the exclusion of certain facilities for acquisition.

On May 22, 2014, *MERALCO* and *TransCo* received an *ERC* Order dated May 5, 2014 denying *MERALCO* and *TransCo*’s Motions. On June 5, 2014, *MERALCO* filed a clarificatory motion and a *MR* of the May 5, 2014 *ERC* Order, which was denied by the *ERC* through an Order dated June 16, 2014. On October 10, 2014, *MERALCO* filed a Motion to Reopen Proceedings for the reception of new evidence to support *MERALCO*’s position on the acquisition of excluded *STAs*. The



Motion was heard by the *ERC* on October 17, 2014. After the parties have submitted their respective comments and pleadings, the *ERC* conducted another hearing on February 23, 2015.

In an Order dated March 4, 2015, the *ERC* considered but denied the new and substantive allegations in *MERALCO*'s Motion to Reopen Proceedings. *MERALCO* then filed a Petition for Review with the *CA* to question the Orders of the *ERC*. In a Decision dated August 12, 2016, the *CA* dismissed the Petition. On September 17, 2016, *MERALCO* filed a *MR*. In an Amended Decision dated September 15, 2017, the *CA* granted *MERALCO*'s *MR* and approved the sale of the Dasmarinas-Abubot-Rosario 115 *kV* line and Rosario substation equipment in favor of *MERALCO*. *NGCP* filed a *MR* (of the Amended Decision) dated October 4, 2017. In a Resolution dated May 31, 2018, the *CA* denied the *MR*. *NGCP* filed a Petition for Review with the *SC*.

On March 20, 2015, *MERALCO* filed a case for "Interpleader with Consignation and Specific Performance" against *TransCo* and the Municipality of Labrador, Pangasinan ("*Labrador*") with the *RTC-Pasig*, praying for the *RTC-Pasig* to (i) accept and approved the consignation of the amount of ₱194.1 million; (ii) declare *MERALCO* to have paid in full the purchase price of the sale of *TransCo*'s assets; (iii) direct *TransCo* to execute the corresponding Deeds of Absolute Sale; and (iv) direct *Labrador* and *TransCo* to interplead their respective claims. On April 14 and 20, 2015, *Labrador* and *TransCo* filed their respective Motions to Dismiss on the ground of impropriety of the filing of the Interpleader and on the ground of *litis pendentia*. *MERALCO* received an Order from *RTC-Pasig* granting the Motions to Dismiss of both *TransCo* and *Labrador*. *MERALCO* filed a *MR* which was denied by the *RTC-Pasig*. *MERALCO* appealed the Decision with the *CA*, which granted the appeal, and remanded the interpleader case to the trial court for proper disposition. The *CA* decision already attained finality as of May 25, 2018.

TransCo and *MERALCO* executed the Deeds of Absolute Sale ("*DOAS*") on December 10, 2020, covering the Batch 2 and Batch 4 *STAs*. Hence, *MERALCO* has acquired and is in full possession of these assets. In a letter dated October 26, 2021, *NGCP* likewise confirmed that, with the turn-over of these assets, the corresponding Connection Charges and Residual Sub-Transmission Charges ("*CC/RSTC*") of *MERALCO* starting the December 2021 billing month will be correspondingly adjusted.

On December 15, 2016, *MERALCO* and *TransCo* filed a joint application for the approval of the Batch 3 contract to sell with the *ERC*. Hearings were conducted on August 10, 2018 and October 15, 2018. The *ERC* has yet to set the next scheduled hearing of the case.

FiT

Pursuant to *RA* No. 9513, or the Renewable Energy Act of 2008 ("*RE Act*"), the *ERC* issued Resolution No. 16, Series of 2010, Adopting the *FiT* Rules, on July 23, 2010. As defined under the *FiT* Rules, the *FiT* system is a renewable energy policy that offers guaranteed payments on a fixed rate per *kWh* for electricity from wind, solar, ocean, hydropower and biomass energy sources, excluding any generation for own use.

To fund the *FiT* payments to eligible *RE* developers, a *FiT-All* charge shall be imposed on all end-users. The *FiT-All* will be established by the *ERC* upon petition by *TransCo*, which had been designated as the *FiT* Fund Administrator.

On February 5, 2014, the *ERC* released the *FiT-All* disbursement and Collection Guidelines ("*FiT Guidelines*") to supplement the *FiT* Rules. This set of guidelines will govern how the *FiT-All* will be calculated using the formulae provided. It will also outline the process of billing and collecting the



FiT-All from the electricity consumers, the remittance to a specified fund, the disbursement from the *FiT-All* fund and the payment to eligible *RE* developers.

TransCo applied for *FiT-All* rates with the *ERC*, the *ERC* approval and status of applications are indicated in the table below:

Year	Applied Rate per <i>kWh</i>	Approved Rate per <i>kWh</i>	Date Approved / Status
2019	₱0.2780	₱0.0495	October 28, 2019
2020	₱0.2278	₱0.0983	November 23, 2020
2021	₱0.1881	₱0.0983	August 17, 2022
2022	₱0.3320 or ₱0.3165 (alternative rate in consideration of <i>Covid-19</i>)	₱0.0364	August 30, 2022
2023	₱0.2382	—	Pending final decision

On December 23, 2014, *MERALCO* received a copy of a Petition for Prohibition and Certiorari filed with the *SC* against the *ERC*, *DOE*, *TransCo*, *NREB* and *MERALCO*. The Petition seeks (i) the issuance of a *TRO* and/or *WPI*, and after giving due course to the Petition, a Writ of Prohibition to enjoin the respondents from implementing the *FiT-All*, the *FiT* Rules and *FiT* Guidelines; and (ii) the annulment of the *FiT* Rules and *FiT* Guidelines. With the parties' submission of their respective memoranda, the case is now pending decision. As at February 27, 2023, the said petition is pending with the *SC*.

In a Decision dated October 6, 2015, the *ERC* set the Wind *FiT* at ₱7.40 per *kWh*. *MERALCO* filed a *MR* on the Decision. As at February 27, 2023, the *MR* is pending further action of the *ERC*.

On September 29, 2016, Alternergy Wind One Corporation, Petrowind Energy, Inc. and Trans-Asia Renewable Energy Corporation filed a Petition to Initiate Rule-Making to adjust the Wind *FiT* rate of ₱7.40 per *kWh* to ₱7.93 per *kWh*. *MERALCO* filed an intervention in the case. The hearing on the Petition was set on January 6, 2017. *MERALCO*'s motion on the propriety of the petition has been submitted for the resolution of the *ERC*. As at February 27, 2023, the said petition is ongoing and remains pending with the *ERC*.

On May 26, 2020, through Resolution No. 6, Series of 2020, the *ERC* issued the *FiT* adjustments for the years 2016, 2017, 2018, 2019 and 2020 using 2014 as the base year for the consumer price index ("*CPI*") and foreign exchange adjustments, pursuant to Section 2.10 of the *FiT* Rules. The said *FiT* adjustments are to be recovered for a period of five (5) years.

In its Decision dated November 28, 2020, the *ERC* set the modified *FiT2* rate to be applicable from January 1, 2018 to December 31, 2019. The modified Run of River ("*ROR*") Hydro *FiT2* rate is ₱5.8705 per *kWh* while for Biomass *FiT2*, the rate is ₱6.19 *kWh*.

On November 26, 2022, the *ERC* issued Resolution No. 12, Series of 2022, "*A Resolution Adopting the Suspension of the Collection of Feed-in-Tariff Allowance (FiT-All)*", approving the temporary suspension in the collection of the *FiT-All* for a period of three (3) months, starting the December 2022 until the February 2023 billing months. According to the *ERC*, the *FiT-All* balance as of November 7, 2022, inclusive of the Cost Recovery Revenue ("*CRR*") collections in November 2022, shows a healthy fund balance that can sufficiently cover the *FiT-All* payment requirements for three (3) months,



assuming the same average *CRR* collection. On February 23, 2023, *ERC* issued an advisory extending the temporary suspension in the collection of the FIT-All for six (6) months, starting the March 2023 to August 2023 billing months.

Renewable Portfolio Standards (RPS)

In accordance with the *RE* Act, the *DOE* issued Department Circular No. DC2017-12-0015 “Promulgating the Rules and Guidelines Governing the Establishment of the Renewable Portfolio Standards for On-Grid Areas” or the *RPS* Rules on December 22, 2017. On June 30, 2020, *MERALCO* submitted its *RPS* Form for 2020 to the *DOE* as part of its compliance with the *RPS* Rules. The *RPS* form contains *MERALCO*’s computation of its requirements, as well as plans to comply with the requirements. *MERALCO* intends to fully comply with its *RPS* obligations while minimizing the rate impact to its customers.

MERALCO is also preparing to register with the Renewable Energy Market or “*REM*”. On August 18, 2020, the *DOE* issued an advisory on the Recalibration of the Commercial Operations of the *REM*. According to the advisory, the *REM* will be launched in June 2021. As at February 27, 2023, the *REM* is not yet operational.

Green Energy Option Program (GEOP)

Pursuant to the *RE* Act, the *DOE* issued Department Circular No. DC2018-07-0019 “Promulgating the Rules and Guidelines Governing the Establishment of the Green Energy Option Program Pursuant to the Renewable Energy Act of 2008” or the *GEOP* Rules on July 18, 2018. On April 22, 2020, the *DOE* also issued Department Circular No. DC2020-04-0009, “Guidelines Governing the Issuance of Operating Permits to Renewable Energy Suppliers under the *GEOP*” as a supplement to the *GEOP* Rules.

On November 24, 2020, the *ERC* released a draft “Resolution Adopting the *GEOP* Rules”. This is in accordance with Section 15(e) of the *DOE*’s *GEOP* Rules stating that “The *ERC* shall issue the necessary regulatory framework particularly in setting the technical and interconnection standards and wheeling fees, to effect and achieve the objectives of the *GEOP*.” On December 7 and 8, 2020, the *ERC* conducted public consultations on the draft. On August 17, 2021, the *ERC* released its *ERC* Resolution No. 8, Series of 2021 (dated April 22, 2021) and put into effect its regulatory framework to govern the *GEOP*. The rules became effective on September 3, 2021.

Recovery of NPC Stranded Contract Costs

In an Order dated May 22, 2018, the *ERC* approved *PSALM*’s petition for the recovery of *NPC*’s stranded contract costs portion of the universal charge (“*UC-SCC*”). Accordingly, *PSALM* is hereby authorized to recover the stranded contract costs for Luzon, Visayas and Mindanao grids totaling ₱8,547 million with a monthly rate of ₱0.1938 per *kWh* starting May 2018 billing period until the full amount has been recovered.

On January 14, 2019, *MERALCO* received a letter dated December 28, 2018 from *PSALM* advising *MERALCO* to cease the implementation of the collection of the ₱0.1938 per *kWh* for the recovery of the additional *SCC* effective January 2019 as it already recovered the full amount of the stranded contract costs. This was after *MERALCO* had already completed the billing program for January 2019. Accordingly, on February 6, 2019, *MERALCO* wrote *ERC* proposing to reverse the said collections of the additional *UC-SCC*. On February 7, 2019, *MERALCO* received a letter from the *ERC* which allowed the full reversal of the subject *UC-SCC* in its February billing equivalent to ₱0.3876 per *kWh*, without prejudice to further validation by the *ERC* as to the final amounts due.



In its letter dated January 15, 2020, *MERALCO* informed the *ERC* that it accumulated additional total excess *UC-SCC* collections in the amount of ₱545 million and proposed to implement another reversal to its customers in the amount of ₱0.1453 per *kWh* for the month of February 2020. In its letter dated February 6, 2020, the *ERC* directed *MERALCO* to implement the refund, subject to post-validation. *MERALCO* was then directed to provide additional information as well as status report to the *ERC* with respect to the implementation of refund. *MERALCO* implemented the refund starting its March 2020 billing.

On March 4, 2020, *MERALCO* received a letter dated March 3, 2020, directing it to comment on a petition filed by a consumer group which sought to stop the collection of *UC-SCC* and stranded debts portion of the universal charge ("*UC-SD*") from consumers because of the Murang Kuryente Act. *MERALCO* filed its comment on March 16, 2020.

In a Decision dated April 10, 2019, the *ERC* approved with modification *PSALM*'s petition for the availment of the *NPC*'s stranded contract costs portion of the universal charge for calendar year 2014. *PSALM* is hereby authorized to recover the *UC-SCC* for Luzon, Visayas and Mindanao grids totaling ₱5,117 million with a monthly rate of ₱0.0543 per *kWh* within a period of 12 months.

In separate Orders dated May 28, 2020, the *ERC* dismissed *PSALM*'s petitions for the availment of the *NPC*'s stranded contract costs portion of the universal charge for calendar years 2015 to 2018 due to the promulgation of the Murang Kuryente Act.

Net Metering Program

The *RE* Act mandates the *DUs* to provide the mechanism for the "physical connection and commercial arrangements necessary to ensure the success of the *RE* programs", specifically the Net Metering Program. The *RE* Act defines Net Metering as "a system, appropriate for distributed generation, in which a distribution grid user has a two-way connection to the grid and is only charged for his net electricity consumption and is credited for any overall contribution to the electricity grid". By their nature, net metering installations will be small (less than 100 *kW*) and will likely be adopted by households and small business end-users of *DUs*.

After consultations with stakeholders, the *ERC* issued on July 3, 2013 its Resolution No. 09, Series of 2013, entitled, "A Resolution Adopting the Rules enabling the Net Metering Program for Renewable Energy". The Rules will govern the *DUs*' implementation of the Net Metering Program. Included in the Rules are the interconnection standards that shall provide technical guidance to address engineering, electric system reliability, and safety concerns for net metering interconnections. However, the final pricing methodology to determine the rate at which energy exported back to the distribution system by Net Metering Program participants will be addressed in another set of rules by the *ERC* in due course. In the meantime, the *DUs*' blended generation cost equivalent to the generation charge shall be used as the preliminary reference price in the net metering agreement. The Rules took effect on July 24, 2013. Under *ERC* Resolution No. 6, Series of 2019, entitled, "A Resolution Adopting the Amendments to the Rules enabling the Net Metering Program for Renewable Energy", the *ERC* adopted amendments to the Net Metering Rules. On June 23, 2020, the *ERC* issued Resolution No. 5, Series of 2020 entitled, "A Resolution Clarifying *ERC* Resolution No. 6, Series of 2019, entitled "A Resolution Adopting the amendments to the Rules Enabling the Net-Metering Program for Renewable Energy". As at December 31, 2022, *MERALCO* has already installed 7,590 meters and energized 7,304 net metering customers.



Interruptible Load Program (“ILP”)

In an *ERC* Order dated April 11, 2014, the *ERC* approved with modification *MERALCO*’s request that it be allowed to adopt and implement the *ILP*. *ILP* protocols, compensation and recovery mechanism are governed by *ERC* Resolution No. 5, Series of 2015 “A Resolution Adopting the Amended Rules to Govern the Interruptible Load Program”, *DOE* Circular No. DC2015-06-0003 “Providing the Interim Manner for Declaring Bilateral Contract Quantities in the Wholesale Electricity Spot Market and Directing the Philippine Electricity Market Corporation to Establish Necessary Protocols to Complement the Interruptible Load Program” and *ERC* Resolution No. 3, Series of 2019 “A Resolution Clarifying Section 3, Article III of the Amended Interruptible Load Program Rules”.

As at December 31, 2022, there are 117 companies with a total committed de-loading capacity of 560.59 *MW* that have signed up with *MERALCO*, *MPOWER* and with other retail electricity suppliers as *ILP* participants.

Long-Term Indebtedness Application

On June 25, 2015, *MERALCO* filed an application, with prayer for provisional authority, for continuing authority to (a) issue bonds or other evidence of indebtedness for as long as it maintains 50:50 long-term debt to equity ratio; and (b) whenever necessary, to mortgage, pledge or encumber any of its property to any creditor in connection with its authority to issue bonds or any other evidence of long-term indebtedness. The hearing on the application was conducted on October 6, 2015. In an Order dated October 12, 2015, the *ERC* directed *MERALCO* to submit additional documents in support of its application which *MERALCO* complied with. However, due to changes in the financial climate which may affect the terms and conditions of any financial borrowings, *MERALCO* has filed a Motion to withdraw the application without prejudice to its refiling at a later date. In an Order dated March 22, 2016, the *ERC* granted *MERALCO*’s Motion to Withdraw but still required *MERALCO* to submit certain documents. *MERALCO* filed a Motion for Partial Reconsideration questioning the requirement which is pending before the *ERC*. As at February 27, 2023, the *ERC* has yet to resolve *MERALCO*’s Motion for Partial Reconsideration.

On October 29, 2019, *MERALCO* filed an application, with prayer for provisional authority, for continuing authority to (a) issue bonds or other evidence of indebtedness; and (b) whenever necessary, to mortgage, pledge or encumber any of its property to any creditor in connection with its authority to issue bonds or any other evidence of long-term indebtedness. Hearings have been completed and *MERALCO* filed its *FOE*. On January 21, 2021, *MERALCO* filed its Manifestation with Urgent Motion to Resolution. As at February 27, 2023, *MERALCO* is awaiting final approval of the *ERC*.

CSP Requirement for PSAs

On February 9, 2018, the *DOE* published the 2018 *DOE Circular*. Upon effectivity of the Circular, all prospective *PSAs* in grid and off-grid areas shall be procured through *CSP*. The *CSP* under the 2018 *DOE Circular* involves publication of invitation to bid, pre-bid conference, bid evaluation, and pre-/post-qualification of winning bidder. Exemption from *CSP* may be granted by the *DOE* in the following instances:

- i. Generation project owned by the *DU* funded by grant or donations
- ii. Negotiated procurement of emergency supply
- iii. Generation project embedded in the *DU*, utilizing indigenous energy resources in the franchise area of the *DU* and subject to a maximum capacity of 10 *MW* per Luzon *DU* and 5 *MW* per



Visayas and Mindanao *DU* (introduced by the *2021 Revised CSP Circular*, see discussion below)

- iv. Provision of supply in off-grid areas prior to the entry of new power providers
- v. Provision of supply by *PSALM* through bilateral contracts for power produced from undisposed generating assets and *IPP* contracts sanctioned by *EPIRA*.

PSAs that were granted exemption from *CSP* by reason of need for emergency supply shall be implemented by the *DU* immediately without prejudice to the evaluation and final decision of the *ERC*.

The *DU*'s *CSP* may be managed by a Third Party Bids and Awards Committee ("*TPBAC*") or a Third Party Administrator ("*TPA*"). The *DU*'s *TPBAC* shall be composed of the following (a) one (1) *DU* officer or employee knowledgeable in the technical operations of the *DU*; (b) One (1) *DU* officer or employee with knowledge and/or experience with any local or international competitive bidding procedures; (c) one (1) lawyer; (d) one (1) finance officer or accountant that has knowledge on electricity pricing; and (e) one (1) technical person, or a person with knowledge and/or experience with any local or international competitive bidding procedures. Any two of the last three (3) members shall be captive customer representatives. The selection process of the representatives of the captive customers to the *DU*'s *TPBAC* shall be submitted to the *DOE* for approval. The *DOE* has already approved the selection process of *MERALCO*'s *TPBAC* captive customer representatives.

Direct negotiations may be made by the *DUs* after at least two (2) failed *CSPs* and there is no outstanding dispute on the conducted *CSP*. A *CSP* is considered failed when during its conduct:

- a. No proposal was received by the *DU*
- b. Only one (1) generator submitted an offer
- c. Competitive offers of prospective generators failed to meet the requirements prescribed in the bid document

On October 14, 2021, the *DOE* published a *DOE Circular* entitled "Amending Certain Provisions of and Supplementing [the *2018 DOE Circular*] on the Competitive Selection Process in the Procurement by the Distribution Utilities of Power Supply Agreement for the Captive Market" ("*2021 Revised CSP Circular*"). The *2021 Revised CSP Circular* mainly improved the procedural process and flow prescribed under the *2018 DOE Circular* and, most importantly, introduced a new alternative mode of *CSP* – a competitive challenge for unsolicited proposals ("*USP*"), if the *USP* offers a New Technology and does not exceed twenty-five percent (25%) of the distribution utility's peak demand for the year of the *USP*'s required commercial operations minus any capacity previously procured through *USP* for commercial operations in the same year.

New Technology is defined under the *2021 Revised CSP Circular* as referring to "a technology that is novel or a novel use or arrangement of existing technology that has not yet been commercially operating or applied in the country upon effectivity of the Circular. Such technology, whether in whole or in part, is compliant to international test standards in the power generation industry."

Under the *2021 Revised CSP Circular*, each *CSP* shall be completed within seven (7) months from the time of the publication of the Invitation to Bid until filing of the *PSA* to the *ERC*.

Meanwhile, following the *2018 DOE Circular*, *MERALCO* constituted its *TPBAC* to conduct *CSP* in accordance with the *2018 DOE Circular* and its submitted Power Supply Procurement Plan.



SC Petitions on CSP

On September 5, 2019, representatives of the *Bayan Muna* partylist filed a petition with the *SC* claiming that the *2018 DOE Circular*, which repealed portions of the *2015 CSP Circular*, is void for violating policies/provisions intended to protect consumers under *EPIRA* and the Constitution (the “*Bayan Muna Petition*”). The *Bayan Muna Petition* also sought for the issuance of *TRO* and/or writ of preliminary injunction to prevent continuation of the on-going *CSPs* of *MERALCO* and some electric cooperatives. On December 17, 2019, *MERALCO* filed its Comment to the *Bayan Muna Petition*.

On March 3, 2021, *MERALCO* received a copy of the petition dated February 17, 2021 filed with the *SC* by representatives of various consumer groups led by the Power for People (P4P) Coalition (the “*P4P Petition*”) against the *DOE* and *MERALCO’s TPBAC*. The petition claims that the terms of reference for the 1,800 *MW* baseload *CSP* completed in March 2021 are unfavorable to the consumers and non-compliant with the *2018 DOE Circular* and that it would not result in the least cost of electricity. The *P4P Petition* also sought for the issuance of *TRO* and/or writ of preliminary injunction to prevent continuation and/or nullify the 1,800 *MW* baseload *CSP* of *MERALCO*. In a Resolution dated March 18, 2021, the *SC* dismissed the *P4P Petition*. The *SC* held that the issues raised by *P4P* are factual in nature, which require the *SC* to inquire into wisdom of the terms of reference. Hence, the petition was deemed premature as *P4P* itself admitted that *DOE* has yet to act on its protest letter and the *ERC* has yet to determine reasonableness of the rates resulting from the *CSP*.

True-up Adjustments of Fuel and Purchased Power Costs (“TAFPPC”) and Foreign Exchange-Related Costs (“TAFxA”)

On June 20, 2017, the *ERC* issued a Decision, a copy of which was received by *MERALCO* on December 29, 2017, authorizing *PSALM* to recover, within a 60-month period, the amount of ₱3,592 million in the Luzon grid, among others, as part of the *TAFPPC* and *TAFxA*; and directed all distribution utilities to comply with the directive.

On January 1, 2018, *MERALCO* filed a Motion for Partial Reconsideration praying for the suspension of the Order and requesting that *MERALCO* be allowed to charge the recovery to all types of customers, regardless of whether they were covered or not during the relevant test periods. As at February 27, 2023, the *ERC* has yet to act on the Motion.

Clean Air Act

The Clean Air Act and the related *IRR* contain provisions that have an impact on the industry as a whole and to *TPC*, *PPC*, *GRPI*, *PEDC* and *CEDC* (“the Operating Subsidiaries of *GBPC*”) in particular, that needs to be complied with within 44 months from the effectivity date or by July 2004. Based on the assessment made on the Operating Subsidiaries of *GBPC*’s existing facilities, the Operating Subsidiaries of *GBPC* believe that they comply with the provisions of the Clean Air Act and the related *IRR*.

Energy Regulation (ER) 1-94

Based on *ER 1-94* and the *IRR* of the *EPIRA*, generation companies are mandated to provide benefits to its host communities, equivalent to ₱0.01 per *kWh* of energy generated and sold. The operating subsidiaries of *GBPC* accrue the required benefits to their host community (included under “Trade payables and other current liabilities” account in the consolidated statements of financial position)



prospectively from the date of effectivity of *ER 1-94*. Such amount accrued is remitted to the trust account of the *DOE* upon their audit.

31. Notes to Parent Company Statements of Cash Flows

	2022			2021		
	Interest-bearing long-term financial liabilities	Notes payable	Dividends payable	Interest-bearing long-term financial liabilities	Notes payable	Dividends payable
	<i>(Amounts in millions)</i>					
Beginning balance	₱13,113	₱27,654	₱1,162	₱13,464	₱22,656	₱1,101
Payments	(360)	(125)	(17,304)	(360)	(2)	(14,457)
Availments	10,000				5,000	
Dividend declarations	—	—	18,070	—	—	14,518
Preferred stock redemption	(3)	—	—	(1)	—	—
Interest accretion	(65)	—	—	10	—	—
Ending balance	₱22,685	₱27,529	₱1,928	₱13,113	₱27,654	₱1,162

32. Supplementary Information Required Under Revenue Regulations No. 15-2010

In compliance with the requirements set forth by *RR No. 15-2010*, hereunder are the information on taxes, duties and license fees paid and accrued during the taxable year.

Output VAT

MERALCO is a *VAT*-registered company with total output *VAT* tax declared of ₱9,185 million in 2022 based on the following revenue streams:

Revenue Item	Amount
	<i>(In Millions)</i>
Distribution revenues	₱73,365
Government	1,202
Leases and others	1,971
	₱76,538

MERALCO has zero-rated distribution revenues of ₱331 million pursuant to the provisions of *RA No. 7916* as amended by *RA No. 8748*, *RA 9337* Section 108B, *RR No. 16-2005* Section 4.108-5 and Section 4.108-6.

Generation, transmission, and system loss charges, which are part of *MERALCO*'s revenues are pass-through items. *VAT* on such revenues are remitted mainly to *IPPs*, *PSALM* and its successor generator companies, *IEMOP* and *NGCP*, who are responsible for ultimate remittance to the *BIR*.



Input VAT

The amount of *VAT* input taxes claimed are broken down as follows:

	Amount (In Millions)
Balance at beginning of year	₱1,074
Add input <i>VAT</i> on 2021 purchases from:	
Services lodged under other accounts	5,406
Goods for resale/manufacture or further processing	1,114
Capital goods subject to amortization	682
Less input <i>VAT</i> claimed:	
From goods other than capital goods and services	6,520
Amortization of <i>VAT</i> input tax on capital goods	1,069
Balance at end of year	<u>₱687</u>

MERALCO also applied against output *VAT* the amount of *VAT* withheld on payments to non-residents for services rendered in the Philippines of ₱7 million which are duly supported by *BIR* Form 1600.

Importation and Custom Duties

The landed cost of imports amounted to ₱1,338 million and the related *VAT* and custom duties on importation paid and accrued amounted to ₱161 million in 2022.

Taxes

Withholding taxes for 2022 amounted to:

	Amount (In Millions)
Tax on compensation and benefits	₱1,772
Expanded withholding taxes	5,234
Final withholding taxes	396
	<u>₱7,402</u>

Other Local and National Taxes

The following are other local and national taxes paid in 2022:

	Amount (In Millions)
Local franchise tax	1,542
Real property taxes	543
Energy tax	293
Fringe benefit tax and others	4
	<u>₱2,382</u>

These taxes are billed and collected on behalf of the national and local governments.



Tax Assessments

MERALCO does not have any pending assessments for deficiency taxes as at December 31, 2022.

Tax Cases

MERALCO's tax cases as at December 31, 2022 are discussed in *Note 27 – Contingencies and Legal Proceedings*.

33. Event After the Financial Reporting Date

On February 27, 2023, the *BOD* of *MERALCO* approved the declaration of cash dividends of ₱11.028 a share to all shareholders of record as at March 29, 2023, payable on April 26, 2023.



2022 Meralco Combined Annual & Sustainability Report

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1 About the Report

This Combined Annual & Sustainability Report (CASR) showcases the accomplishments of Meralco and its subsidiaries (hereafter referred to collectively as “One Meralco” or “the Group”) in 2022, aligned with the Group’s heightening commitment to sustainability. This report contains information on the financial and operational performance of Meralco as well as discussions on environmental, social, and governance (ESG) issues relevant to One Meralco’s businesses and stakeholders. This CASR serves as the Group’s main platform for transitioning to an Integrated Report starting this year.

This report is best read in conjunction with the 2022 One Meralco Foundation (OMF) Annual Report, *Sinag*, which provides details on OMF’s initiatives and accomplishments last year.

1.1 Scope and Coverage

GRI 2-3

This CASR covers One Meralco’s consolidated financial, operational, and ESG performance from January 1, 2022, to December 31, 2022. It also includes data from earlier years for comparability.

All reported greenhouse gas (GHG) emissions data adhere to the equity share consolidation approach, one of the emissions accounting and disclosure methods prescribed by the GHG Protocol.¹

¹ Under the equity share approach, a company accounts for GHG emissions from its operations according to its share of equity in the operation. The equity share reflects economic interest, which is the extent of the rights a company has with respect to the risks and rewards flowing from an operation.

1.2 Reporting Frameworks and Standards

Philippine Financial Reporting Standards (PFRS)

The accompanying audited financial statements in this report have been prepared in accordance with the PFRS, which comprise the new set of Generally Accepted Accounting Principles (GAAP) issued by the Philippine Financial Reporting Standards Council (FRSC) to govern the preparation of financial statements in the Philippines. The PFRS were patterned after the revised financial reporting standards issued by the International Accounting Standards Board (IASB).

Integrated Annual Corporate Governance Report (I-ACGR)

All corporate governance-related information in this report have been prepared in line with the I-ACGR, a tool developed by the Securities and Exchange Commission (SEC) for publicly listed companies (PLCs) to disclose compliance/non-compliance with the recommendations provided under the SEC's Corporate Governance Code for PLCs.

ASEAN Corporate Governance Scorecard (ACGS)

Disclosures on corporate governance in this report are aligned with the recommended best practices prescribed in the ACGS, which was developed based on the Group of 20 (G20) and the Organisation for Economic Co-operation and Development's (OECD) Principles of Corporate Governance.

Global Reporting Initiative (GRI) Standards

This report has been prepared with reference to the GRI Standards. The GRI Standards are the world's most widely used sustainability reporting framework, enabling organizations across the globe to disclose their ESG impacts on stakeholders in an empirical and comparable manner.

Sustainability Accounting Standards Board (SASB) Standards

This report has also been developed in adherence to the SASB Standards for Electric Utilities and Power Generators. The SASB Standards require disclosure of sector-specific data that are financially material to all organizations within a single industry.

Task Force on Climate-Related Financial Disclosures (TCFD) Guidance

This report adopts the climate-related disclosure recommendations of the TCFD. Section 10.1 discusses in detail the Group's governance structures and policies, strategies, risk management system and processes, as well as metrics and targets related to climate change.

1.3 Reporting Principles

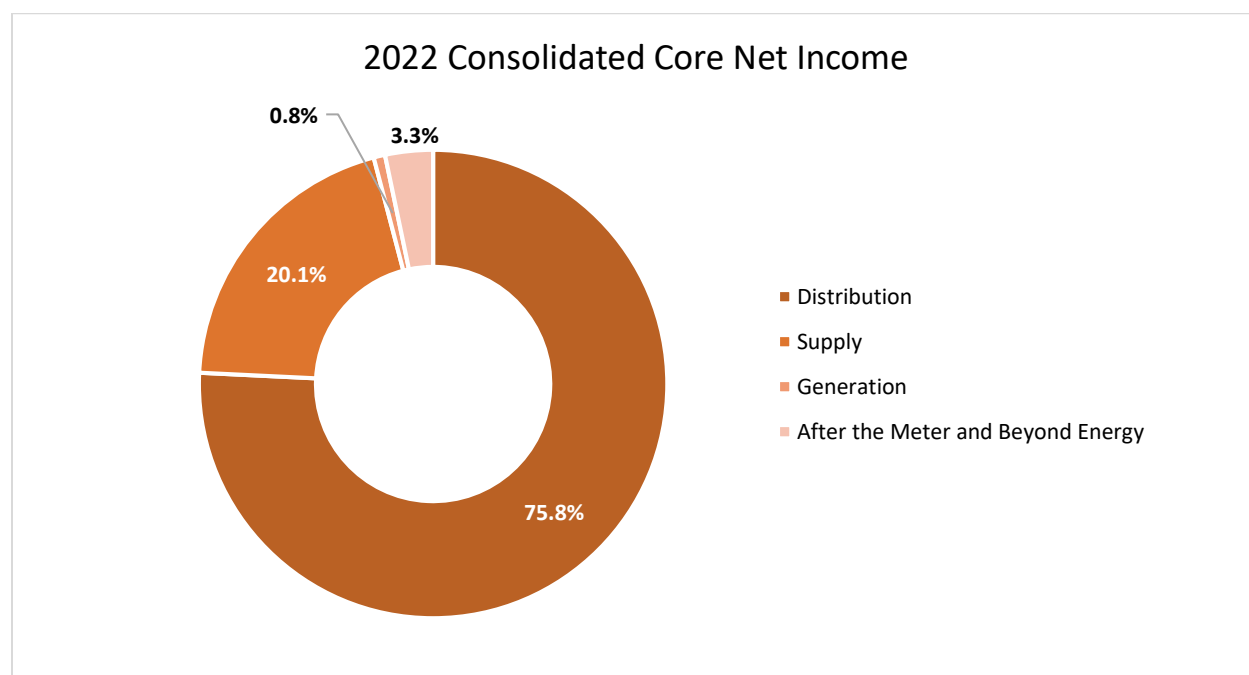
In addition to adopting the GRI Standards, SASB Standards, and the TCFD Guidance, all ESG disclosures in this report have been prepared in line with the AccountAbility AA1000 Principles by:

- Identifying ESG issues material to One Meralco and disclosing performance on these topics within the reporting period **(Materiality)**;
- Understanding the key expectations and concerns of the Group's stakeholders through various engagement channels **(Inclusivity)**;
- Ensuring complete, accurate, and timely coverage of the information presented in this report **(Responsiveness)**; and
- Being accountable for the Group's impact throughout its operations and value chain as well as mapping its contributions to the United Nations' Sustainable Development Goals **(Impact)**.

2 Business Overview

The ability of One Meralco to shine brighter after weathering a crisis comes from the resilience of its diverse businesses as well as its strategic alliance with Metro Pacific Investments Corporation and JG Summit Holdings. To realize Meralco's vision to be a world-class energy solutions provider, the Group continues to strengthen its core distribution business while expanding actively within and beyond the power sector through its subsidiaries and affiliates.

STOCKHOLDERS	TOTAL SHARES (as at December 31, 2022)	% OF TOTAL OUTSTANDING SHARES
Beacon Electric Asset Holdings, Inc.	394,059,235.00	34.96
JG Summit Holdings, Inc.	297,189,397.00	26.37
Institutional investors and public float	294,230,500.00	26.11
Metro Pacific Investments Corporation	140,906,807.00	12.50
Meralco's directors and officers	712,766.00	0.06
TOTAL	1,126,385,939.00	100.00



DISTRIBUTION

One Meralco's distribution utilities saw 6% higher energy sales and 3% more customers in 2022.

CCNI contribution: PhP 20.5 billion



(PELCO II is managed by Comstech)

SHIN CLARK

GENERATION

In 2022, Meralco's power generation arm delivered 13,506 GWh of power to distribution utilities.

CCNI contribution: PhP 5.5 billion



SUPPLY

Meralco's retail electricity suppliers continued to grow their market share in the previous year.

CCNI contribution: PhP 213 million



AFTER THE METER	BEYOND ENERGY
<p>Last year, Meralco's other subsidiaries and affiliates expanded their presence throughout the country.</p> <p>CCNI contribution: PhP 892 million</p>	
  	  

3 Financial, Operational, and ESG Highlights

Financial

PhP 426.5B Total Revenues	
PhP 51.2B Core EBITDA	PhP 51.9B Reported EBITDA
PhP 27.1B Core Net Income	PhP 28.4B Reported Net Income
PhP 16.834 Cash Dividends Declared per Common Share	

Operational

48.9 GWh Energy Sales	7.6M Customer Accounts
5.77% Distribution System Loss	99.98% Franchise Area Electrification Rate
PhP 9.52/kWh Overall Average Retail Rate	8.03 Customer Satisfaction Index
1,532 MW Generation Capacity Attributable to MGen	

Environmental, Social, and Governance (ESG)

41,909 MtCO₂e Group-wide Equity-Adjusted Absolute Emissions		
6,258 MtCO₂e Scope 1	2,149 MtCO₂e Scope 2	33,501 MtCO₂e Scope 3
96% Solid Waste Diversion Rate		
23% Group-wide Women Representation ²	0.84 Lost Time Injury Frequency Rate (LTIFR)	
PhP 234M Total Spend on Corporate Social Responsibility (CSR) Efforts		
ZERO Confirmed Cases of Corruption	ZERO Confirmed Cases of Discrimination	

² Includes all full-time employees and fixed-term/project-based hires across Meralco and its subsidiaries

4 Message from the Chairman and the President & CEO

GRI 2-22 | GRI 2-23

To our fellow shareholders,

After the darkest of times, we now shine brighter than ever.

In 2022, the world built enough immunity to turn the tide against the COVID-19 pandemic, allowing us to resume our normal lives. However, the year also ushered in new battles—from geopolitical conflicts such as the Russo-Ukrainian War to economic challenges, including global inflation, energy insecurity, supply chain vulnerabilities, and food shortages. Fortunately, our newfound resilience from dealing with an unprecedented crisis enabled us to not only overcome these obstacles but also to surpass our past feats and achieve new highs.

By the end of last year, the Philippine economy posted an outstanding 7.6% GDP growth, the highest-recorded upsurge in 46 years.³ This was buoyed by an equally impressive 4.2% unemployment rate—the lowest since 2005—with a million Filipinos joining the active labor force.⁴

Likewise, we at Meralco also emerged from 2022 stronger than ever.

Our consolidated core net income grew by 10% from PhP 24.6 billion in 2021 to PhP 27.1 billion last year. Moreover, our reported net income increased in the same period by 21% from PhP 23.5 billion to PhP 28.4 billion. Meanwhile, core earnings per share (EPS) was valued at PhP 24.048, 10% higher than the PhP 21.833 recorded in the previous year. We also declared a total cash dividend of PhP 16.834 per share—up from PhP 15.283—reflecting a payout ratio of 70% of our core EPS. Our enhanced profitability in 2022 was driven in part by significant improvements in MGen, our power generation business, on the back of the strong performance of PacificLight Power Pte. Ltd. and San Buenaventura Power Ltd.

Apace with our financial gains was our enhanced operational performance. We successfully expanded our customer base by 2.9% from 7.4 million in 2021 to 7.6 million last year, which in turn increased our energy sales by 6.1% from 45,515 GWh to 48,271 GWh. Despite the significant increase in the power we delivered to our customers, our system loss rate declined from 5.85% to 5.77% within the same period, which, for the 15th consecutive year, outperformed the prescribed regulatory cap of 6.5%.

Indeed, our light radiated more intensely in the year that passed.

³ Mapa, D.S. (2023) [*GDP Expands by 7.2 Percent in the Fourth Quarter of 2022, and by 7.6 Percent in Full-year 2022*](#), Philippine Statistics Authority.

⁴ Mapa, D.S. (2023) [*Unemployment Rate in November 2022 is Estimated at 4.2 Percent*](#), Philippine Statistics Authority.

While the new battles on the economic front have somewhat been overcome, the greater war against the triple planetary crisis—climate change, pollution, and biodiversity loss—still rages on.

According to NASA, 2022 was the fifth warmest year on record, with an average global surface temperature of 1.11 °C above pre-industrial levels. Meanwhile, 11 million tonnes of plastic waste enters the world's oceans every year, which is set to grow exponentially within the next 20 years.⁵ Finally, global wildlife populations have declined by 69% in the past five decades and continue to be threatened by the climate and waste crises.⁶

The same issues plague us here at our home. Average losses from climate-related disasters amount to nearly PhP 49 billion each year.⁷ Air pollution continues to be lethal, with 32% of deaths from stroke and ischemic heart disease caused by dirty air.⁸ Biodiversity is also in peril, with at least 700 species in the country endangered by widespread habitat destruction and forestland conversion.⁹

Recognizing the urgency of these, in 2022, the world marched forward and intensified action to address the most pressing issues of our time.

In November 2022, the global community sealed a historic climate finance agreement at the 27th United Nations (UN) Climate Change Conference (COP27) in Egypt to help vulnerable developing countries cope with losses and damages caused by the worsening climate disruption. A week later, thousands of delegates from across the globe participated in the first UN Intergovernmental Negotiation Committee session (INC-1) in Uruguay to start developing a legally binding treaty to combat plastic pollution. And towards the end of 2022, at the 15th UN Biodiversity Conference (COP15) in Canada, world leaders signed what was hailed as “the Paris Agreement for nature”, formalizing the call to halt rapid ecosystem degradation and species extinction.

In parallel, the Philippines rolled out high-impact measures enabling the country's transition to a sustainable, resilient economy, including the Department of Finance's issuance of the country's first-ever sustainability global bonds worth USD 1 billion. The government is also considering imposing taxes on carbon and single-use plastics to further bolster sustainable development in the country.¹⁰

Such unprecedented milestones in international cooperation and local action underscore how society has begun to take the necessary steps to heal humanity's relationship with Mother Earth. And we at Meralco are proud to have contributed to these triumphs by growing our business in harmony with nature and by

⁵ Lai, O. (2022) [8 shocking plastic pollution statistics to know about](#), Earth.Org.

⁶ Whiting, K. (2022) [6 charts that show the state of biodiversity and nature loss - and how we can go nature positive](#), World Economic Forum.

⁷ Ibañez, J.P. (2021) [Philippines incurs over P500B in losses due to climate-related hazards](#), BusinessWorld.

⁸ World Health Organization (2022) [Health and environment scorecard Philippines](#), World Health Organization.

⁹ Cabico, G.K. (2022) [Philippines joins push to protect at least 30% of planet's land, oceans](#), Philstar.com.

¹⁰ Diokno, B.E. (2022) [Eco-Business Unlocking Capital for Sustainability 2022: New Election Promises and the Road to Sustainable Development](#), Department of Finance.

implementing meaningful efforts to empower our customers, our communities, and our country—true to the essence of the UN 2030 Agenda for Sustainable Development.

Advancing the Global Goals by Powering the Good Life

As we remain steadfast in our commitment to sustainability, the UN Sustainable Development Goals (SDGs) remain as the North Star in our journey. We at Meralco, as the leading electric utility in the Philippines, are uniquely positioned to contribute to the achievement of **SDG 7: Affordable and Clean Energy**, as we fulfill our mission **to provide our customers the best-value energy solutions—reliably, affordably, superbly, and sustainably**. Our ecosystem of businesses and initiatives within and beyond the power sector also allow us to support 10 other Global Goals as well as the Ten Principles of the UN Global Compact.

Our Company’s unwavering dedication to advancing the SDGs enables us to continue **powering cities and communities while preserving our planet, empowering our people, and creating prosperity for all**—the hallmark of our sustainability agenda, **Powering the Good Life**.

POWER

We brighten the lives of Filipinos.

In 2022, we continued charging towards our goal of providing energy for all. Through the Meralco Electrification Program, we delivered power to 99.98% of households in our franchise area, ensuring that remote and low-income communities received the gift of light in their homes.

Furthermore, while we sustained our support for residential customers who continued to work or study from home, we also ensured the stable flow of electricity to commercial districts and industrial centers fueling the country’s economic growth. Last year, we recorded our all-time best SAIFI and SAIDI at 1.30 and 128.42 minutes, respectively.¹¹

2022 also saw us accelerate our just, orderly, and affordable transition to clean energy. We aggressively worked towards our goal of securing 1,500 MW of RE through 2025 by signing power supply agreements totaling 1,475 MW.¹² In the same vein, we remained committed to building 1,500 MW of attributable RE generation capacity through 2027 with the continued construction of MGen’s two new solar farms in Baras, Rizal, and Currimao, Ilocos Norte.¹³

¹¹ SAIFI: System Average Interruption Frequency Index | SAIDI: System Average Interruption Duration Index

¹² Meralco DU PSAs: Terra (850 MW, solar) | MPower PSAs: Pangasinan (315 MW, solar), Talim (148.75 MW, wind), Sembrano (61.25 MW, wind), and RERI (100 MW, solar, wind, and geothermal)

¹³ Total RE capacity attributable to MGen by end of 2022 was 102 MW, comprised of BulacanSol in San Miguel, Bulacan (33 MW), Vena Garcia II in Currimao, Ilocos Norte (34 MW), and Satellite in Baras, Rizal (45 MW).

PLANET

We light up a greener future through innovation.

Last year, we sped up our drive to greenify our Company's vehicle fleet. Through our Green Mobility Program, 100% of our Sector Offices and Business Centers (BCs) have deployed a total of 156 EVs. This milestone keeps us on track to electrify at least 25% of our fleet by 2030, exceeding the 5% requirement of the Electric Vehicle Industry Development Act.

Another core undertaking under this pillar is our Resource Conservation and Efficiency Program, through which we implemented key energy efficiency measures in our facilities. In 2022, we achieved 978,000 kWh in electricity savings across our Sector Offices and BCs from various initiatives, which included the replacement of more than 4,800 lighting fixtures in our facilities with LED alternatives and the upgrading of 79 conventional ACUs to inverter units.

Lastly, we ramped up our waste management efforts through our Race to Zero Waste Program. We continued to increase the amount of our solid waste diverted away from landfills and oceans—from 17% in 2019 to a record high 96% in 2022. We achieved this by constructing materials recovery facilities in our headquarters and offices and by continuing to raise awareness on best practices among our workforce.

PEOPLE

Our employees are our greatest source of light.

In 2022, we continued to advance gender diversity and inclusion in our organization via our #Mbrace Program, through which we launched training and scholarship initiatives to help build our pipeline of skilled female electrical technicians. By the end of the year, women comprised 22% of our Distribution Utility workforce, twice the global energy sector average of 11%.

In support of #Mbrace, we established and enacted the Diversity and Inclusion Policy to further strengthen our pledge to respect all individuals regardless of gender, age, ethnicity, religion, and socioeconomic background among others.

Finally, we ratified the Human Rights Policy to institutionalize our commitment to integrating human rights principles and standards into our business operations—in support of the first two principles of the UN Global Compact.

PROSPERITY

We illuminate the path towards a better life for our constituents and communities.

As we more firmly anchor our business on social and environmental responsibility, we empower stakeholders within our ecosystem to advance their own sustainability agendas. Last year, we continued

to drive the Meralco Supplier Sustainability Scorecard (MS³) to assess the environmental, social, and governance (ESG) performance of our top 218 suppliers, comprising 95% of our Company's vendors. Through our expanded capacity-building initiatives, 92% of our top supply chain partners fully complied with our Company's sustainability standards.

We also partnered with like-minded organizations in developing initiatives targeted towards uplifting underserved and marginalized communities. Among such efforts was the Trash-to-Cashback Program, a collaborative project between Meralco, the local government of Quezon City, and environmental nonprofits. Through this program, our customers traded recyclables in select Meralco Business Centers for points used to pay for their electricity bills.

Finally, with One Meralco Foundation's One for Trees (OFT) Program, we continued to help revive and rehabilitate forests and watersheds. In 2022 alone, we sowed over 348,000 seedlings with the help of our host communities and organizations, bringing us to a total of 1.7 million trees planted. Beyond reforestation, OFT also provided a steady stream of income and dependable livelihood for our partner communities through agroforestry.

These initiatives are a testament to our heightened commitment to powering the good life and have led us to be recognized by the global sustainability community. In particular, we saw across-the-board upgrades and all-time best performance in our ESG ratings while maintaining Meralco's continued inclusion in the FTSE4Good Index Series. More recently, our Company was inducted into the 2023 Bloomberg Gender-Equality Index. These accomplishments prove that we at Meralco are indeed on the right path, inspiring us to continue blazing new trails towards sustainability.

Marching Forward to a Better and Brighter Normal

Despite the significant strides we have taken in our sustainability journey, we at Meralco recognize that we will continue to face rough terrains and towering obstacles. Nonetheless, we continue to power through with hope and vigor, armed with our most important learning in recent years—that humanity can achieve remarkable feats when we come together with a shared vision for a brighter future. We invite you to march with us as we light the way towards powering better lives for all.

MANUEL V. PANGILINAN

Chairman

RAY C. ESPINOSA

President & Chief Executive Officer

5 Our Industry

GRI 2-6

2022 Philippine Economic Performance¹⁴

7.6% Gross Domestic Product (2021: 5.7%)		
5.8% Annual Inflation Rate (2021: 4.5%)	4.3% Unemployment Rate (2021: 6.6%)	
8.3% Household Spending (2021: 4.2%)	9.2% Services Sector Growth Rate (2021: 5.4%)	6.7% Industry Sector Growth Rate (2021: 8.5%)

Overall Philippine GDP Growth Prospects

Government Targets (December 2022)	Economist Intelligence Unit (January 2023)	World Bank (December 2022)
2023: 6.0–7.0%	2023: 4.8%	2023: 5.4%
2024–25: 6.5–8.0%	2024–27: 6%	2023–25: 5.7%

According to the World Bank’s December 2022 Philippines Economic Update, the deteriorating global economy—caused by the long-term impacts of the COVID-19 pandemic and the war in Ukraine—is spilling into the Philippines, tempering the country’s growth prospect. This is manifested in the form of high inflation rate, peso depreciation, and capital market volatility. Steeper global growth slowdown, abrupt fiscal policy tightening, and prolonged geopolitical tensions will continue to pose risks to the economy.

Energy Industry Realities

According to the Commodity Markets Outlook published by the World Bank in October 2022, energy prices have fallen from record-high prices in early 2022 amid slowing global growth and concerns of a global recession. Prices are expected to decline over the next two years but will remain above their recent five-year (2016–21) average. Additional bouts of price volatility may occur in the coming years as further supply chain disruptions are still significant risks for oil and gas.

On the clean energy transition front, the world will face challenges in accelerating the shift to renewables as Asia will become a key source of fossil fuels globally in the next few years as a result of the disruptions in global energy supply caused by the ongoing Russo-Ukrainian war. This forecasted surge in demand in fossil fuels will cause energy prices in the region to increase.¹⁵

¹⁴ Various sources from the Philippine Statistics Authority and the National Economic and Development Authority

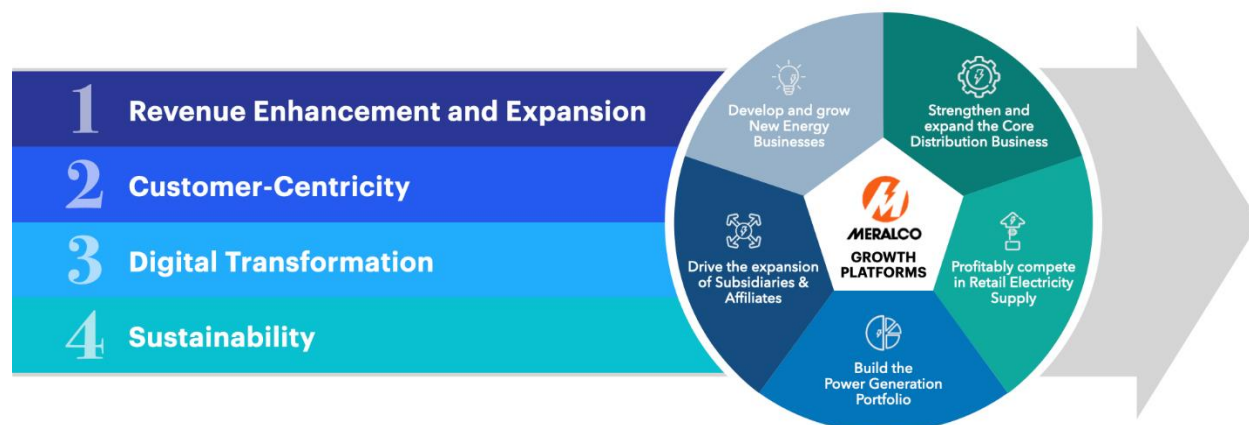
¹⁵ Fernandez, H.A. (2023) [6 trends that will shape sustainability in 2023](#). *Eco-Business*.

6 Our Business

6.1 Value Creation Model

GRI 2-6

VISION	MISSION	VALUES
To be a world-class energy solutions provider, powering our nation and empowering our people today and for generations to come	To provide our customers the best value energy solutions—reliably, affordably, superbly, and sustainably	Customer Centricity, Innovation, Sustainability, Excellence, Integrity, Malasakit, Bayanihan



CAPITALS	
Financial <ul style="list-style-type: none"> • PhP 519.3 B in total assets • PhP 42.6 B in capital expenditures 	Human <ul style="list-style-type: none"> • 21,010 employees • 1,570 outsourced workers
Natural <ul style="list-style-type: none"> • 4.7M tonnes of coal • 35.1M Btu of gas • 26.7M liters of diesel • Sunlight 	Manufactured <ul style="list-style-type: none"> • 133 substations (21,263 MVA) • 19,557 km of power distribution lines • 1,532 MW of attributable power generation capacity (via MGen)
Intellectual <ul style="list-style-type: none"> • Supervisory Control & Data Acquisition System • Storm Hardening Program • Lightning Protection Improvement Program • Smart Grid Program • Customer Centricity & Digital Transformation Program • Employee engagement programs • Corporate social responsibility programs • Sustainability programs: <ul style="list-style-type: none"> ○ Green Mobility ○ Race to Zero Waste ○ Resource Conservation & Efficiency ○ Diversity & Inclusion (D&I) ○ Greening the Network • Corporate policies (e.g., Human Rights, D&I) 	Social & Relationship <ul style="list-style-type: none"> • Investors and shareholders • Government entities: <ul style="list-style-type: none"> ○ Department of Energy ○ Energy Regulatory Commission ○ Local government units in the franchise area • Industry partners: <ul style="list-style-type: none"> ○ Generation companies ○ National Grid Corporation of the Philippines ○ Private electric utilities ○ Electric cooperatives • Suppliers and contractors • Partner communities • Sustainability organizations: <ul style="list-style-type: none"> ○ United Nations Global Compact ○ Philippine Business Coalition for Women Empowerment

KEY CORPORATE PERFORMANCE INDICATORS		
<i>Financial</i> Revenues EBITDA Net Income Cash Dividends Declared per Common Share	<i>Operational</i> Energy Sales ¹⁶ Customer Connections System Loss Electrification Rate ¹⁷ Average Electricity Rates Customer Satisfaction Index	<i>Sustainability</i> ¹⁸ GHG Emissions Waste Diversion Rate Women Representation LTIFR No. of CSR Beneficiaries No. of Corruption Cases No. of Discrimination Cases

¹⁶ Combined electricity sold by Meralco and Clark Electric Distribution Company

¹⁷ Percent of households electrified within Meralco's franchise area

¹⁸ All sustainability-related KPIs—excluding GHG emissions—cover Meralco only. GHG emissions cover all of One Meralco.

6.2 Business Units

GRI 2-1 | GRI 2-2 | GRI 2-6

As it evolves towards becoming a more sustainable enterprise, One Meralco continues to expand and enhance its business portfolio while strengthening its sustainability agenda across the Distribution Utility and its subsidiaries. The Group has pioneered and integrated sustainable strategies and solutions in all its areas of expertise—including power generation and distribution, electric transport, engineering, procurement, and construction (EPC), logistics, telecommunications, and financial and manpower services—to effectively enable the good life for millions of Filipinos.

A. Distribution

Manila Electric Company (Meralco)

Meralco is the premier and largest electric distribution utility in the Philippines. Headquartered in Pasig City, the Company delivers power to the entire areas of Metro Manila, Bulacan, Cavite, and Rizal as well as parts of the provinces of Batangas, Laguna, Pampanga, and Quezon. Meralco’s coverage spans over 9,685 square kilometers, servicing over 7 million households and 580,000 businesses, which collectively account for more than half of the country’s GDP.

With 119 years of experience as the country’s leading power company, Meralco continues to contribute to the Philippines’ sustainable growth by providing electricity to government offices, central business districts, educational and health institutions, and industrial parks. It partners with government agencies and industry players to deliver high-quality service while ensuring compliance with rates approved by the Energy Regulatory Commission. As energy drives economies and provides ways to alleviate poverty, Meralco pursues the provision of accessible and reliable power at a fair and reasonable cost, especially to the unserved and underserved communities who need it most.

As part of Meralco’s goal to serve the country’s growing demand for greener power, the Company contracted nearly 3% of its supply from clean energy sources in 2022. By 2030, Meralco expects the share of renewable energy (RE) in its supply mix to be at least 22%.

9,685 km²	37 cities	7.6 M
land area covered	74 municipalities	customer connections

Clark Electric Distribution Corporation (Clark Electric)

Clark Electric distributes power in the Clark Special Economic Zone (CSEZ), the site of the former U.S. Clark Air Base, which was transformed into a major economic district comprising the Clark Freeport Zone and contiguous subzones. Clark Electric aspires and strives to transform the CSEZ into a leading powerhouse for industry, aviation, export business, and higher learning as well as into Central Luzon's hub for leisure, entertainment, and gaming.

In support of One Meralco's transition to clean energy, Clark Electric sourced 25% of its power supply from RE sources in 2022. It is actively working towards growing the share of RE in its fuel mix.

Meralco Ecozone Power (MEP)

MEP is responsible for the operation, construction, and maintenance of the Philippine Economic Zone Authority (PEZA) Cavite Economic Zone's (CEZ) electric distribution system. In compliance with the Department of Energy (DOE), the Energy Regulatory Commission, and PEZA regulations, MEP provides electricity-related services for CEZ locators, including service application, meter reading, rate computation, billing, collection, delinquency management, and service irregularity management.

Comstech Integration Alliance, Inc. (Comstech)

Since 2014, Comstech has been operating the Pampanga II Electric Cooperative (PELCO II) under an investment management contract, serving the City of Mabalacat and six municipalities in Pampanga. PELCO II seeks to be the trusted energy partner for local government units in Pampanga, enabling and advancing the province's growth spurred by new commercial and industrial locators. In addition, PELCO II sustains communities by providing electricity to resettlement areas in select areas in Pampanga.

Shin Clark Power Holdings, Inc. (Shin Clark)

Shin Clark is responsible for the financing, development, operation, and maintenance of the electric distribution system in the 9,450-hectare New Clark City in Tarlac through a Joint Venture Agreement with the Bases Conversion and Development Authority (BCDA). It collaborates with the BCDA to achieve its vision of showcasing the New Clark City as the first smart, sustainable, and disaster-resilient metropolis in the Philippines. Shin Clark aims to provide reliable and affordable energy to New Clark City locators.

B. Generation**Meralco PowerGen Corporation (MGen)**

MGen seeks to help the Philippines achieve energy security by building a diverse power generation which will produce sufficient, reliable, and cost-competitive energy supply. Its San Buenaventura Power Ltd. Co. (SBPL) power plant—MGen's first major investment—pioneered high-efficiency, low-emissions (HELE)

coal technology¹⁹ in the country. Meanwhile, its subsidiary MGen Renewable Energy, Inc. (MGreen) aims to make MGen a leader in the clean energy space.

On March 31, 2021, MGen fully acquired Global Business Power Corporation (GBP). By combining its strong presence in Luzon with GBP's two-decade expertise in the power generation industry in the Visayas and Mindanao, MGen will serve the varying power requirements of the Philippine market.

As of end-2022, MGen's total gross power generation capacity was 2,446 MW, 62.7% of which was directly attributable to the company.

MGen Renewable Energy, Inc. (MGreen)

MGreen is a wholly owned subsidiary of MGen, established to serve as Meralco's main platform for investments in utility-scale RE. MGreen aims to develop and operate green power plants across multiple technologies, including solar, wind, and hydropower. MGreen will lead One Meralco's drive to build an RE portfolio of at least 1,500 MW of attributable capacity before the end of the decade.

Last year, BulacanSol—MGreen's maiden, 55-MW RE plant located in San Miguel, Bulacan—delivered 112 GWh of solar energy to Meralco, with an average plant availability of 97.8%. Moreover, MGreen continued constructing its 75-MW solar plant in Baras, Rizal, through PH Renewables, Inc., a joint venture with Japan-based Mitsui & Co.'s subsidiary Mit-Renewables Philippine Corporation; and its 68-MW solar plant in Currimao, Ilocos Norte, in partnership with Vena Energy, a leading independent power producer and RE developer in the Asia-Pacific region. These two projects will begin commercial operations in the first half of 2023.

San Buenaventura Power Ltd. (SBPL)

SBPL's 500-MW supercritical coal-fired plant in Mauban, Quezon, delivered 2,765 GWh of energy to Meralco last year, with an average plant availability of 87.9%. In 2022, the facility underwent 29.55 days and 15.28 days of scheduled and unscheduled maintenance shutdowns, respectively.

Global Business Power Corporation (GBP)

In 2022, GBP delivered 4,927 GWh of energy from its portfolio of fossil fuel-fired power plants with a total gross capacity of 1,091 MW, of which 810 MW are contracted under PSAs with captive and contestable customers as well as ancillary services procurement agreements.

¹⁹ The United Nations sees supercritical technologies like HELE as part of its Clean Development Mechanism. To illustrate this, a 500-MW (gross) HELE coal plant can reduce emissions by approximately 110 thousand tonnes CO₂ vis-à-vis a comparable non-HELE plant. This is because a HELE plant can achieve 44% operational efficiency, in comparison with older fossil fuel-fired plants, which usually operate at 33% efficiency.

PacificLight Power Pte. Ltd. (PacificLight)

PacificLight's 800-MW liquefied natural gas facility in Jurong Island, Singapore, generated and sold a total of 5,619 GWh of energy in 2022. MGen holds a 58% interest in PacificLight Power through direct and indirect shares.

2,446 MW

gross capacity

2,251 MW

net capacity

1,532 MW

attributable capacity

LIST OF MGEN-GBP POWER PLANTS					
Name of Company	Facility	Location	Fuel Type	Capacity (in MW)	
				Attributable	Gross
PowerSource First Bulacan Solar	BulacanSol	San Miguel, Bulacan	Solar	33.0	55.0
San Buenaventura Power Ltd.	SBPL	Mauban, Quezon	Coal	255.0	500.0
GBH Power Resources, Inc.	GPRI	Pinamalayan, Oriental Mindoro	Diesel	7.5	7.5
Cebu Energy Development Corporation	CEDC	Toledo City, Cebu	Coal	128.4	246.0
Toledo Power Company	TPC Sangi	Toledo City, Cebu	Coal	60.0	60.0
	TPC 1A	Toledo City, Cebu	Coal	82.0	82.0
	TPC Carmen	Toledo City, Cebu	Diesel	40.0	40.0
Panay Energy Development Corporation	PEDC 1&2	Iloilo City, Iloilo	Coal	146.5	164.0
	PEDC 3	Iloilo City, Iloilo	Coal	134.0	150.0
Panay Power Corporation	PPC 1	Iloilo City, Iloilo	Diesel	64.3	72.0
	PPC 2	Iloilo City, Iloilo	Diesel	17.9	20.0
	PPC 3	Nabas, Aklan	Diesel	6.7	7.5
	PPC 4	New Washington, Aklan	Diesel	4.5	5.0
Sarangani Energy Corporation	SEC 1	Maasim, Sarangani	Coal	44.4	118.5
	SEC 2	Maasim, Sarangani	Coal	44.4	118.5
PacificLight Power	PLP	Jurong Island, Singapore	Gas	464.0	800.0

C. Supply**MPower**

MPower is Meralco's local retail electricity supplier (LRES) that serves contestable customers²⁰, including the country's top corporations, within the Company's franchise area. Lauded for its best-in-class service and stable and reliable power supply, MPower has established itself as the most-preferred LRES in the Philippines, enjoying a leading 30% share in the country's competitive retail electricity market (CREM) in terms of aggregate demand.

In 2022, MPower sold nearly 6,700 GWh of energy to over 580 customers. Moreover, in response to the growing clamor for RE in the Philippines, MPower contracted 600 MW of its power supply from solar and wind. This business unit of Meralco is actively increasing the share of earth-friendly energy sources in its supply portfolio to complement its traditional sources of power.

²⁰ Contestable customers are those that consume an average monthly demand of at least 500 kilowatts (kW).

Vantage Energy Solutions and Management, Inc. (Vantage Energy)

Vantage Energy is Meralco's first affiliate Retail Electricity Supplier (RES) which operates in Luzon and the Visayas. Established in 2017, it supplies energy to contestable markets where Retail Competition and Open Access (RCOA) is in effect. In recent years, the Company's retail portfolio has grown significantly, ably serving the energy needs of over 50 customers. Adhering to its mission to provide quality electricity service, Vantage Energy is recognized as an emerging RES of choice in the CREM nationwide.

Vantage Energy posted nearly 1,100 GWh of energy sales in 2022, owing to its over 130 commercial and industrial customers.

D. After the Meter**Meralco Energy, Inc. (MServ)**

As the largest DOE-accredited energy service company (ESCO) in the Philippines, MServ serves as a one-stop shop for energy and EPC services and solutions that guarantee total system reliability and efficiency for customers. MServ is known for its innovative solutions in energy audit and energy efficiency; EPC of mechanical, electrical, plumbing, and fire protection facilities; operations and maintenance (O&M) of customer-owned facilities; smart building and streetlight management; and wastewater treatment.

A Category AAA Philippine Contractor Accreditation Board (PCAB)-licensed company, MServ is also the lead integrator of One Meralco's hyperscaler services, enabling the Group to offer a full end-to-end service to large cloud service providers—from site assessment to construction—by providing EPC and energy efficiency solutions.

MSpectrum, Inc. (Spectrum)

Established in 2016 as part of Meralco's thrust to advance RE adoption in the Philippines, Spectrum provides safe and earth-friendly solar energy solutions. As the market leader in the industry, Spectrum has already installed a total capacity of over 51 MW across 661 solar projects nationwide.

Spectrum is divided into four business segments: (1) Solar for Home for residential customers, (2) Solar for Business for commercial and industrial clients, (3) Microgrid & Utility-Scale for off-grid and large-scale projects, and (4) Operations and Maintenance for existing RE installations. Last year, Spectrum became the exclusive Philippine distributor of Enphase, the world's leading solar power inverter manufacturer. Going forward, Spectrum will also explore other RE offerings such as battery energy storage systems.

eSakay, Inc. (eSakay)

Advancing the future of electric vehicles (EV) in the Philippines, eSakay offers a wide range of EV solutions—from electric cars, vans, buses, jeeps, and shuttles to micro-mobility units such as electric motorbikes and kick scooters—to private and public institutions. The Company's green mobility solutions likewise include the supply, installation, operation, and maintenance of EV charging infrastructure.

eSakay continues to support the Department of Transportation’s Public Utility Vehicle Modernization Program, which aims to promote cleaner public transport options and provide stable livelihood to thousands of public utility drivers and operators across the country.

E. Beyond Energy

CIS Bayad Center, Inc. (Bayad)

As the pioneer and trusted brand in outsourced payment collection in the Philippines, Bayad aggregates at least 500 billers into a single, robust system used by more than 100,000 physical touchpoints comprised of 906 Bayad Centers²¹ and over 99,000 Bayad Partners²². It is also used by over 110 million combined subscribers of Bayad App, Bayad Online, and online platforms owned and managed by Bayad Partners.

In 2022, to further cater to the evolving needs of its clients, Bayad launched Bayad Asenso, a feature embedded in Bayad App that allows micro, small, and medium enterprises to become authorized Bayad Agents offering bills and loading payment services for their respective businesses. In addition, Bayad introduced Bayad Checkout, a commercial solution enabling businesses and merchants to collect payments from their customers’ invoices through their own websites and mobile applications.

Meralco Industrial Engineering Services Corporation (MIESCOR)

A wholly owned subsidiary of Meralco, MIESCOR—through its subsidiaries MIESCOR Builders, Inc. (MBI) and MIESCOR Logistics, Inc. (MLI)—offers a wide range of design, EPC, logistics, and O&M services across the power, water, telecommunications, transport, infrastructure, and manpower sectors.

MIESCOR is PCAB Category AAAA-certified for general engineering, building, electrical, mechanical and communication facilities contracting, while MBI and MLI hold Category AAA and Category AA licenses, respectively. MIESCOR also holds three ISO certifications for quality management, environmental management, and occupational health and safety.

In 2022, MIESCOR launched its Anti-Obstruction of Power Lines (AOPL) service, a new business venture developed in response to the AOPL Act of 2019, which ensures the uninterrupted supply of power through the grid. MIESCOR also ventured into the telecommunication infrastructure sector through MIESCOR Infrastructure Development Corporation (MIDC), which aims to be a major player in the common tower space by servicing the country’s leading mobile network operators.

MIESCOR Infrastructure Development Corporation (MIDC)

Established in late 2021, MIDC is a joint venture between MIESCOR (which has a 51% stake in the company) and US-based Stonepeak Infrastructure Partners (which owns the remaining 49%) that

²¹ A combination of Bayad-owned outlets, franchisees, branches operated by partner local corporations as well as physical retail payment machines

²² Corporate establishments (e.g., supermarkets, department and convenient stores, and pawnshops) and digital financial service providers (e.g., companies that own and operate e-wallets and banks)

is committed to providing sustainable digital infrastructure solutions that meet the rapidly growing connectivity needs of the country.

Leveraging MIESCOR's expertise in EPC, MIDC is duly recognized by the Philippine Department of Information and Communications Technology to operate as an independent tower company specializing in the development, ownership, and management of communication towers and infrastructure.

In 2022, MIDC acquired 2,180 towers and related infrastructure from Globe Telecom, Inc., for PhP 26.2 billion. As part of the acquisition agreement, Globe will lease back the towers and be the anchor tenant for 15 years, with a commitment to adding 750 build-to-suit towers over the next four years. By the end of 2022, 860 of the acquired towers have been successfully transitioned from Globe to MIDC, with the remaining batches expected to be completed by September 2023.

Radius Telecoms, Inc. (Radius)

In recent years, Meralco's telecommunications arm, Radius, has ventured beyond its core business of data & internet connectivity and managed services by offering cloud-based services, such as Software-Defined Wide Area Network (SD-WAN), Security-as-a-Service (SECaaS), and Network-as-a-Service (NaaS) among others. These innovative solutions enable clients to reliably fend off cybersecurity threats and effectively manage cyberattacks on their networks.

While it actively expands its digital offerings, Radius continues to strengthen its core business. Its flagship service RED Fiber—which runs on a 100% pure end-to-end fiber network that utilizes Gigabit Passive Optical Network as a last-mile technology—ended 2022 with nearly 100,000 subscribers (comprised of small and micro businesses as well as residential customers) in Metro Manila, Bulacan, Cavite, Laguna, Pampanga, and Cebu.

In the same year, Radius continued its strategic business expansion by enhancing its digital innovation and service offerings beyond its physical network footprint. It launched its Optical Transport Network (OTN) solution, powered by Nokia, to address the need of large enterprises, data center operators, and hyperscalers for high-capacity connectivity service.

7 Our Strategy

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One Meralco continues to actively transform its business towards becoming a sustainable enterprise. Anchored on its **long-term sustainability strategy (LTSS)**, the Group will drive its **just, orderly, and affordable transition to clean energy**, with the end goal of becoming coal-free by 2050. Running in parallel to this carbon reduction effort is One Meralco's social commitment to promote the well-being of communities across five social impact areas.

7.1 Long-Term Sustainability Strategy: Charging Towards a Coal-Free Future

One Meralco's sustainability agenda is supported by four pillars (4Ps): **Power, Planet, People, and Prosperity**. In 2022, the Group continued implementing strategic programs for each of the 4Ps, such as:

PILLAR	SAMPLE PROGRAM
Power	BulacanSol , a 55-MW solar farm in Bulacan
Planet	Use of natural ester oil in distribution transformers Green Mobility Program (electrification of company-owned vehicles)
People	#Mbrace Program (for diversity and inclusion)
Prosperity	Customer Centricity Transformation Program (for customer empowerment) School Electrification Program (for community upliftment) Meralco Supplier Sustainability Scorecard or MS³ (for supply chain partners)

One Meralco has also defined corporate-level ESG metrics with baselines and targets that are regularly monitored by the Group's senior management:

PILLAR	SAMPLE CORPORATE PERFORMANCE INDICATOR
Power	% of households energized in Meralco's franchise area
Planet	Scope 1 emissions
People	% of women employees in Meralco's workforce
Prosperity	Number of off-grid schools electrified by OMF

In its journey towards decarbonization, One Meralco faces intrinsic structural challenges in the Philippine power sector that may impede its sustainability progress:

- **Economic**
 - While solar and other renewable energy (RE) sources have a potential for reduced levelized cost of electricity, their capacity factors are lower, requiring other technologies (including battery energy storage systems) to cost-effectively enable the provision of reliable, 24/7 power supply.

- **Regulatory**

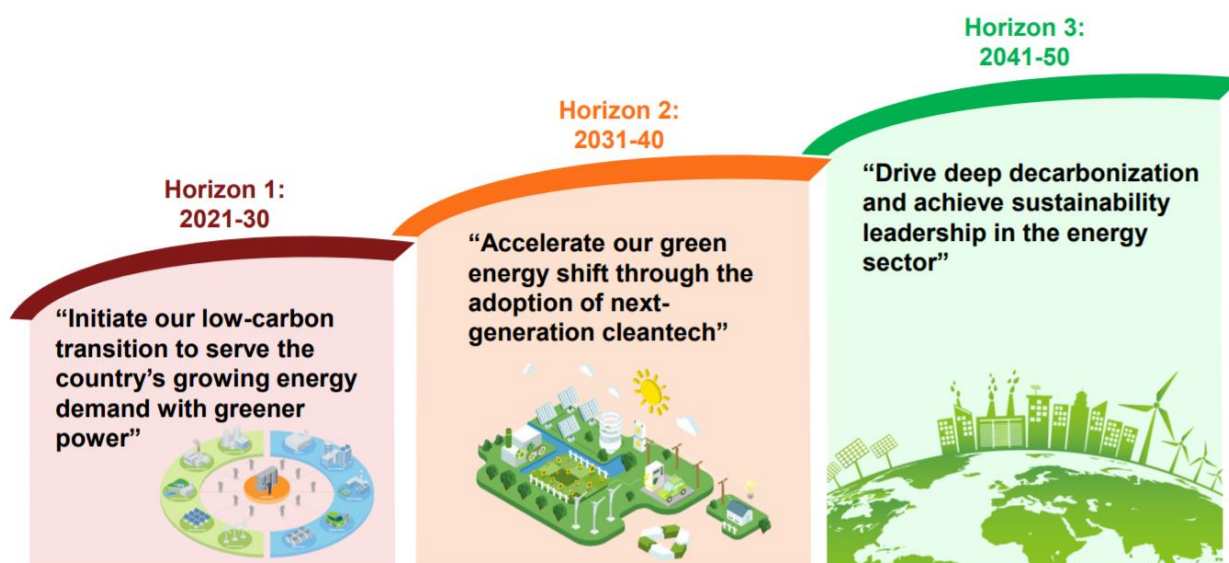
- The government's least-cost, technology-neutral mandate requires distribution utilities to undergo a Competitive Selection Process (CSP) in the procurement of power supply.

- **Technical**

- Solar farms require significantly more land (up to four times) than fossil fuel-fired plants.
- The grid needs to put in place additional infrastructure to manage intermittent RE capacity to avoid system interruptions.

Notwithstanding these challenges, One Meralco remains fully committed to sustainability. While the Philippines' emissions represent only 0.7% of the global total, the Group is linked to about 11% of total emissions of the country, presenting a unique opportunity and obligation for the Group to lead the greenification of the local power industry.

Under a business-as-usual scenario²³ through 2030, the Group's total emissions are expected to grow at 2.9% versus electricity demand (a proxy for business growth) at 3.5%. Nevertheless, One Meralco aspires to be more sustainable as it focuses on reducing emissions over the three horizons of its LTSS as it drives to be coal-free before 2050:



²³ A business-as-usual scenario is one where One Meralco continues to utilize fossil fuel sources for both its power generation and distribution businesses without committing to expanding the share of RE in its generation portfolio and distribution utility supply mix.

HORIZON 1 (2021–30)

One Meralco will initiate a low-carbon transition to serve the country’s growing energy demand with greener power.

A key consideration in Meralco’s energy transition is the DOE’s Renewable Portfolio Standards (RPS). This policy requires distribution utilities to increase the share of RE in their supply mix by a minimum percentage per annum. In 2022, the RPS requirement increased from 1.0% per annum to 2.52% per annum starting 2023. Regardless of the increase, Meralco will contract RE beyond the RPS requirement to drive its clean energy agenda. In fact, the Company’s current sourcing plan has an effective RPS of 3.02% per annum (for MPower) and 3.38% per annum (for the Distribution Utility). By 2030, Meralco expects the share of RE in its supply mix to be at least 22%.

Meralco has already signed two RE mid-merit PSAs that will begin in 2026 and will shift most of its mid-merit supply—close to 30% of total supply portfolio—to RE. In 2022, MPower also signed four RE PSAs amounting to 625 MW.²⁴

Meanwhile, MGen continues to drive for cleaner energy from a generation standpoint. While the Company continues to build the Atimonan One Energy (A1E) power plant (2x600 MW) by the middle of this decade, it has converted what was supposed to be a high-efficiency, low-emissions (HELE) coal plant to a cleaner gas plant. Furthermore, MGen is looking to sell down 49% of its share in A1E. The planned technology conversion and the sell-down will effectively reduce One Meralco’s Scope 1 emissions by 40%.

MGen has also dropped its involvement in the development of 2,500 MW of coal-fired power plants.

Finally, MGen continues to accelerate its clean energy through the buildout of 1,500 MW of generation capacity across multiple RE technologies through 2030. It started with the 55-MWac BulacanSol solar plant, which began injecting power into the Luzon grid in 2021. In addition, MGen’s new solar plants—a 75-MWac solar facility in Baras, Rizal, and a 68-MWac solar plant in Currimao, Ilocos Norte—went online in April of this year. MGen is also eyeing the construction of a large-scale wind farm in the Philippines.

LOCATION OF SOLAR FACILITY	CAPACITY (in MW)	
	GROSS	ATTRIBUTABLE
San Miguel, Bulacan	55	33
Baras, Rizal	75	45
Currimao, Ilocos Norte	68	34

By 2030, MGen’s gross RE capacity will be 5,442 MW, with 1,979 MW attributable to the company.

²⁴ Pangasinan (315 MW, solar), Talim (148.75 MW, wind), Sembrano (61.25 MW, wind), and RERI (100 MW, solar, wind, and geothermal)

Beyond power generation and distribution, One Meralco will continue to drive emissions abatement and carbon sink initiatives, including:

- **Scope 1** – Through the Green Mobility Program, at least 25% of Meralco’s vehicle fleet will be electrified by 2030, exceeding the 5% requirement of the newly enacted Electric Vehicle Industry Development Act.
- **Scope 2** – Under the Resource Conservation and Efficiency Program, Meralco’s headquarters in Pasig City will be 100% powered by RE by 2030.
- **Scope 3** – With Meralco’s Advanced Metering Infrastructure, estimated customer-side energy efficiency savings of 2.3 TWh will abate 1.6 million tonnes CO₂e in 10 years.
- **Offset** – Through One Meralco Foundation’s (OMF) One for Trees Program, the Group will plant 5 million trees by 2025 in order to preserve and revive Philippine forests and watersheds.

In sum, One Meralco aims to reduce its Scope 1 emissions in 2030 by approximately 43% and its total emissions by 20% vis-à-vis the 2030 BAU baseline. Further reductions are contingent on system loss improvements. To achieve all these, the Group plans to deploy PhP 127 billion in sustainable capital investments through 2030, with PhP 48 billion allocated for RE buildout.²⁵

HORIZON 2 (2031–40)

One Meralco will accelerate its green energy shift through the adoption of next-generation cleantech.

While the focus through 2030 is on shifting away from fossil fuels from a mid-merit standpoint, in the following decade, the Group will begin transitioning its baseload capacity to green energy. As such, One Meralco will evaluate emerging, cleaner innovations that are expected to mature technologically and economically beginning 2030:

- **Battery energy storage system** – Longer duration storage of energy enables RE to serve mid-merit or baseload demand to provide ancillary services and to enable price capture during peak periods.
- **Offshore wind** – This RE technology removes land constraints and offers greater resource potential (i.e., strength and consistency), allowing for 2–3 times larger installations than its onshore equivalent.
- **Nuclear** – Small modular reactors are more reliable (with a capacity factor of ~90%) and less land-intensive (less than 1% of required land compared with solar and wind farms). In addition, its modular design is beneficial to islands with limited interconnection.

²⁵ This proposed capital outlay is pending the approval of Meralco’s Board of Directors.

HORIZON 3 (2041–50)

One Meralco will drive deep decarbonization and achieve sustainability leadership in the energy sector as it drives to be coal-free before 2050.

Deep decarbonization will be achieved through various levers including:

- **Decarbonization of existing assets** (e.g., carbon capture, utilization, and storage)
- **Development of more dispatchable low-carbon power** (e.g., combined-cycle gas turbine co-fired with green hydrogen, long-term BESS, advanced SMRs for baseload)
- **Heightening of carbon sink solutions** (e.g., reforestation, soil management)

SOCIAL IMPACT AREAS

On the social front, One Meralco, through OMF, has begun promoting the well-being of communities with electricity as an enabler to power the good life across five impact areas. 2030 targets have been set, but these efforts will be driven by the Group through 2050.

- **Water access** – Provide low-income households with potable water
- **Education reach** – Electrify off-grid public schools
- **Access to quality healthcare** – Energize healthcare facilities (e.g., rural health units, barangay health stations)
- **Livelihood productivity** – Energize agricultural facilities and equipment
- **Disaster resilience and recovery** – Train electric cooperative staff and community members on disaster prevention and response

7.2 ESG Targets: Quantifying Sustainability Aspirations²⁶

POWER
<ul style="list-style-type: none"> • 1,500 MW of RE supply through 2030 (via Meralco) • 1,500 MW RE generation capacity through 2030 (via MGen)
PLANET
<ul style="list-style-type: none"> • 20% reduction in One Meralco's total absolute emissions by 2030 vs. BAU <ul style="list-style-type: none"> ○ 43% reduction in One Meralco's Scope 1 emissions by 2030 vs. BAU <ul style="list-style-type: none"> ▪ 25% electrification of Meralco's vehicle fleet by 2030 ▪ 100% of Meralco's new power circuit breakers and switchgears to be SF₆-free starting 2028 ○ 7% reduction in One Meralco's Scope 2 emissions by 2030 vs. BAU (primarily contingent on further reduction of Meralco's system loss) ○ 8% reduction in One Meralco's Scope 3 emissions by 2030 vs. BAU • 5 million trees planted and nurtured by OMF by 2025 • 95% overall waste diversion rate in Meralco until 2027 • 51% of Meralco's distribution transformers to use natural ester oil by 2030
PEOPLE
<ul style="list-style-type: none"> • 40% women representation in Meralco's workforce by 2030 • 0.60 lost time injury frequency rate in Meralco by 2030
PROSPERITY ²⁷
<ul style="list-style-type: none"> • 600 rural health care facilities electrified by 2030 • 545 off-grid public schools electrified by 2030 • 200 agricultural and livelihood facilities and equipment electrified by 2030 • 1,500 rural households able to access potable water powered by electricity by 2030 • 4,600 community leaders and electric cooperative staff trained on disaster resilience and recovery by 2030

²⁶ As of this writing, these targets are still being finalized and pending approval of Meralco's Board of Directors.

²⁷ To be driven by the One Meralco Foundation

8 Power: Providing Energy for All, Always

Energy is vital to a recovering economy.

As the Philippines' largest electric distribution utility, Meralco plays a crucial role in powering the country's continued economic growth, fulfilling its mission to provide millions of Filipinos with affordable, accessible, reliable, and clean energy, in support of **SDG 7: Affordable and Clean Energy**.

In 2022, amid the global energy crisis caused by the Russo-Ukrainian War, Meralco delivered fairly priced electricity to 99.98% of households in its franchise area, empowering over 7 million residential customers. The Company also powered more than 580,000 businesses, including those in major commercial districts and industrial centers that drove the country's economic rebound.

Meralco also continued strengthening its programs to ensure that its distribution network is resilient against the climate crisis, spending over PHP 1 billion on storm hardening measures to protect the grid from more frequent and extreme typhoons.

Finally, to serve the Philippines' growing energy demand with greener power, One Meralco accelerated its just, orderly, and affordable transition away from carbon-intensive fossil fuels. In particular, the Distribution Utility secured new renewable energy (RE) mid-merit power supply agreements (PSAs) to gradually increase the share of clean power sources in its supply mix. These PSAs beginning in 2026 will shift most of the Company's mid-merit sources—roughly 29% of total supply—to RE. Meanwhile, MGen—through its RE arm, MGreen—expanded its earth-friendly energy portfolio by developing new solar facilities in Rizal and Ilocos Norte.

By harnessing the power of energy, Meralco builds and lights up the path towards a better and brighter future for all.

7.6M
customers served

99.98%
of franchise area energized

PHP 4.8B
saved due to
system loss reduction

8.1 Affordability: Delivering Energy Attainable by All

SASB IF-EU-240

Sustainable development is propelled by people’s ability to secure energy at affordable prices. Lower energy costs also contribute to healthy industries where businesses—big and small—may thrive.

At the crux of this is managing the price at which energy is generated and supplied. One Meralco strives to produce and deliver fairly priced electricity to power homes and enterprises, ensuring competitive pricing across residential, commercial, and industrial segments.

As a principle, One Meralco endeavors to keep its electricity price stable amid spikes in demand. Ensuring fair pricing serves the best interest of household consumers and is essential in improving their quality of life and of business partners in supporting the country’s economic advancement.

At the crux of this is managing the price at which energy is generated and supplied. As a principle, One Meralco strives to produce and deliver fairly priced electricity to power homes and enterprises and endeavors to keep its electricity price stable amid spikes in demand.

AVERAGE RETAIL ELECTRICITY RATE (in PhP/kWh)						
	Meralco			Clark Electric		
	2020	2021	2022	2020	2021	2022
Residential	9.2357	9.4226	10.3991	6.6787	5.8730	6.6765
Commercial	7.6937	8.1561	9.5682	6.7266	5.9074	6.6700
Industrial	6.4765	6.8344	8.3148	6.6049	5.6833	6.4672
Overall	7.9584	8.2407	9.5164	6.6693	5.8005	6.5802

From 2020 to 2022, Meralco’s average retail electricity rate increased by 13%, 24%, and 28% for residential, commercial, and industrial customers, respectively. Rates in 2022 were significantly higher than in 2020 due to higher generation and transmission charges driven by greater demand for power caused by the reopening of the economy since 2021. The unprecedented spike in fuel prices in the market was also a result of the ongoing war in Ukraine as well as the corresponding higher prices in the Wholesale Electricity Spot Market (WESM).

Clark Electric’s average retail rate likewise grew significantly from 2020 to 2022—with increases of 9%, 8%, and 12% across its three customer segments, respectively—due to the same economic factors.

Moreover, as part of One Meralco’s mandate to make electricity more affordable for its customers, the Group continued to take proactive steps in lowering its distribution system loss. Meralco and Clark Electric address both technical system loss (i.e., inherent in the distribution of electricity due to dissipation as heat) as well as non-technical system loss due to theft or pilferage.

There are economic limits to the level to which system loss can be reduced. As such, Meralco and Clark Electric regularly conduct technical and socioeconomic studies to strike a balance between the benefits of lower system loss and the capital expenditures necessitated by reduction initiatives. In 2022, Meralco's and Clark Electric's system losses were at 5.77% and 1.84%, respectively—both lower than 2020 and 2021 levels—translating to a total of nearly PhP 4.69 billion in savings for customers. These decreases in system loss percentages were achieved successfully despite the overall increase in energy sales due to Meralco's and Clark Electric's system loss improvement initiatives. Meralco's system loss outperformed the prescribed regulatory cap of 6.5% for the 15th consecutive year in 2022.

SYSTEM LOSS METRICS						
	Meralco			Clark Electric		
	2020	2021	2022	2020	2021	2022
Amount of energy lost through the distribution system (in MWh)	2,762,319	2,794,156	2,919,488	10,851	11,850	11,868
Energy lost in the distribution system vs. net system input (in %)	6.08	5.85	5.77	2.10	2.08	1.84
Customer savings due to lower system loss vs. ERC's system loss cap (in PhP million)	3,221.36	3,472.45	4,688.26	120.00	96.90	101.00

In addition, One Meralco further ensured energy affordability by building up its own power generation capacity through MGen, whose first major power plant development—the 500-MW baseload San Buenaventura Power Ltd. (SBPL) coal-fired power plant in Mauban, Quezon—has been steadily injecting energy to the Luzon grid since 2019.

Moving forward, One Meralco will continue to develop creative and technological solutions to support the government's energy affordability imperative and to power the Filipino people's dream of a better quality of life.

8.2 Accessibility: Expanding Energy Reach

SASB IF-EU-000.B | SASB IF-EU-000.A

Energy access is a key benchmark for measuring progress on **SDG 7: Affordable and Clean Energy**. While the Philippines is at the peak of this indicator, with nearly 96% of the entire population with access to energy and more than 98% of the national capital already electrified, many remote areas—home to some 2.3 million Filipinos—still do not have access to electricity.

In 2022, Meralco continued energizing households in its franchise area and reaching unserved and underserved communities. While Meralco's service area covers only 3% of the country's land area, representing more than 25% of the population.²⁸ The Company also powers the Clark Special Economic Zone through its subsidiary Clark Electric and the Cavite Economic Zone through its business unit Meralco Ecozone Power. Altogether, these areas contribute up to 50% of the country's Gross Domestic Product (GDP) and produce approximately 60% of the nation's total manufacturing output.

A. Fueling Economic Recovery by Powering More Customers

One Meralco is at the epicenter of the country's robust economic recovery as it powers commercial and industrial sectors and ensures that lights continue to be on for millions of Filipinos working and studying from home. In 2022, the Group continued to respond to the growing needs of its customers and successfully served more than 7.6 million connections—up by 3% from 7.4 million in 2021.

NUMBER OF CUSTOMER CONNECTIONS PER TYPE						
	Meralco			Clark Electric		
	2020	2021	2022	2020	2020	2022
Residential	6,573,953	6,837,717	7,039,706	1,059	1,059	1,147
Commercial	539,912	554,183	567,498	1,311	1,311	1,324
Industrial	10,667	10,686	10,683	156	156	152
Flat Streetlights	4,842	4,909	4,931	87	87	93
TOTAL	7,129,374	7,407,495	7,622,818	2,613	2,613	2,716

ENERGY SALES PER CUSTOMER TYPE (in GWh)						
	Meralco			Clark Electric		
	2020	2021	2022	2020	2021	2022
Residential	16,479	16,906	17,140	9	7	7
Commercial	14,490	14,950	17,052	277	284	351
Industrial	11,958	13,517	13,935	218	265	285
Flat Streetlights	140	142	143	1	2	2
Generator Wheeling	485	614	639	-	-	-
TOTAL	43,552	46,129	48,909	505	558	645

In 2022, a large portion of Meralco and Clark Electric's sales came from businesses, as more people physically returned to schools and offices, effectively lowering the share of residential sales from 38% in 2021 to 35% last year. Despite this, energy sales from residential customers still grew by 4% from 2020 to 2022. Commercial sales likewise increased by a significant 18% in the same period due to relaxed health protocols and increased mobility, while energy sales from industries grew by over 3% due to higher

²⁸ International Energy Agency (2020) [Defining energy access: 2020 methodology](#), IEA.

economic output. Overall, One Meralco's energy sales saw an 8% upsurge last year, continuing the growth the Group enjoyed in 2021 as the country's economy continued to recover.

B. Energizing Remote and Low-Income Communities

Beyond its fundamental mandate to provide customers unhampered access to electricity, Meralco recognizes the importance of enabling energy access for unserved and underserved groups. The Company strives to deliver affordable and accessible energy to low-income households, especially those in remote, off-grid communities.

Aligned with the Department of Energy's goal to achieve 100% electrification in the country, the Meralco Electrification Program (MEP) holds together the Company's work towards universal electrification. Included in the MEP are Meralco's innovative microgrid solutions and the One Meralco Foundation's (OMF) Household Electrification Program (HEP) among others. The HEP is Meralco's way of bridging energy gaps by collaborating with local government units and homeowners' associations to overcome energy accessibility challenges, as Right of Way and occupancy issues are often barriers for urban and rural communities alike confronted with energy poverty.

Under the MEP, the Company energized a total of 72,876 households in 2022. Meanwhile, OMF's HEP paved the way for the electrification of 6,376 low-income households that had been in the dark for many years. Only 1,750 households remain unenergized in Meralco's franchise area, all of which will be served through the Company's off-grid solutions, including microgrid and solar home systems. In preparation for this, a series of stakeholder engagements was conducted in 2022 focused on ensuring the readiness of the intended beneficiaries, communities, and LGUs.

Meralco's focus on microgrids—localized, small-scale electrical networks that operate independently from the grid—is the most viable solution for communities that are underserved due to their distance to tapping points. In the past, microgrids were powered solely by diesel generators used during peak hours. Now, solar energy powers microgrids during the day and battery energy storage systems enable nighttime consumption, making it possible for far-flung communities to enjoy reliable and clean energy 24x7.

Meralco's solar microgrid solution enabled the lighting up of far-flung communities in Isla Verde, Batangas (designed to serve an initial load of around 200 households), as well as Cagbalete Island, Quezon (which currently benefits over 600 households and 11 resorts). The Company has ongoing initiatives to expand these two microgrid projects to electrify more households in the islands.

C. Enabling Efficient Access to Power

Enabling more households to connect to the grid and receive the gift of electricity is only the beginning of Meralco's work. To ensure unhampered energy access, the Company must ensure that the customer journey will not end in disconnection. As such, Meralco works hand-in-hand with its customers through multi-channel platforms to ensure uninterrupted service in its franchise area.

In 2022, Meralco's Business Centers continued to be open to cater to the needs of customers who preferred in-person transactions, while SMS and other digital customer channels (social media, live chat, and email) remained available 24x7x366 for customers who preferred to stay within the comforts of their homes, allowing customers to choose the service that best suited their needs. Moreover, Meralco Online and the Meralco Mobile App allowed customers to access and manage their accounts anytime, anywhere, with real-time views on account status, operational reports, and bills.

In addition to ensuring that its customer communication channels are always open, Meralco also continued to simplify its procedures for new account applications and quickened the provision of power to new commercial customers through the electronic Certificate of Final Electrical Inspection (eCFEI), in support of the country's Ease of Doing Business Act.

Finally, the Company also took significant strides in making applications for new accounts more efficient by streamlining the application process internally and by eliminating unnecessary paperwork, ensuring that customers can easily access the services they need without having to worry about complicated procedures or long waiting times.

8.3 Reliability: Distributing Uninterrupted Power

SASB IF-EU-550

Access to reliable energy is essential to the growth of modern economies. As such, Meralco commits to delivering stable and high-quality power to those it serves by building and maintaining a resilient grid, optimizing its load capabilities, employing digital solutions, and ensuring its robustness, all while responding quickly and efficiently to outages when they occur.

A. Maintaining Quality Systems for Reliability

DISTRIBUTION RELIABILITY METRICS						
	Meralco			Clark Electric		
	2020	2021	2022	2020	2021	2022
SAIFI (in number of times)	1.50	1.41	1.30	3.29	1.74	2.04
SAIDI (in minutes)	163.00	138.77	128.42	111.44	51.41	214.99
CAIDI (in minutes)	108.62	98.43	98.78	0.02	0.2	0.03

One Meralco uses various internationally accepted standard indicators to monitor and manage the quality of its service. For instance, the average number of service interruptions experienced by Meralco customers decreased by 7% from 1.41 times in 2021 to 1.30 times in 2022, based on the System Average Interruption Frequency Index (SAIFI). Likewise, the Company's customers experienced shorter service interruptions last year at 128.42 minutes (versus 138.77 minutes in 2021) based on the System Average Interruption Duration Index (SAIDI) due to several improvements made in the distribution network.

On the other hand, Clark Electric saw a 17% increase in its SAIFI—from 1.74 times in 2021 to 2.04 times in 2022. Similarly, its customers also experienced longer service interruptions at 214.99 minutes from 51.41 minutes in 2021 due to multiple underground line troubles caused by material degradation. More planned interruptions also occurred due to Clark Electric's system capacity and reliability improvement projects, including the construction of the Sun Valley–Roxas and Kalaw–Sun Valley 69-kV lines to serve Clark Electric's newly constructed Sun Valley Substation.

The Group's performance in both metrics were well within the reward levels prescribed by the ERC based on Third regulatory Period's Performance Band, and this has been the case since the implementation of the Performance Incentive Scheme in 2012, owing to continuous improvements in system reliability through various measures such as preventive maintenance activities.

To ensure the stability and reliability of its electrical infrastructure and to reduce the incidence of unplanned power interruptions, Meralco and Clark Electric regularly perform on-site inspections and testing of its distribution facilities and continuously replace or upgrade equipment in compliance with industry and national standards. The two Companies also conduct tree-pruning activities and line-clearing operations. In addition, to prevent outages due to malfunctioning sub-transmission assets, Meralco and Clark Electric conduct ultrasonic scanning of its lines and equipment immediately after typhoons or other natural disturbances. These proactive measures also help ensure the safety of the Companies' customers and workforce and that of the general public.

B. Future-Proofing the Distribution Network Through Digital Innovation

Meralco is a pioneer in utilizing smart grid technology to respond to dynamic challenges in the power sector. For instance, its Supervisory Control and Data Acquisition (SCADA) system has enabled the Company to perform real-time surveillance of its distribution network in the field, to apply data analytics in diagnostics, and to control devices to address operational issues with impressively zero downtime in the last nine years. The SCADA system is complemented by the Advanced Distribution Management System (ADMS), an intelligent software used by Meralco to efficiently manage power distribution and outages as well as to gather and analyze customer outage reports, optimizing the Company's response to incidents of outage in its franchise area.

Furthermore, for easier management of asset information and facility-level data, Meralco uses a Geographic Information System (GIS). In 2022, it completed the development of an enterprise-grade GIS which replaced the old GIS to support Meralco's evolving business needs.

Meralco continues to raise the bar on delivering a more reliable power service through two innovative programs. First is the Closed-Loop Fault Location and Supply Restoration (FLISR) Project, which automatically isolates faults and restores power to healthy parts of the network during an outage. FLISR was deployed to 18 circuits in the system. Another initiative of Meralco was the Mobile Distribution Transformer (MDT) Project, a truck-mounted distribution transformer deployed to areas with outages and reduces the usual 2-to-3-hour service interruption to merely a few seconds. In 2022, a total of eight MDTs were deployed and five more will be added in 2023.

To scale the impact of these programs, Meralco will continue to invest in substation and distribution automation through the development of smart substations and installation of remote-controlled line devices and fault indicators that will aid in faster location and mitigation of distribution line troubles.

Additionally, Meralco also utilizes the Integrated Mobile Computing System (IMCS), an automated mobility solution that coordinates the dispatch of repair crews to quickly address problems in the grid such as accidental or unplanned power outages. The IMCS data can be used to enhance worker productivity and promote faster customer service. This solution not only provides an efficient deployment of crews but also promotes paperless operations by eliminating the printing of Field Orders. To further improve its field force productivity, Meralco aims to deploy a full suite of mobility applications. In 2022, Meralco started working on the Mobile Workforce Management System (MWMS) which expands the mobility applications to other business operations.

As Meralco advances its digitalization initiatives, Meralco aims to leverage the power of data to provide valuable insights and critical information necessary in enabling a fast and effective decision-making. For its operation technology systems, Meralco started using Data Historian in 2022 to efficiently process and analyze large volume of time-series data.

Another integral component of Meralco's Smart Grid Program is the propagation of the Advanced Metering Infrastructure (AMI), which includes the rollout of smart meters along with the deployment of a modern, secure, and robust telecommunications and information technology infrastructure that enables two-way communication between the Company and its customers. This tool provides clients with detailed consumption information and offers energy efficiency tips tailored to their usage, paving way for a more informed and empowered customer.

By the end of 2022, more than 100,000 smart meters were installed across Meralco's franchise area. In collaboration with the DOE and the ERC, Meralco plans to invest at least PhP 39 billion in the next four years to ramp up its Smart Grid Program, bringing to life the Grid of the Future that will serve millions of Filipinos more efficiently and reliably than ever before.

C. Keeping the Lights on Amid the Climate Crisis

The Philippines is buffeted by an average of 20 typhoons annually, around five of which are typically destructive. Damaging floods have also ravaged the country in recent years. For Meralco, these physical risks must be addressed by a resilient distribution system. As such, the Company takes extensive preventive action to ensure the resiliency of its entire distribution system, including preparing its infrastructure and disaster response team for extreme weather events.

To prepare for typhoons, Meralco takes preemptive actions such as targeted tree trimming and cursory line inspection in partnership and coordination with local government units and other government agencies, such as the DOE and the Metropolitan Manila Development Authority.

In addition, Meralco implements storm-hardening measures such as the replacement of poles, upgrading of conductors and lead wires, and installation of line and equipment covers. In 2022, 14,582 line and equipment covers were installed near building work sites. Meralco owns, operates, and maintains 15,614 spans of overhead lines and underground cables, while 2,528 wooden cross arms were converted to lighter, easier-to install, and more durable fiberglass crossarms. Moreover, 7,993 aging wooden poles were replaced with concrete poles. By phasing out wood, Meralco not only boosts the resiliency of its facilities but also helps lessen its environmental footprint.

STORM HARDENING METRICS						
	Meralco			Clark Electric		
	2020	2021	2022	2020	2021	2022
Poles replaced	2,604	8,223	7,993	1	-	-
Upgraded conductors (in spans)	6,026	6,124	15,614	34	10	6
Upgraded DT primary lead wire	4,680	3,283	14,701	-	2	-
Installation of line and equipment covers	2,713	8,470	14,582	-	-	-
Wooden crossarms converted to fiberglass	6,263	4,192	2,528	-	-	-

One Meralco also continued to enhance its Lightning Protection Improvement Program (LPIP), which protects the network against lightning and ensuing power surges. Specifically, Meralco installed line surge arresters and overhead static wires to protect the overhead conductors and reinforced its system neutral and pole grounding. In addition, a lightning detection system advises Meralco personnel on the magnitude and approximate location of lightning strikes within the franchise area. This technology provides vital information in prioritizing LPIP implementation and has resulted in a 31% reduction of occurrence of outages due to lightning compared to 2021.

LIGHTNING PROTECTION IMPROVEMENT METRICS						
	Meralco			Clark Electric		
	2020	2021	2022	2020	2021	2022
Number of surge arresters used for installation or replacement	7,397	6,554	20,229	1	9	12
Number of poles used for pole-grounding correction	8,470	7,374	29,278	18	12	-
Length of system neutrals installed (in spans)	1,213	1,573	8,583	-	-	-
Length of overhead shield wires installed (in spans)	2,051	1,643	12,800	-	-	-
Number of remote-controlled line reclosers installed	91	257	220	-	-	4

Preemptive and proactive measures such as these make One Meralco better prepared to weather the storms of operating in a calamity-prone country and provide reliable energy to all those it serves.

D. Powering Communities Towards Resilience

One can say that disasters differentiate communities in two ways: one that needs rescuing, and another that provides rescue.

Meralco aims to be the most reliable organization in the Philippine power industry. To do this, the Company has taken extensive steps to ensure that its operations are resilient. Meralco has established a robust Business Continuity Management (BCM) system to keep its employees safe and able to work especially in times of calamity. The Company also ensures that its workplaces are resilient to natural calamities. In fact, all buildings in the Meralco Center have been reinforced for earthquake resilience. In the unlikely event that its primary system control center is compromised, Meralco has also installed and operationalized emergency backup sites to enable continuous operations.

Carrying upon itself a mantle of service to the community during and after disasters, the Company is also the government's reliable partner in disaster response within and beyond its franchise area. For instance, in 2022, when Severe Tropical Storm Paeng hit the Philippines, more than four million Meralco customers experienced power outages. Meralco's personnel and line crews worked round the clock to quickly restore power in communities within its franchise area, ensuring that essential services could resume and that families had continuous access to electricity in their homes.

8.4 Clean Energy: Powering a Low-Carbon Future

SASB IF-EU-000.C | SASB IF-EU-000.D | SASB IF-EU-000.E

The energy sector is responsible for more than 70% of the world’s total greenhouse gas emissions, yet it is also heavily relied upon to boost continuous economic growth. As such, in support of **SDG 7: Affordable and Clean Energy**, One Meralco is working towards building a future where powering society’s progress is in harmony with nature. The Group’s journey towards becoming coal-free by mid-century is critical in enabling the Philippines’ sustainable economic growth without compromising the country’s future.

One Meralco responds to the government’s RE drive and the global clamor for genuine climate action through Meralco, the distribution utility; MGen, its power generation arm; and Spectrum, its direct-to-consumer solar solutions provider.

A. Advancing the Green Energy Shift

The global movement to transition to clean energy continues to gain momentum as the world recognizes the urgent need to address the worsening climate crisis. As a response, One Meralco actively invests in renewable energy—through Meralco, Clark Electric, MGen, and Spectrum—to meet the growing local demand for green energy.

POWER DISTRIBUTION UTILITY FUEL MIX (in %)						
	Meralco			Clark Electric		
	2020	2021	2022	2020	2021	2022
Coal	32.15	32.75	30.90	70.84	53.18	59.17
Natural gas	54.47	48.50	53.84	0.00	0.00	0.00
Oil	0.33	5.56	4.13	0.00	0.00	0.00
Hydro	0.52	2.21	1.05	23.91	20.72	24.99
Geothermal	0.00	0.17	0.93	0.00	0.00	0.00
Wind	0.00	0.00	0.00	0.00	0.00	0.00
Solar	0.34	0.64	0.75	0.03	0.02	0.01
Biomass	0.00	0.00	0.02	0.00	0.00	0.00
WESM	12.19	10.17	8.37	5.22	26.08	15.83
TOTAL	100.00	100.00	100.00	100.00	100.00	100.00

Meralco and Clark Electric source significant amounts of energy from generation entities and distribute it via their own distribution networks. While fossil fuels still dominate the fuel mix of both companies, Meralco and Clark Electric will take bold and significant steps towards the Group-wide aim to progressively increase its supply from RE sources in order to meet the Renewable Portfolio Standards (RPS) under the Renewable Energy Act of 2008. In fact, Meralco has a plan in place to source at least 1,500 MW of its power supply requirements from RE sources by the end of the decade. For instance, the Company secured

new RE mid-merit PSAs to gradually increase the share of clean power in its supply mix. These PSAs beginning in 2026 will shift most of Meralco's mid-merit sources (nearly 29% of its total supply) to RE.

Additionally, the Company supports the government's new RE policies, such as the Green Energy Option Program (GEOP), which provides consumers with average peak demands of at least 100 kW the option to source their electricity needs from purely renewable sources. In 2022, many of Meralco's commercial and industrial customers expressed their interest to join the program in the coming years.

POWER GENERATION FUEL MIX OF MGEN (in %)			
	2020	2021	2022
Coal	60.84	59.05	56.18
Natural gas	38.52	39.96	42.13
Diesel	0.64	0.50	0.80
Solar	0.00	0.50	0.89
TOTAL	100.00	100.00	100.00

Meanwhile, from a power generation standpoint, MGen continued to diversify its portfolio away from coal. In 2022, natural gas accounted for the second-largest share in its energy mix, amounting to roughly 42% of total energy generated. This was due to the Company increasing its effective interest in Singapore-based PacificLight Power from 28% to 58% in July 2021.

Leading One Meralco's transition to clean energy is the development of MGen's 55-MW solar farm in San Miguel, Bulacan, through a Meralco-led consortium with PowerSource Energy Holdings Corporation. The utility-scale solar plant was commissioned in the second quarter of 2021 and will supply energy to Meralco for 20 years. In 2022, MGen expanded its RE capacity through the continued construction of a 75-MW solar facility in Baras, Rizal, and a 68-MW solar farm in Currimaos, Ilocos Norte—both of which are expected to be operational by the second quarter of 2023. These projects are all part of MGen's aim to build RE facilities with a total attributable capacity of at least 1,500 MW by the end of the decade through its subsidiary, MGreen.

Another major milestone in One Meralco's transition to clean energy is MGen's termination of its involvement in the development of coal-fired power plants with a total capacity of 2,500 MW. This bold move effectively avoided approximately 178 million tCO₂e from entering the atmosphere over 25 years, the usual lifespan of coal plants in the Philippines.

In addition to Meralco's and MGen's efforts, Spectrum is also helping in the expansion of One Meralco's RE footprint as it provides small-scale, distributed solar solutions to residential, commercial, and industrial customers. By end-2022, Spectrum had energized thousands of private, educational, and government institutions, totaling over 51 MW in lifetime capacity.

CAPACITY OF SOLAR PANELS SOLD BY SPECTRUM (in kWp)			
	2020	2021	2022
Residential	702.00	239.14	227.62
Commercial & Industrial	11,183.00	13,784.53	7,732.69
TOTAL	11,885.00	14,023.67	7,960.31

Moving forward, One Meralco, through its energy businesses, will remain steadfast in accelerating its just, orderly, and affordable transition to clean energy to power the country's sustainable economic growth.

B. Supporting the Low-Carbon Transition with Cleaner Baseload

While steering its business towards more sustainable pathways, One Meralco optimizes the efficiency of its existing fossil fuel plants—a low-hanging, pragmatic step in decarbonizing the Philippine economy.

MGen's 500-MW San Buenaventura Power Ltd., Co. (SBPL) coal-fired power plant in Mauban, Quezon, employs a state-of-the-art supercritical high-efficiency, low-emissions (HELE) technology, which allows for improved operational efficiency (i.e., more energy is produced versus non-HELE plants using the same amount of feedstock fuel) and less GHG emissions.

The United Nations lists supercritical technologies like HELE under its Clean Development Mechanism. To illustrate, a 500-MW (gross) HELE coal plant can reduce emissions by approximately 110,000 tCO₂e vis-à-vis a non-HELE plant of the same size. This is because a HELE plant can achieve up to 44% operational efficiency, compared to older plants which usually operate at 33% efficiency.

Stories of Light: Powering Sustainable Communities Through Synergy

Recognizing that no single organization or sector can achieve sustainability on its own, the United Nations enshrined collaboration in its 2030 Agenda for Sustainable Development through **SDG 17: Partnerships for the Goals**. It is in this light that MIESCOR—Meralco's engineering, procurement, and construction (EPC) subsidiary—began working with South Korean firm Seochang Electric Communication Co. Ltd. in 2022 to provide stable and eco-friendly electricity to a Gawad Kalinga community in Cavite.

Aimed at scaling up the deployment of clean energy technologies in the Philippines, the project involves the establishment of an on-grid hybrid power service—consisting of a 50-kWp solar PV system and a 300-kWh energy storage system made up of used EV batteries—that will electrify the communal facilities in Barangay Hugo Perez, Trece Martires City, such as streetlights, multi-purpose hall, and learning center. Moreover, MIESCOR and Seochang envision the community to serve as a charging hub for electric vehicles in the area, aligned with Meralco's priority for **SDG 11: Sustainable Cities and Communities**.

The construction of the power system began in September 2022, and full operation is expected by the second quarter of 2023.

9 Planet: Protecting and Preserving Mother Earth

The world we live in continues to be unwell.

While society has largely recovered from the COVID-19 pandemic, the triple planetary crisis—climate change, pollution, and biodiversity loss—still persists with alarming intensity.

According to NASA, 2022 was the fifth warmest year on record, with a mean global surface temperature of 1.11 °C above pre-industrial levels and a monthly average of over 420 parts per million of atmospheric carbon dioxide—comparable to the levels more than 4 million years ago.²⁹ Meanwhile, more than 5.5 million premature deaths are recorded worldwide annually as a result of air pollution caused by unabated burning of fossil fuels. Finally, global wildlife populations have declined by 69% since 1970 and continue to be in peril due to the intensifying climate and waste crises.³⁰

Recognizing that businesses have a huge responsibility in addressing these large-scale environmental challenges, in 2022, One Meralco elevated and accelerated its efforts to light up a greener future with innovative solutions aimed at mitigating the Group's greenhouse gas (GHG) emissions, managing its air pollutants, regulating its water consumption, and reducing its solid wastes.

The heightening global health and ecological emergencies have underscored the critical connection between the well-being of the planet and the survival of humanity. As such, One Meralco—in support of **SDG 12: Responsible Consumption and Production**, **SDG 13: Climate Action**, and **SDG 15: Life on Land**—One Meralco remained steadfast in its commitment to protect and preserve our one and only home.

7%
of Meralco's vehicle fleet
electrified

96%
of solid waste diverted

1.8M
trees planted under OFT

²⁹ Bressan, D. (2022) [Carbon dioxide peaked in 2022 at levels not seen for millions of years](#), Forbes.

³⁰ WWF (2022) [The 2022 Living Planet Report](#), WWF.

9.1 Climate Change: Mitigating a Global Environmental Crisis

GRI 302-2 | GRI 302-3 | GRI 302-5 | SASB IF-EU-110

At the 2022 United Nations Climate Change Conference (COP27) in Sharm El Sheikh, Egypt, world leaders strongly reiterated that mankind is now facing a climate emergency. No contribution is too small, and no time can be wasted—society must respond with bold and swift action. To slow down the destructive impacts of climate change, reducing GHG emissions in the atmosphere is of paramount importance.

As such, in support of **SDG 13: Climate Action**, in 2022, One Meralco continued to elevate and highlight GHG emissions reduction as a top sustainability performance indicator at the corporate level. Along with other key ESG metrics monitored and managed by the Group's senior management, sustainability accounted for 10% of Meralco's CEO and corporate performance assessment.

One Meralco uses the GHG Protocol, a global standard for measuring and monitoring GHG emissions, from the World Resources Institute (WRI) and the World Business Council for Sustainable Development (WBCSD), to define the scope of its emissions as well as to manage their levels. Emissions tracked by One Meralco follow the global convention as follows:

- **Scope 1** – direct emissions that occur from sources that are owned or controlled by a company
- **Scope 2** – indirect emissions from the generation of electricity purchased then used/consumed by a company but physically occur at the facility where the power was generated
- **Scope 3** – an optional reporting category that refers to the accounting of all other indirect emissions not under the control or management of a company (i.e., emissions from value chain)

Aside from absolute emissions, One Meralco is also focused on measuring, managing, and reducing its emissions intensity by leveraging on cleaner technologies for its power-related activities.

A. Scope 1: Managing Direct Greenhouse Gas Emissions

GRI 302-1 | GRI 302-4 | GRI 305-1

In 2022, One Meralco's Scope 1 emissions amounted to nearly 6.3 million tCO₂e, down by 5% from 2021. This was mainly driven by SBPL's forced shutdowns, resulting in lower coal combustion-related emissions. Aligned with **SDG 7: Affordable and Clean Energy**, GBP was acquired by MGen in order to expand its thrust to provide fairly priced and reliable energy to other parts of the country.

With full recognition that fossil fuels are the principal drivers of climate change, Meralco will build at least 1,500 MW of renewable energy (RE) generation capacity across multiple technologies by the end of the decade through its subsidiary MGen. Aside from this, MGen will also sell down 49% of its equity share in the Atimonan One Energy (A1E) gas-fired plant by 2026.³¹

³¹ The A1E facility was originally planned to be a coal-fired power plant.

EQUITY-APPLIED SCOPE 1 EMISSIONS PER SOURCE (in tCO ₂ e)			
	2020	2021	2022
SF ₆ leakage	5,773.25	5,079.06	2,477.61
Gasoline consumption	958.04	1,864.35	2,367.21
Diesel consumption	14,208.46	14,717.85	14,217.23
Coal combustion	2,078,572.29	5,393,517.32	5,083,208.18
Natural gas combustion	954,280.85	1,088,674.60	1,081,710.34
Diesel combustion	8,271.73	40,986.64	74,183.43
TOTAL	3,062,064.61	6,544,839.82	6,258,164.00

Meralco also regularly monitors its sulfur hexafluoride (SF₆) outflows and ensures the recovery and recycling of this gas. At present, SF₆ outflows are measured by monitoring gas pressure levels before and after refilling activities and by converting these quantities into their mass equivalent using weighing scales.

In 2022, Meralco recorded over 105 kg of SF₆ discharges, down by 51% from 216 kg in 2021, due to an improved monitoring and management system. This 110-kg reduction in SF₆ leakage effectively avoided the release of nearly 2.5 tonnes CO₂e to the atmosphere. To further abate emissions, starting 2028, Meralco will actively move towards achieving zero SF₆ emissions in its distribution system by replacing old SF₆-insulated switchgears and power circuit breakers with new, SF₆-free units. All new distribution equipment to be purchased by Meralco will also be SF₆-free. In support of this goal, the Company has started to conduct research and a series of consultations with various potential suppliers for SF₆-free switchgears and breakers that Meralco can use going forward.

LEADING THE CHARGE ON VEHICLE ELECTRIFICATION

In 2022, Meralco continued rolling out its Green Mobility Program to accelerate efforts in vehicle electrification, one of the Company's main efforts to reduce its Scope 1 emissions. Through its electric vehicle (EV) subsidiary, eSakay, Meralco continued the rollout out 24 EVs—comprised of cars, motorcycles, pick-up trucks, and vans—to its various Business Centers (BCs) and Sectors Offices in Metro Manila, all of which are supported by an additional seven charging stations to the seven deployed in 2021. With these new additions to Meralco's eco-friendly vehicle fleet, the Company is now equipped with a total of 156 EVs that primarily cater to the service delivery needs of its personnel in Metro Manila. In 2023, Meralco will roll out a total of 54 EVs and establish five charging stations. These significant milestones are part of Meralco's objective to electrify at least 25% of its entire fleet by 2030.

In support of the newly enacted Republic Act No. 11697, or the Electric Vehicle Industry Development Act, One Meralco will continue to move with speed in the space of green mobility by accelerating the electrification of its own vehicle fleets to reduce its environmental impacts and operational costs.

Stories of Light: Eliminating a Harmful Greenhouse Gas in the Network

As **SDG 13: Climate Action** continues to be one of Meralco's priority SDGs, the Company is pulling levers beyond its clean energy transition to lower its GHG emissions. One of these initiatives is the move to eliminate SF₆ emissions from Meralco's distribution system by replacing old, SF₆-insulated equipment with new, SF₆-free equipment. SF₆ is used by distribution utilities as an insulating and interrupting medium for their power circuit breakers, switchgears, and line switches.

Meralco monitors SF₆ leakage and ensures its emissions are compliant with international standards and industry best practice. In 2022, over 105 kg of SF₆ (equivalent to 2,478 tonnes CO₂e) was released to the atmosphere. This represents 0.2% of the total SF₆ installed in all of the Company's substation equipment—way below the limit of 0.5% as prescribed in the Institute of Electrical and Electronics Engineers' Guide for SF₆ Gas Handling for High-Voltage (over 1,000 Vac) Equipment. By the end of the year, at least 70% of Meralco's distribution network equipment was already SF₆-free, aligned with the Company's aspiration to be fully SF₆-free by 2057.

In support of this goal, all new power circuit breakers and switchgears to be purchased by Meralco starting 2028 will be SF₆-free. The Company will also deploy emerging SF₆-free technologies—including technical dry air, purified air, vacuum interrupter, and solid dielectric insulation—as part of its Greening the Network Program.

B. Scope 2: Regulating Indirect Greenhouse Gas Emissions

GRI 302-2 | GRI 305-2

One Meralco's Scope 2 emissions in 2022 totaled almost 2.1 million tCO₂e, a 4% increase from 2021 levels, due to an increase in system loss volumes, which accounted for 97% of the Group's emissions for this scope. This increase was due to the 6% higher energy sales driven by the continued reopening of the economy last year.

EQUITY-APPLIED SCOPE 2 EMISSIONS PER SOURCE (in tCO ₂ e)			
	2020	2021	2022
System loss	1,975,051.72	1,998,436.99	2,085,582.52
Electricity consumption	55,575.01	53,980.20	63,683.80
TOTAL	2,030,626.73	2,052,417.20	2,149,266.32

Meanwhile, One Meralco's own electricity consumption, another driver of Scope 2 emissions, increased by 18% in 2022 to 89,106 MWh from 75,794 MWh in 2021 due to the resumption of onsite work across different offices and sites within the Group.

TOTAL ELECTRICITY CONSUMPTION (in MWh)			
	2020	2021	2022
Meralco	57,960	59,326	61,894
Subsidiaries	20,067	16,468	27,524
TOTAL	78,027	75,794	89,418

C. Scope 3: Controlling Value Chain Emissions

GRI 305-3

One Meralco's Scope 3 emissions totaled 33.5 million tCO₂e in 2022, up from 31.1 million tCO₂e in 2021. This roughly 9% increase was mainly driven by the increase in Meralco and Clark Electric's energy sales, primarily fossil fuel-based, as discussed in Section 8.2 (Accessibility).

EQUITY-ADJUSTED APPLIED SCOPE 3 EMISSIONS PER SOURCE (in tCO ₂ e)			
	2020	2021	2022
Energy sales	29,762,360.68	31,050,758.31	33,501,812.97
Gasoline consumption of rented/contractor-owned vehicles	51.56	47.20	59.10
Diesel consumption of rented/contractor-owned vehicles	20.93	12.80	11.30
TOTAL	29,762,433.17	31,050,818.31	33,501,883.37

Meralco has the social responsibility and legal obligation to provide consumers within its franchise area with energy at the most affordable price. Section 4 of Republic Act 9209 mandates Meralco to “supply electricity to its captive market in the least-cost manner.” While the Company acknowledges that the burning of fossil fuels is highly polluting and contributes to global warming, coal- and gas-fired power continues to be the most reliable in the Philippines, and this continues to be Meralco's leading sources of electricity for its customers. Nonetheless, as part of its long-term sustainability strategy, Meralco is taking bold and strategic steps to wean off coal. Aligned with the government's Renewable Portfolio Standards (RPS), the Group will gradually increase the share of clean energy in its fuel mix by procuring more RE supply—up to 1,500 MW before the end of the decade.

D. Emissions Intensity: Ensuring Cleaner Energy

GRI 305-4

In addition to managing its absolute emissions, One Meralco also carefully tracks its emissions intensity—the amount of GHG emissions (measured in tonnes of carbon dioxide equivalent, or tCO₂e) per unit of output or activity (measured in GWh energy sales).

In 2022, the Group's Scope 1+2 emissions intensity was 136.9 tCO₂e/GWh, 6% lower than the 145.1 tCO₂e/GWh recorded in the previous year. On the other hand, the Group's Scope 3 emissions intensity increased by nearly 2% to 684.9 tCO₂e/GWh in 2022 compared to 674.0 tCO₂e/GWh in 2021.

EQUITY-ADJUSTED SCOPE 1+2 EMISSIONS INTENSITY (in tCO ₂ e/GWh)			
	2020	2021	2022
Total Scope 1+2 emissions	5,092,691	8,597,257	8,407,430
Energy sales from distribution and generation businesses	55,506	59,269	61,429
EMISSIONS INTENSITY	91.75	145.05	136.86

EQUITY-ADJUSTED SCOPE 3 EMISSIONS INTENSITY (in tCO ₂ e/GWh)			
	2020	2021	2022
Total Scope 3 emissions	29,762,433	31,050,818	33,501,883
Energy sales from distribution utilities	43,572	46,073	48,916
EMISSIONS INTENSITY	683.06	673.95	684.89

As part of its long-term sustainability strategy, One Meralco is implementing significant measures that will steadily reduce its absolute emissions and emissions intensity through 2030 (versus a business-as-usual scenario) and beyond while continuing to grow its customer base and energy sales. The most prominent of these initiatives include contracting more RE supply and building more RE power plants, as discussed in the Power section.

E. Carbon Offsetting: Restoring Ecosystems to Neutralize Emissions

Aside from addressing its direct emissions and those emanating from its value chain, One Meralco also invests in carbon offsets. In support of **SDG 15: Life on Land**, the Group's One for Trees (OFT) Program, founded and spearheaded by One Meralco Foundation (OMF), is a nature-based solution at removing emissions from the atmosphere while reviving and protecting ecosystems.

By end-2022, a total of 1,782,366 trees—equivalent to offsetting almost 38,900 tCO₂e of emissions per year—were planted in various areas in the Philippines under the OFT. In partnership with the Green Earth Heritage Foundation, OMF aims to plant and nurture at least 5 million trees through 2025 in different forest lands and critical watersheds within the Meralco franchise area and beyond. The majority of the trees planted are species native to the Philippines, further enriching and preserving the country's biodiversity.

While seeking to revive and rehabilitate damaged and threatened forests and watersheds, OMF is also providing a steady flow of income to communities who help plant the trees through agroforestry. Mature trees and rehabilitated forests serve as natural carbon sinks and habitats for many animal species.

9.2 Air Quality: Maintaining Breathable Air

GRI 305-6 | GRI 305-7 | SASB IF-EU-120

Worldwide, emissions from power plants are the top drivers of air pollution. Cognizant of this adverse impact on the environment, One Meralco strives to maintain its non-greenhouse gas (GHG) emissions within standards set by the Philippine Department of Environment and Natural Resources (DENR).

In the last three years, the concentrations of pollutants released by MGen's fossil fuel-fired power plants all fell within the acceptable threshold set by the DENR Environmental Management Bureau.

CONCENTRATION OF AIR POLLUTANTS RELEASED BY MGEN'S POWER PLANTS ³² (in mg/Nm ³)			
	2020	2021	2022
Nitrogen oxides (NOx)	194.70	171.47	155.66
Sulfur oxides (SOx)	372.02	320.26	337.67
Particulate matter (PM ₁₀)	2.26	2.57	3.78
Persistent organic pollutants (POPs)	Not being monitored		
Volatile organic compounds (VOCs)			
Lead (Pb)			
Mercury (Hg)			

Moving forward, MGen will explore ways to monitor other air pollutants such as POPs, VOCs, Pb, and Hg in order to better understand the environmental impact of its power plants across the country.

³² Power plants included: Toledo Power Company (TPC) 1A, Cebu Energy Development Corporation (CEDC), and Panay Energy Development Corporation (PEDC) 1, 2 & 3

9.3 Water and Effluents: Conserving a Scarce Resource

GRI 303 | SASB IF-EU-140

The Philippines is confronted with a water scarcity crisis. At present, more than 3 million Filipinos continue to tap unsafe and unclean water sources. To conserve this vital resource, One Meralco has established various strategies to manage consumption without causing water stress within its areas of operation.

WATER MANAGEMENT METRICS OF MGEN (in liters)			
	2020	2021	2022
Withdrawn	1,232,175,026,142	1,271,898,962,659	1,201,625,458,354
Consumed	553,920,741	736,961,146	616,394,544
Discharged	1,231,621,105,401	1,271,162,001,513	1,201,009,063,810

In 2022, MGen, which contributes more than 99% to One Meralco's annual water use, withdrew 1.2 trillion liters of seawater to cool its coal-fired power plants during operations through a once-through process; 99.9% of this extracted water was discharged back to the sea. Meanwhile, the remaining 0.01% consumed by the Company either evaporated during the cooling process or was used for power plant processes and office operations. Effluents generated in the same year went through water treatment facilities before being discharged safely to bodies of water.

Stories of Light: Freshwater Conservation at the Forefront of Power Generation

The power industry accounts for over 40% of freshwater withdrawals worldwide. It is thus vital for electric utilities like Meralco to promote sustainable practices that reduce water consumption and minimize the negative environmental impact of power plants to prevent exacerbating global freshwater scarcity. As such, in support of **SDG 6: Clean Water and Sanitation**, Global Business Power Corporation (GBP), a fully owned subsidiary of Meralco PowerGen Corporation (MGen), developed programs to effectively recover and recycle wastewater in its facilities in the Visayas to limit its water withdrawal and mitigate toxic and thermal pollution in the oceans.

GBP's wastewater recovery and recycling program is comprised of various sub-initiatives, including the recycling of deepwell reverse osmosis reject water (used for backwash, fire hydrants, and plant-watering service), pre-discharge treatment of effluents, and harvesting of rainwater. Through these initiatives, in 2022, the Panay Energy Development Corporation (PEDC)—which owns and operates 164 MW and 150 MW coal-fired plants in Iloilo City, Iloilo—successfully recycled nearly 46% of wastewater from its power plants, resulting in a decrease of 118,800 m³ in wastewater discharge from 2021. PEDC aims to recycle 90% of its wastewater by 2027.

Meanwhile, the Cebu Energy Development Corporation (CEDC)—which owns and runs a 246 MW coal-fired power plant in Toledo City, Cebu, will deploy similar water management solutions in the next five years, aligned with its target to recycle 85% of wastewater from its facilities in the next four years.

In the coming years, GBP will convert its PEDC 3 plant's open seawater pump cooling system to a closed-loop system, which is estimated to bring at least PhP 7 million of savings in operational costs each year.

9.4 Waste: Optimizing Resource Utilization

GRI 306-1 | GRI 306-5

While waste is one of the more accessible topics not only to businesses but also to policy leaders and the general public, addressing the waste crisis requires complex solutions and all of society's actors working together. The Philippines has among the highest waste collection rates in Southeast Asia, but disposal is abysmal, with up to 70% of Filipinos without access to disposal facilities and sanitary landfills, causing waste to leak into bodies of water, harming the health of both aquatic animals and humans who rely on natural sources of water.

One Meralco responds to the mounting waste challenge by addressing the root cause of waste—the linear take-make-dispose model of resource use. The Group has put in place policies and programs to move away from this approach by institutionalizing the three Rs of waste management: reduce, reuse, and recycle. Meanwhile, if there are materials that inevitably reach end-of-life, they are disposed with the highest waste management standards being observed.

At the heart of One Meralco's waste management practice is its deep care for the health of its workforce, its communities, and the planet. Where there is minimal waste, safe and healthy communities thrive.

A. Curbing Waste Generation

In 2020, One Meralco launched its Race to Zero Waste Program (RZW) to integrate its waste management practices and initiatives across Meralco's business units and subsidiaries. The goal of the program is to reduce waste generation and waste disposal in landfills across all facilities of One Meralco, including production sites, office buildings, Sector Offices, Business Centers, storage facilities, and substations.

Addressing the entire lifecycle of waste management—from generation and segregation to collection and disposal—the RZW Program is built on the success and momentum of Meralco's Group-wide ban on single-use plastics (SUP) that was put in place in 2019. The SUP ban covered all One Meralco offices and facilities and was even extended to the Group's suppliers, who complied with the mandate beginning 2020.

AMOUNT OF SOLID WASTE TREATED OR DISPOSED OF BY MERALCO (in tonnes)			
	2020	2021	2022
Biodegradable	727.33	1,643.73	2,133.35
Recyclable	482.76	820.96	411.23
Residual	1,151.64	421.12	115.72
TOTAL	2,361.73	2,885.81	2,660.29

Through a more robust waste management system—which included a waste analysis and characterization study, provision of more labeled waste bins, establishment of materials recovery facilities (MRFs), and conduct of awareness campaigns among others—Meralco was able to monitor and segregate its wastes more effectively and efficiently. In 2022, the Company recorded 2,660 tonnes of non-hazardous wastes, down by 8% from 2021. This was despite the continued return of employees to their offices as Meralco reopened its doors for onsite work.

The Company successfully diverted nearly 96% of its total waste in 2022—Meralco’s all-time best—a significant increase from the 85% waste diversion rate in 2021 and 51% in 2020. This improvement was a result of stricter enforcement of national waste management policies and Meralco-specific guidelines (such as the SUP ban across the Company’s facilities and supply chain as well as multi-level segregation at source and in the Company’s five dual-drum composter units), expansion of waste management facilities, and better engagement with employees through waste-focused communication activities.

A significant milestone achieved by Meralco through the RZW Program in 2022 was its expanded composting initiative, through which the Company was able to produce a total of 1,963 kilograms of completed compost by processing tree trimmings using dual-drum composters installed in select Meralco facilities. Additional composting units will be deployed in the coming years.

Meralco holds an ISO 14001 Environmental Management System Certification, a seal of approval to the strength of the Company’s environmental management system, which includes waste management policies, guidelines, protocols, and initiatives among others.

B. Greening the Network Through Eco-Friendly Transformers

In support of **SDG 12: Responsible Consumption and Production**, Meralco reduces its impact on the planet through materials it uses in its electricity distribution business. At the forefront of the Company’s transformation is the use of recyclable, biodegradable, and environment-friendly materials throughout its operations. In 2019, Meralco began exploring using natural ester oil (NEO) in its overhead distribution transformers (OHDTs), with the aim of improving the efficiency and reliability of its network without endangering the environment.

Distribution transformers are vital in delivering electricity to customers. They convert high-voltage power from primary lines to low-voltage electricity for secondary lines to energize households and businesses.

By switching from mineral oil to NEO, Meralco aligns itself with best-in class global practices in power distribution and brings the Company closer to its aspiration of becoming a sustainability leader in the energy sector.

A derivative of vegetable oil, NEO is a 99% biodegradable, recyclable, and non-toxic material. Unlike the conventional mineral oil, NEO has no petrochemicals, siloxanes, or halogens—substances that damage ecosystems and contribute to global warming. These natural esters are taken from renewable crops, such as soybean, rapeseed, sunflower, canola, and corn. Furthermore, used NEO can be reprocessed into an input material for other products such as soaps and lubricants.

The shift to NEO resulted in a wide range of benefits for Meralco, including increased transformer loading capability, enhanced fire safety, and reduced waste generation.

While Meralco's use of NEO in its transformers started in 2006, 2022 marked an even greater adoption as the Company used it as an insulating fluid for its main OHDTs. A total of 19,983 NEO-enabled OHDTs were delivered to Meralco in 2022, more than 1,000% higher than the 1,682 units deployed in 2021. By end-2022, a total of 22,493 NEO-filled DTs were installed across the Company's franchise area.

Transforming the transformers is only the start of a new, groundbreaking initiative, Meralco's Greening the Network Program, which is focused on replacing old, more-polluting equipment with cleaner alternatives to avoid unnecessary solid wastes and to reduce carbon emissions in the Company's distribution system. Ultimately, Meralco aims to operate 100% of its transformers with NEO by 2048.

10 People: Nurturing Sustainability from Within

One Meralco's employees are its greatest source of light.

The Group believes that its diverse and driven talent pool—consisting of the brightest talents in the country's power industry—is the main driving force behind its sustainability agenda. As such, One Meralco actively instills sustainability in the hearts and minds of its people.

In support of **SDG 5: Gender Equality** and **SDG 10: Reduced Inequalities**, the Group is committed to providing equal opportunities for all. In 2022, the Group's 20,000-strong workforce consisted of more than 23% women—twice the global energy sector average of 11%. By the end of this decade, 40% of the Distribution Utility's workforce will be comprised of women.

Aside from embracing diversity in the organization, One Meralco also ensures that it fosters an inclusive and safe workplace where its people feel respected and protected. It has established robust policies and programs to safeguard the fundamental human rights of its employees and keep them away from harm—a testament to the importance the Group has placed on **SDG 8: Decent Work and Economic Growth**.

Finally, One Meralco's employees also enjoy compensation above industry average for them to not just meet their everyday needs but also enable their own personal growth. And to further maximize each individual's potential, the Group provides its people with meaningful opportunities for professional development as well as avenues to give back to communities.

As One Meralco seeks to spring its sustainability vision into action, its people will continue carrying the torch and leading the way towards a brighter and livable future.

22,580
employees and workers
nurtured

23%
of workforce comprised of
women

4.0%
gender pay gap

10.1 Human Capital: Growing One Meralco's Tribe of Game Changers

GRI 2-7 | GRI 2-8 | GRI 401 | GRI 406 | GRI 405

Human capital—the sum of knowledge, skills, and time that humans invest in and accumulate throughout their lives to contribute to social and economic progress—is wired in each of the 17 SDGs. As such, One Meralco's emphasis on holistic human capital development enables its employees to live and lead meaningful and prosperous lives—and careers—while giving back to society.

One Meralco employs a recruitment process that is fair, ethical, and inclusive. It is an equal-opportunity employer and hires qualified candidates regardless of gender, socioeconomic status, religion, age, and ethnicity. The Group continuously also attracts top talents to meet the fast-changing needs of the organization.

One Meralco employs a unique approach to talent resourcing that combines technology and progressive hiring principles. In particular, the Group utilizes innovation as well as diversity and inclusion as enablers for efficient and effective human capital development. These result in a healthy variety of perspectives and competencies that strengthens One Meralco's culture of excellence and compassion.

One Meralco's workforce was 22,580 employees and workers strong in 2022, up by more than 9% from 2021 as a result of hiring more people as the economy reopened. Nearly a quarter of the Group's population is comprised of women employees—more than the 11% global average for the energy sector.

MERALCO EMPLOYEES AND WORKERS BY EMPLOYMENT STATUS						
	2020		2021		2022	
	Male	Female	Male	Female	Male	Female
Permanent	4,393	1,140	4,495	1,188	4,481	1,239
Probationary	170	52	112	20	150	60
FTH and Project-based	38	57	119	67	230	90
Third Party	N/A	N/A	N/A	N/A	N/A	N/A
SUBTOTAL	4,601	1,249	4,726	1,275	4,861	1,389
TOTAL	5,850		6,001		6,250	

SUBSIDIARY EMPLOYEES AND WORKERS BY EMPLOYMENT STATUS						
	2020		2021		2022	
	Male	Female	Male	Female	Male	Female
Permanent	3,912	1,996	3,886	1,897	4,796	1,970
Probationary	147	347	129	319	260	408
FTH and Project-based	6,177	1,329	5,604	1,432	6,188	1,138
Third Party	78	4	59	3	1,492	78
SUBTOTAL	10,314	3,676	9,678	3,651	12,736	3,594
TOTAL	13,990		13,329		16,330	

A. Hiring: Providing Equal Opportunities for All

In support of **SDG 5: Gender Equality**, One Meralco advances a gender-balanced workplace that employs and empowers women. In 2022, at least 26% of the Group's new hires were female—higher than the share of women in the organization's existing workforce. The increase in women hires last year was driven by One Meralco's deliberate efforts to increase the ratio of female-to-male candidates, which included recruitment campaigns that highlighted the importance of women's participation in the Group's business as well as several impactful initiatives under the #Mbrace Diversity & Inclusion Program.

NEW EMPLOYEE HIRES						
	2020		2021		2022	
	Male	Female	Male	Female	Male	Female
Meralco DU	225	65	256	147	304	130
Subsidiaries	2,721	1,725	3,644	1,177	3,289	1,155
SUBTOTAL	2,946	1,790	3,900	1,324	3,593	1,285
TOTAL	4,736		5,224		4,878	

One Meralco's thrust for greater workplace diversity and inclusion is operationalized through a deliberate effort to source women for a variety of roles, from rank-and-file to leadership. In 2022, almost 28% of the Group's senior managers were women.

MERALCO DU EMPLOYEES BY RANK						
	2020		2021		2022	
	Male	Female	Male	Female	Male	Female
Senior Managers	530	160	565	185	587	202
Middle Managers	439	257	462	299	480	315
Rank-and-file	3,638	791	3,601	793	3,564	782
SUBTOTAL	4,607	1,208	4,628	1,277	4,631	1,299
TOTAL	5,815		5,905		5,930	

SUBSIDIARY EMPLOYEES BY RANK						
	2020		2021		2022	
	Male	Female	Male	Female	Male	Female
Senior Managers	1,390	173	1,240	139	129	71
Middle Managers	744	330	797	398	964	437
Rank-and-file	5,799	2,746	5,442	2,566	3,897	1,936
SUBTOTAL	7,933	3,249	7,479	3,103	4,990	2,444
TOTAL	11,182		10,582		7,434	

In 2022, Meralco carried out key steps to further increase the share of women in its workforce:

- Conducted a thorough review of existing roles that may be filled by underrepresented individuals, creating more opportunities for women to participate;
- Partnered with the Meralco Power Academy to train women on job roles traditionally held by men such as equipment operator and field inspectors; and
- Collaborated with the academe to create scholarship programs that will produce more female graduates in electrical engineering fields; and
- Encouraged young women from technical high schools and universities to pursue careers at Meralco.

Stories of Light: Institutionalizing Diversity & Inclusion Across the Organization

GRI 2-24

To further cement its commitment to advance workforce diversity and to nurture an inclusive and safe workplace for its employees, Meralco established a Diversity and Inclusion (D&I) Policy during the National Women's Month in March 2022. Recognizing that people perform better when they feel respected, valued, and treated fairly, the Company developed the policy to deeply embed D&I in all aspects of its business, including:

- Employee attraction, selection, and retention;
- Performance management and remuneration;
- Learning and development;
- Employee health, safety, and wellness; and
- Talent management and succession planning.

Anchored on Meralco's commitment to the UN Women's Empowerment Principles and guided by its membership to the Philippine Business Coalition for Women Empowerment, the policy supports the achievement of **SDG 5: Gender Equality** and **SDG 10: Reduced Inequalities** and delivers on the Company's commitment to the **UN Global Compact's Principle 6 on Elimination of Discrimination in Employment**.

The D&I Policy—which was co-developed by Meralco’s Human Resources and Corporate Sustainability Office—prescribes all directors, officers, and employees, across its line organizations and subsidiaries, to work together in embracing D&I in One Meralco.

Supporting this policy are Meralco’s corporate policies on talent resourcing, compensation, and anti-sexual harassment, which all include provisions on D&I.

B. Onboarding: Welcoming New Employees

New hires are smoothly integrated into the Meralco family through its onboarding program called Orange Plug-in (OPI), which orients new employees on the Company’s history, mission and vision, core values as well as its current businesses and initiatives. When the pandemic hit the Philippines in 2020, and the safety of employees became a top corporate priority, Meralco swiftly transformed its OPI into an online program (aptly called OPI Online) comprised of guided and self-paced learning sessions. Along with this shift was the update and addition of modules to the program, including those related to sustainability, corporate governance, and data privacy. Employees were also informed about Meralco’s policies, productivity tools, compensation and benefits, and professional advancement. This online version of the OPI proved to be highly effective and convenient not just for new hires but also for the Company’s subject matter experts due to the flexibility of the redesigned onboarding program.

This year, Meralco, in partnership with the Philippine Business Coalition for Women Empowerment, will incorporate Gender 101 into the OPI to strengthen the Company’s #Mbrace Diversity & Inclusion Program.

10.2 Labor Relations: Safeguarding Workers’ Rights

GRI 2-30 | GRI 402-1

Human rights are a key indicator for measuring the S in ESG. Despite this criterion being harder to quantify compared with E and G, which already have established frameworks, Meralco performs strongly on its social responsibility to its employees by protecting workers’ rights. While Meralco has always prioritized human rights protection, in 2022, the Company furthered its focus on this by enacting its own Human Rights Policy. This policy embeds safeguards for its employees (and other stakeholders) across all levels of the organization by clearly outlining the systems, structures, and processes established in Meralco to protect the fundamental rights of employees. Ensuring its employees and workers enjoy the highest standard of human rights protection is central to the Company’s long-term sustainable growth.

In support of this policy, Meralco nurtures a culture of trust, openness, and constructive engagement as reflected across its labor practices.

For instance, Meralco is committed to providing its employees various avenues for meaningful and constructive dialogue concerning labor issues. In particular, the Company supports collective bargaining agreements (CBA) between its rank-and-file and supervisory employees and its senior leadership. In 2022, the Meralco Employees and Workers Association (MEWA), representing the company's rank-and-file employees, successfully held CBA negotiations covering the period from December 1, 2022, to November 30, 2025. In the same year, seven out of 10 of Meralco's employees were covered by CBAs.

EMPLOYEES COVERED BY CBA			
	2020	2021	2022
Meralco DU	4,429	4,394	4,346
Subsidiaries	1,625	1,566	1,683
TOTAL	6,054	5,960	6,029

Aside from institutionalizing dialogue through CBAs, Meralco also provides its employees a safe environment for reporting violations. The Company takes reports of infractions seriously and acts swiftly to investigate cases and to address the offender with appropriate sanctions.

One Meralco's Whistleblowing Policy encourages and enables offended parties or witnesses to violations to lodge complaints without the fear of retaliation. Reports are sent to the Corporate Governance and Compliance Office (CGCO), and upon the CGCO's receipt and review, appropriate action is taken immediately.

In the rare event of retaliation, the reporting person or witness may fill out a Retaliation Protection Report Form, which is then reviewed by the Management Disciplinary Committee or the relevant Board Committee for approval of the CEO, the Chairman of the Board, or a designated representative.

Meralco goes beyond actively responding to employee issues. To proactively address violations and to avoid misconduct from the start of an employee's journey with the Company, Meralco conducts training sessions for new employees and line managers on the Code on Right Employee Conduct (COREC).

Moving forward, Meralco will continue to educate and empower its employees regarding human rights. As initiatives are rolled out, the Company will also continue to keep abreast of new labor laws or regulations and other jurisprudences to always ensure compliance.

The human rights movement continues to gain traction in businesses in recent years, with more investors and regulators increasingly demanding transparency in how corporations treat employees and workers across their value chains. As such, in support of **SDG 8: Decent Work and Economic Growth** and **SDG 16: Peace, Justice, and Strong Institutions**, Meralco heeded the call to institutionalize human rights protection in the organization.

Enacted in 2022, Meralco's Human Rights Policy demonstrates the Company's recognition that safeguarding human rights is central to achieving sustainable development. Meralco's strengthened commitment to championing human rights by integrating human rights principles and standards into its business operations and dealings is more than an investment with guaranteed returns.

Aligned with the UN's Guiding Principles on Business and Human Rights, Meralco's Human Rights Policy also encompasses the rights set out in the International Bill of Human Rights and the International Labour Organization's Declaration on Fundamental Principles and Rights at Work. The policy also institutionalizes Meralco's commitment to upholding the UN Global Compact's first two principles: (1) to support and respect internationally proclaimed human rights and (2) to not be complicit in human rights abuses.

Championed by the Corporate Governance Office and the Sustainability Office, Meralco's Human Rights Policy stipulates that all directors, officers, employees, and business partners in One Meralco shall take proactive measures to achieve the following commitments:

- Uphold the International human rights principles and covenants
- Respect human dignity and prevent any form of discrimination
- Stop child labor, forced labor, and human trafficking
- Ensure the freedom of association and collective bargaining
- Promote a safe and healthy workplace

To put the policy to work, Meralco has started embedding human rights protection in all aspects of its business activities—from employee training and communication to official dealings with customers, communities, business partners, and regulators.

10.3 Occupational Health and Safety: Protecting Employees from Harm

GRI 403 | SASB IF-EU-320

Occupational health and safety (OHS) are fundamental rights protected by Article 162 of the Labor Code of the Philippines. Further, Republic Act 11058 or the Occupational Safety and Health Standards Act ensures worker protection from all kinds of work-related hazards and upholds their right to refuse job assignments that are dangerous in nature. Meralco upholds the health and safety of its employees aligned with **SDG 8: Decent Work and Economic Growth**.

A. Providing a Safe Workplace for Employees

One Meralco demonstrates a strong commitment to upholding the right of its employees and workers to a safe and healthy environment. This begins with top management's decision to invest in safety as much as it does in productivity, quality, or labor relations among others. The Group aligns with international regulators and standards like the International Labor Organization in ensuring safety at work.

Meralco's Facilities, Safety & Security Management (FSSM) organization drives the Group's safety culture, implementing all organizational safety and health-related tasks and initiatives. The Environment, Safety, and Health (ESH) Committees across the utility's business units act as local safety champions and engage with Meralco's employees through monthly ESH meetings aimed at keeping the Group's safety and health standards and protocols relevant and ensuring these apply to all staff.

Meralco's flagship safety awareness program, TARGET ZERO: Zero Incident, Zero Harm, is a continuing initiative that aims to eliminate all work-related incidents in the organization. This program is reinforced by several OHS initiatives, including the annual First Working Day Safety Campaign, which aims to strengthen Meralco's safety culture and instill a "Safety First" mindset among its frontline personnel who are exposed to hazards and risks on a daily basis.

In 2022, Meralco further promoted employee safety through its new Safety Innovation Program, which aimed to reinforce the culture of safety in the Company through innovative solutions. The program had two main components: the Safety Innovation Training and the Safety Innovation Exhibition. The Innovation Training was a learning intervention in which 30 participants from different Meralco organizations were provided with various tools and methodologies to develop and implement original safety solutions. Meanwhile, the Innovation Exhibition was a one-day event where OHS teams across the Company showcased how they applied safety improvement principles provided during the training in their proposed practical OHS improvement solutions.

As a result of all these efforts to keep its employees from harm and strengthen its OHS program in 2022, One Meralco clocked in nearly 42 million safe person-hours, a more than 6% increase from 39.5 million safe-person hours recorded in 2021. However, the Group had an increase in its recordable work injuries by almost 11%—from 123 in 2021 to 136 in 2022. In response to this, Meralco and its subsidiaries

continues to strengthen their OHS programs through continuous communication with and training of safety officers to prevent future injuries in the workplace.

OTHER OHS METRICS				
		2020	2021	2022
Total employee hours worked	Meralco DU	12,631,044	13,026,699	13,235,096
	Subsidiaries	29,739,646	31,725,516	37,411,073
Safe person-hours	Meralco DU	12,624,538	13,026,160	13,152,203
	Subsidiaries	29,113,630	26,475,134	28,836,133
OHS training hours per employee	Meralco DU	11,908	35,280	154,952
	Subsidiaries	16,411	22,927	36,735
Average OHS training hours per employee	Meralco DU	2.05	5.97	26.13
	Subsidiaries	1.47	2.17	4.94
	Overall	1.67	3.53	14.34

B. Strengthening Capabilities for Emergency Response

One Meralco observes the highest standards of OHS and embeds safety awareness and practice in its employees' DNA. The Group conducts mandatory OHS training programs that include updated and relevant principles and standards for organizational safety and health, including Fire Safety and Building Work Site Awareness.

The Group also conducts skills training on defensive driving, accident investigation, and heavy equipment and basket truck operations, among other specialized competency programs. In 2022, Meralco offered 32 OHS training courses for its employees, totaling 154,952 training hours, representing a significant increase of 339% from 35,280 training hours in 2021. This represented an average of 14.34 OHS training hours per employee across the Group in 2022.

Meralco employees are also trained for disaster response and preparedness, empowering them to face hazards such as fire, earthquake, bomb threats, chemical spills, and others. Drills are regularly conducted that put employees' alertness, presence of mind, and know-how to navigate disasters in check.

In 2022 Meralco conducted four earthquake drills and three fire drills to ensure that its employees are well prepared to protect themselves and to respond to the call for help during times of disaster.

EMPLOYEES AND WORKERS COVERED BY AN OHS MANAGEMENT SYSTEM				
		2020	2021	2022
Permanent and Probationary	Meralco DU	5,815	5,905	5,930
	Subsidiaries	6,519	7,019	4,734
Project-based/fixed-term	Meralco DU	186	309	310
	Subsidiaries	7,298	7,771	7,555
Third Party	Meralco DU	2,238	9,583	9,846
	Subsidiaries	157	202	1,855
TOTAL		22,213	30,789	24,300

10.4 Remuneration: Rewarding Productivity and Excellence

GRI 2-19 | GRI 405-2

As the country's premier power distribution utility, Meralco is committed to providing highly competitive remuneration opportunities that attract, retain, and motivate talent who deliver outstanding performance to its customers and communities. Meralco ensures market pay competitiveness across all employee levels and positions in the Company as well as internal pay equity, such that an employee is compensated based on the worth of their job and the value contributions they deliver to the organization.

Overall, Meralco's remuneration philosophy strives to fulfill its people's basic needs and offer opportunities to generate personal wealth both in the short and long terms. Meralco offers base salary ranges that are well above minimum statutory levels and competitive against those of the industry and general business community. Employees can expect their salaries to grow over time through the Company's annual merit increase and promotion programs.

In support of its thrust to advance gender equality across the organization, Meralco ensures that the annual compensation of its female employees match that of its male employees. In 2022, the Company recorded an overall average pay gap of 4%, much lower than the global industry average of 19%.³³

³³ Thomson, E. (2022) [These 4 charts show the energy sector's gender gap and what needs to change](#), World Economic Forum.

AVERAGE GENDER PAY GAP FOR MERALCO ³⁴			
	2020	2021	2022
Senior Managers	-0.7%	-1.4%	4.3%
Middle Managers	-3.9%	0.3%	1.5%
Rank-and-file	8.8%	11.6%	11.6%
Project-based/fixed-term	-105.7%	3.8%	-23.1%
WEIGHTED AVERAGE	-2.8%	0.9%	4.0%

On top of competitive salaries, Meralco provides its employees with profit-sharing plans in the form of short-term bonuses and long-term incentives, such as Variable Incentive Plan, Annual Bonus Plan, and Long-Term Incentive Plan. Through these bonus and incentive packages, which tie individual employee performance to corporate business performance (which includes the achievement of sustainability goals for senior management), employees are further driven and invested in the success of the Company.

Furthermore, a robust employee benefits program—covering paid leaves, health and life insurance, and retirement plan, among others—is firmly in place and well above those prescribed by law.

The satisfaction of Meralco employees with the remuneration they receive from the Company is proven by the high return-to-work rate by those who availed of parent leaves. For instance, in 2022, 99.7% of employees who took parental leaves (maternity, paternity, and solo parent) maintained their employment with Meralco after their leaves.

MATERNITY LEAVE METRICS				
		2020	2021	2022
Entitled to the leave	Meralco DU	1,208	1,277	1,299
	Subsidiaries	3,147	3,491	3,065
Took the leave	Meralco DU	122	73	87
	Subsidiaries	181	164	176
Returned after the leave	Meralco DU	121	73	86
	Subsidiaries	178	141	137
Returned after the leave and still employed 12 months after	Meralco DU	121	72	80
	Subsidiaries	166	140	126

³⁴ The average pay gap was identified by finding the difference between the average salary of female employees from the average salary of males and dividing the result with the average salary for male employees and then multiplying the result by 100%.

PATERNITY LEAVE METRICS				
		2020	2021	2022
Entitled to the leave	Meralco DU	4,607	4,628	4,631
	Subsidiaries	5,885	6,318	5,741
Took the leave	Meralco DU	250	218	200
	Subsidiaries	279	211	197
Returned after the leave	Meralco DU	250	218	200
	Subsidiaries	279	210	190
Returned after the leave and still employed 12 months after	Meralco DU	249	215	198
	Subsidiaries	257	186	183

SOLO PARENTAL LEAVE METRICS							
		2020		2021		2022	
		Male	Female	Male	Female	Male	Female
Entitled to the leave	Meralco DU	7	20	10	24	11	24
	Subsidiaries	84	125	910	996	1,063	491
Took the leave	Meralco DU	7	19	10	22	11	23
	Subsidiaries	8	35	9	32	9	79
Returned after the leave	Meralco DU	7	19	10	22	11	23
	Subsidiaries	8	35	9	32	9	79
Returned after the leave and still employed 12 months after	Meralco DU	6	17	10	22	9	23
	Subsidiaries	7	27	8	26	9	74

10.5 Training and Development: Investing in Professional Growth

GRI 404

Training and development play a crucial role in enabling employees to achieve their full potential. One Meralco ensures that its employees do not only possess the necessary competencies for their current roles; they are also groomed for leadership positions where they solve challenges and bring about innovative solutions that will better the Group's service to its stakeholders.

In 2022, Meralco rolled out over 3,062 training batches focused on technical and leadership development, investing in an average of 43 training hours per employee, or a total of 268,163 training hours Company-wide. Meralco managed to deliver more training hours last year than in 2021 when it ran a total of 214,885 training hours (or an average of nearly 34 training hours per employee). Increasing efficiency in using online training platforms and the ease of restrictions on in-person meetings contributed to more training sessions being facilitated in 2022.

Meralco continues to seek ways to engage employees in continuing professional learning especially as face-to-face work gradually resumes. To achieve this, the Company first ensures that its training content remains relevant, leading-edge, and engaging for all participants—from the senior leadership to the rank-and-file. Additionally, as it embarks on a journey toward becoming a more sustainable enterprise, Meralco has started to purposefully embed sustainability topics in its learning and development curriculum.

Meralco's learning and development (L&D) curriculum includes various pathways for developing content, facilitating learning, and measuring progress on deepening relevant knowledge among its leaders and employees.³⁵

AVERAGE TRAINING HOURS FOR MERALCO EMPLOYEES PER RANK						
	2020		2021		2022	
	Male	Female	Male	Female	Male	Female
Senior Managers	23.5	20.9	49.7	35.7	38.3	31.2
Middle Managers	22.0	20.7	43.7	41.9	38.7	38.6
Rank-and-file	16.1	29.2	33.8	32.4	49.4	35.2
WEIGHTED AVERAGE	17.0	24.9	35.3	32.0	45.5	34.0
OVERALL AVERAGE	18.7		34.4		42.9	

AVERAGE TRAINING HOURS FOR SUBSIDIARY EMPLOYEES PER RANK						
	2020		2021		2022	
	Male	Female	Male	Female	Male	Female
Senior Managers	1.6	9.0	2.3	6.6	11.1	4.7
Middle Managers	11.0	10.2	11.9	13.2	2.6	8.4
Rank-and-file	3.1	2.5	4.8	5.4	7.7	5.0
WEIGHTED AVERAGE	3.0	3.3	3.8	5.4	3.6	7.0
OVERALL AVERAGE	3.1		4.4		4.6	

Moving forward, Meralco will continue to invest in learning and development to maximize the potential of its employees. Aside from imparting learning through established curricula, the Company is also actively fostering a strong mentoring culture by empowering managers to become better subject matter experts and team leaders as well as encouraging them to promote a healthy mentor-mentee relationship among employees in lower ranks. The Company will also implement other initiatives (including end-to-end competency assessments) to strengthen a culture of goal-orientedness, leadership, and accountability among Meralco employees.

³⁵ The full list of Meralco's L&D programs can be found on page 102–103 of this document.

Stories of Light: Pushing the Boundaries of Professional Development with Learning Summit

Meralco firmly believes that the growth of its employees is paramount to the success of its business. As such, in 2022, the Company, through its Learning and Development (L&D) unit, held its 8th Learning Summit, with the theme *“Going Beyond: Upskilling Human, Data, and Technological Capital”*.

Held virtually from November 8 to 9, 2022, the Learning Summit shed light on the importance of and the interplay between people, data, and technology in organizations and how these different capitals can be used to yield positive outcomes for the business. L&D partnered with Customized Training Solutions Pte. Ltd., a leading professional learning provider based in Singapore, in assembling and securing a credible roster of subject matter experts and industry leaders from various sectors to serve as resource speakers for the two-day conference.

The first day of the Learning Summit focused on developing human capital, with sessions on leadership and customer centricity. Meanwhile, sessions on the second day centered around navigating and utilizing new data and technological tools towards enhanced individual and business productivity. L&D designed separate, specialized tracks for managers and for individual contributors in order to ensure that attendees received the training appropriate for their respective roles in Meralco.

A total of 447 employees attended the Learning Summit—49% higher than the target count of 300—with an average participant rating of 97.1 out of 100.

10.6 Employee Engagement: Fostering Holistic Personal Development

Meralco’s leadership in the power sector is made possible by employees who are committed to its mission to power the good life for Filipinos. Keeping employees committed to an ideal and to pursue purposeful work is possible when their needs are met and when they are supported to achieve professional growth so they can in turn realize their personal aspirations and be in a better position to serve others.

To foster a holistic personal development, Meralco ensures that employees receive support for their physical, spiritual, emotional, and mental health and welfare through various programs and initiatives.

A. Employee Wellness: Nurturing Healthy Employees

In 2022, the Philippine government lifted mobility restrictions nationwide due to significantly lower COVID-19 infections driven by higher vaccination rates. Following this, Meralco mandated its workforce to return to the office while enforcing minimum public health standards in the workplace. To ensure that each employee continued to be motivated to work throughout the year despite the change in their work environment, the Company implemented numerous programs and activities (both online and in-person) to heighten employee morale and well-being.

Last year, Meralco took conscious efforts to improve its employees' well-being by organizing physical fitness activities such as Zumba and yoga classes via the Meralco Workplace (counterpart of Facebook for organizations) as well as by conducting year-long mental health campaigns through various channels (email, Workplace, and text blasts among others). In addition to these virtual activities, Meralco reopened its fitness center (including gym and sports facilities) after two years to promote active lifestyle among its employees.

Aside from its initiatives to protect and nurture the health of its personnel, the Company also conducted fun employee engagement activities throughout the year. These included an online bazaar, photo contests, and community vlogs during the Orange Fit Month in July 2022. Dependents of Meralco employees were also able to participate in various online activities (such as costume contests for kids and pets as well as a dance competition) in October. Webinars covering a wide range of topics (including resilience in the new normal, cooking, music, finance, and health) were also organized to complement employees' professional and personal development.

Finally, Meralco continued to hold its annual corporate activities (including its Foundation Day celebration, One Meralco Cool-tural Festival, and Service Awards ceremony) online. The Company also brought its employees together through the One Meralco Salu-Salo (Christmas party), which was held in person for the first time since December 2019.

Through the provision of well-rounded and all-encompassing personal development initiatives, Meralco fosters the passion, drive, and excellence of its people: key ingredients to reaching its sustainability goals.

B. Employee Volunteerism: Giving Back to Communities

Beyond taking care of its employees, Meralco also provides them with opportunities to take care of others. Every year, Meralco employees join to serve One Meralco Foundation's (OMF) volunteerism programs in communities and in fund-raising campaigns to help those hit by natural calamities.

In 2022, Meralco employees donated nearly PhP 3 million to four fund-raising campaigns initiated by OMF, which provided support to students from public schools in the Meralco franchise area as they went back to face to face classes and, which extended much-needed aid to thousands of families in calamity-stricken areas. For instance, when Tropical Storm Paeng hit Western Visayas, funds raised by Meralco employees provided relief packages to thousands of calamity victims.

Stories about OMF's social responsibility initiatives in 2022 and how Meralco employees contributed to their successes can be found in the 2022 OMF Annual Report, *Sinag*.

11 Prosperity: Creating Better Lives for All

One Meralco's vision for sustainable development adheres to one core principle: no one is left behind.

The Group's commitment to creating better lives for all is inspired by the **United Nations' 2030 Agenda for Sustainable Development**, a common language adopted by the world to "ensure that all human beings can enjoy prosperous and fulfilling lives."

One Meralco advances this global agenda by generating and delivering shared value to all its customers, communities, and constituents to enable them to live their best lives.

For its customers, the Group powers the good life by ensuring access to electricity that energizes meaningful and enduring progress in every sector and level of society. For its communities, One Meralco collaborates with key stakeholders and strategic partners to reach the unserved and underserved as well as to guarantee that everyone contributes to the country's development no matter how far they are—true to the essence of the **Sustainable Development Goals**. For its constituents, Meralco engages and empowers its value chain partners to start and drive their own journeys towards sustainability and to promote sustainability in their own networks.

At One Meralco, promoting sustainability is not only a responsibility but also an important opportunity to create positive and lasting impact for the present and future generations. Through its various businesses and initiatives, One Meralco gives its stakeholders the power to prosper and to fuel sustainable progress.

96%
of total generated economic
value distributed to
stakeholders

14
public schools energized via SEP

ZERO
corruption and discrimination
incidents

11.1 Economic Impact: Delivering Shared Value to Stakeholders

GRI 201 | GRI 203

At a fundamental level, One Meralco generates financial value for its stakeholders in the form of employee wages, government taxes, and investor returns.

DIRECT ECONOMIC VALUE GENERATED AND DISTRIBUTED (in PhP million)			
	2020	2021	2022
Direct economic value generated	277,929	322,317	432,292
Economic value distributed	255,103	293,692	412,958
<i>Operating costs (including payment to suppliers)</i>	<i>216,692</i>	<i>248,279</i>	<i>366,284</i>
<i>Employee wages and benefits</i>	<i>12,301</i>	<i>15,892</i>	<i>15,836</i>
<i>Payments to providers of capital (investors and shareholders)</i>	<i>18,605</i>	<i>18,246</i>	<i>21,824</i>
<i>Payments to government (taxes)</i>	<i>7,335</i>	<i>10,851</i>	<i>8,780</i>
<i>Community investments (expenses for CSR projects)</i>	<i>170</i>	<i>424</i>	<i>234</i>
Economic value retained	22,826	28,625	19,334

Economic value measures the benefits derived from goods and services by an individual or organization. In 2022, One Meralco's direct economic value generated (i.e., revenues) increased by at least 34% from PhP 322 billion in 2021 to PhP 432 billion. This was mainly driven by the effect of higher fuel costs on generation charge and energy fee.

To truly contribute to inclusive economic development, One Meralco ensures that the value it generates flows equitably to all its stakeholders. In 2022, the Group distributed over 96%—equivalent to PhP 413 billion—of its revenues to its various stakeholders in the form of payments to suppliers of goods and services, salaries and incentives to employees, dividends and interest payments, payments to the government in the form of taxes and other fees, and community investments through various corporate social responsibility (CSR) projects.

Operating costs increased by almost 48% from PhP 248 billion in 2021 to PhP 366 billion in 2022, owing to higher purchased power cost, oil, fuel, and power plant operations and maintenance.

Employee wages and benefits likewise decreased by 0.4% from PhP 15.9 billion in 2021 to PhP 15.8 billion in 2022 due to a reduction in the Group's total employee count.

Meanwhile, One Meralco's payments made to providers of capital increased by almost 20% from PhP 18 billion in 2021 to PhP 22 billion in 2022. This was prompted by the increase in the Group's consolidated core net income in 2022, which resulted in higher lookback dividends.

On the other hand, taxes and other fees paid to the Philippine government decreased by 19% from PhP 11 billion in 2021 to PhP 9 billion in 2022 due to shift to itemized deduction in 2022 from Optional Standard Deduction in 2021. The shift was deemed more advantageous with the implementation of four Distribution Rate True Up refunds in 2022.

Finally, Meralco spent PhP 234 million in social responsibility programs, primarily through the One Meralco Foundation.

Beyond all these financial gains, the enduring value that the Group creates for its customers and communities is through the sustained provision of affordable, reliable, and high-quality products and services to empower and help them prosper under all challenging societal conditions. One Meralco draws its purpose from fueling sustainable economic growth without leaving anyone behind.

11.2 Customer Enablement: Ensuring Engaged and Satisfied Clients

GRI 418-1

Meralco's work on powering the good life for Filipinos does not end after a customer's light is switched on. Beyond connecting customers to the grid so they can receive electricity and experience what power it brings to change lives for good, Meralco ensures that those already electrified continues to be so throughout their journey.

Customer enablement is key to making this happen. In 2022, Meralco extended care to its 7.6 million-strong customer base so that they will continuously stay connected, and that the customers themselves are aligned with the same goal of enjoying uninterrupted service and that they are willing to do what is needed to achieve this. By the sheer weight of numbers, this is no easy task yet of primordial importance.

To deliver on this, Meralco taps best-in-class customer service innovation to support an always-ready customer service team. The company's customer knowledge base ensures interactions with customers are insightful and actionable, where concerns that are properly reported are resolved in the best interest of both customers and the Company. Field representatives are equipped with an app that offers real-time information, avoiding the service from being discontinued if it happens that a customer is making a payment at the last minute.

Meralco also partnered with customers to achieve energy efficiency, as inefficient use of this finite resource leads to disconnection or lower service levels. Meralco enhanced channels to raise awareness among its customers on ways to conserve energy, including a bill revamp which tracks year-on-year trend in energy consumption. In the last mile of the Group's relentless customer engagement efforts, Meralco gives customers the chance to be connected even for those who are due for disconnection.

Simply put, customer enablement acknowledges that there is a two-way street Meralco, and its customers must take together to ensure customer satisfaction. More details about the Company's work on creating a satisfying and delightful customer journey can be found in the sections below.

A. Transforming Customer Service

Meralco constantly innovates its customer care solutions to transform key customer journeys (i.e., service application, billing and payment, outage and restoration, and concerns handling) and to provide its clients with the best possible service. Through this, the Company is able to empower its millions of customers to make sound energy-related decisions.

In 2022, Meralco enhanced its processes and platforms to efficiently and effectively respond to its customers' changing needs. The Company also introduced new, technology-enabled customer care initiatives to make the customer journey smoother and hassle-free:

- **Business Center (BC) Queueing System** – This platform enables real-time monitoring of foot traffic and transaction time as well as customer prioritization, allowing customers to wait comfortably in Meralco's BCs without queuing up physically.
- **Certified by Meralco (CBM)** – Through this program, electrical electricians and contractors certified by Meralco are able to deliver better service to customers and address their electric service application needs. These CBM experts are trained to ensure customer compliance with Meralco's technical and safety standards in approving service entrance facility. By availing of their service, customers can avoid costly delays, faulty designs, and unnecessary steps in the application process.
- **Customer Contacts Database** – By using an efficient, centralized repository of customer data, Meralco was able to quickly send digital service notifications, advisories, and marketing ads to its customers. By the end of 2022, nearly 5.2 million contacts were updated and integrated into the Company's enhanced customer contacts database.
- **Meter Reading Modernization** – To ensure that all data Meralco captures from its meters were complete, accurate, and up to date, the Company Meralco enabled remote download and upload capabilities for all its meter readers by:
 - shifting to a cloud-based infrastructure; and
 - utilizing other technological advances, including the capture of geolocation data from meters, Waze-like routing in meter location, and automated meter defect detection.
- **Bayad as Meralco Online's payment aggregator** – In partnership with Bayad, Meralco integrated the new Bayad Checkout into the Meralco Online payment system in 2022 to provide customers with various digital payment options to conveniently pay their electricity bills.

As a result of these initiatives to enhance customer-centricity, Meralco's Customer Experience Index (CXi) score remained consistent from 8.10 (out of 10) in 2021 to 8.03 in 2022. The Company uses CXi—enabled via an automated, real-time, post-transactional survey—to measure and quantify its customers' sentiments regarding their experience with and perceptions of Meralco. Moving forward, the Company will continue to utilize technology to improve its service delivery and ensure that its customers are satisfied with their relationships and journeys with Meralco.

B. Promoting Partnerships for Energy Efficiency

Meralco is uniquely positioned to lead the country's economy towards decarbonization, and to support economic and social progress and long-term sustainability with fairly priced, reliable, and increasingly green energy. Partnering with its wide-ranging stakeholders, especially intensive energy users like commercial and industrial businesses, towards energy efficiency is a low-hanging fruit in this journey, and creates massive value for Meralco, its customers, and the planet.

To harness stakeholders' buy-in on energy efficiency, Meralco launched an informative website dubbed Power Ideas, targeted to corporations. Power Ideas offers exactly that—or game-changing yet often overlooked ideas and ways to ensure businesses make the most of their electricity use before and beyond energization.

Power Ideas provides its audiences expertly produced videos on a range of topics, including power quality, energy efficiency, energy supply, and innovation. It also highlights case study interviews with companies that have partnered with Meralco and its subsidiaries for their energy and sustainability goals.

Aside from Power Ideas, in 2022, Meralco also continued conducting Power Up Live, a webinar series dedicated to bringing together expert speakers from industry and policy to facilitate deep-dive conversations on energy efficiency. The Power Up Live webinars were attended by business leaders and executives and served as Meralco's platform to promote energy efficiency initiatives among corporations, as aligned with **SDG 7: Affordable and Clean Energy**. The webinars explored various topics such as updates on energy standards and practices in energy management, the latest policies supporting energy efficiency, and Meralco's energy efficiency services and solutions. The webinars also served as a channel through which business and government leaders discuss concerns and matters affecting the local energy sector.

Among salient topics discussed last year was the Green Energy Options Program (GEOP), a new initiative by the Department of Energy that allows consumers to choose to source renewable energy from a licensed supplier as opposed to consuming whatever type of energy is supplied by the distribution utility. Meralco's participation in GEOP will enable it to provide customers with renewable energy. Some of the Company's commercial and industrial customers have expressed their interest to join this program once Meralco rolls it out within the next few years.

11.3 Community Engagement: Uplifting the Unserved and Underserved

GRI 203-1 | GRI 203-2 | GRI 413

Meralco is committed to powering lasting and meaningful progress. Key to this is the electrification of marginalized households and communities. In addition, by energizing schools, the Company supports the learning continuity of the country's youth and lays a sure foundation for sustainable development.

A. Electrifying Marginalized Communities

In 2022, One Meralco Foundation (OMF) invested nearly PhP 17 million in its Household Electrification Program to provide electricity access to low-income families within and beyond Meralco's franchise area. In particular, OMF funded the installation of service entrances, metering centers, breaker walls, and intermediate polls for 6,376 low-income households. These initial set up costs are usually shouldered by residential customers applying for a Meralco connection but have been absorbed by Meralco for this community.

In parallel with the Household Electrification Program, OMF also invested almost PhP 5 million in its School Electrification Program in 2022 to power 14 public schools across the country, ensuring that children and teachers were supported in the learning journey with the continuing resumption of face-to-face classes.

Aside from these two flagship programs, OMF also expanded its efforts to cover other social impact areas, including rural health electrification as well as electrification for livelihood, agriculture, and water access. In 2022, OMF launched two water access projects benefitting over 300 households, electrified two off-grid health centers, and enabled two livelihood projects (a rice mill facility in Davao de Oro and a potato processing facility in Bohol).

Through OMF's social responsibility programs, Meralco harnesses the power of electricity to uplift the lives of the poor and the vulnerable.

B. Powering Communities Beyond Electrification

Aside from energizing marginalized communities, One Meralco also ventures into other social development areas to expand its positive impact on the country. For instance, Vantage Energy and MPower, with the support of OMF, spearheaded back-to-school donation drives to fund printers, school supplies, and safety kits for various public schools in the Philippines. The program, which raised nearly PhP 1 million, benefitted more than 19,800 students (mostly learners with special educational needs) across Laguna, Bulacan, Rizal, and Cebu.

Meanwhile, GBP was able to serve over 34,000 patients—59% of whom were women—in Iloilo and Aklan through its Adopt a Health Center Program, through which the company donates over-the-counter medicines and medical items to select barangay health centers.

Furthermore, in December 2022, GBP—in collaboration with the West Visayas State University, the Iloilo City Health Office, and Better Health Philippines—conducted a training on hypertension for 67 primary healthcare providers from various barangays in Iloilo City. Delivered in Hiligaynon, the main language used in Iloilo, the program aimed to provide participants with evidence-based information on hypertension, including its risk factors, common symptoms, diagnosis, and condition management.

Stories of Light: Empowering Next-Generation Energy Leaders

In 2022, the Meralco Power Academy (MPA) was certified by the Department of Energy (DOE) as the first Recognized Training Institution (RTI) for energy education in the Philippines under the recently issued regulations stemming from the Energy Efficiency and Conservation Act of 2018. As an RTI, MPA is eligible to train and certify energy managers (EMs) and energy auditors (EAs) in the country through modules based on the core competencies for EMs and EAs identified by the DOE.

Prior to the DOE's certification, MPA has been conducting its programs in line with the standards set by the International Organization for Standardization, the American Society of Heating, Refrigerating, and Air-Conditioning Engineers, and the Association of Energy Engineers among others.

Leveraging the industry-leading expertise of Meralco as the Philippines' premier and largest electric utility, the MPA has been at the forefront of professional energy education in the country since 2015, training over 1,000 energy professionals from more than 450 companies across various industries. In support of **SDG 7: Affordable and Clean Energy**, the MPA ensures that the future leaders of the Philippine power sector are equipped with the core competencies of EMs and EAs and are prepared to adapt and respond to the rapidly evolving energy landscape.

Stories of Light: May halaga sa basura: Trash-to-Cashback redefines bills payment

Recognizing the importance of engaging its customers in driving positive environmental impact, Meralco (through its Customer Retail Services unit) and its subsidiary Bayad launched the Trash-to-Cashback Program with the local government unit of Quezon City as well as environmental nonprofits bXTRA Philippines and Basic Environmental Systems and Technologies.

The Trash-to-Cashback Program was an innovative waste reduction scheme that allowed Meralco's customers to trade their recyclable materials for points that can be used to pay their utility bills. The program—aligned with Meralco's thrust to contribute to **SDG 12: Responsible Consumption and Production**—aimed to encourage more people to practice proper waste segregation, recycling, and disposal while providing them with valuable financial incentives.

Under the program, eco-warriors dropped off their waste materials (such as single-use plastics, paper, boxes, and metal) at Meralco Business Centers (BCs) in Kamuning, Commonwealth, and Novaliches in Quezon City. The collected waste was then weighed and converted into environmental points redeemable as credits on the Bayad App. Customers were also allowed to use these credits to pay their electricity bills

and other utility bills at Bayad branches in Ever Gotesco-Commonwealth and Barangays Gulod and Sauyo in Novaliches.

The program was initially intended to run from December 2021 to March 2022 but was eventually extended until December 2022 due to its overwhelming success.

The Trash-to-Cashback Program is a testament to how Meralco continues to embed sustainability in the hearts and minds of its constituents. In the years ahead, the Company will initiate more innovative and customer-driven projects that will help preserve and protect the environment.

11.4 Supply Chain: Influencing Business Partners to Embrace Sustainability

GRI 2-6

One Meralco's ecosystem consists of many constituents, including a broad and deep chain of companies which are essential cogs in the wheels of the economy. Committed to nation-building and powering progress for local enterprises, the Group purposefully sources its goods and services from Philippine-based suppliers amid foreign counterparts being available. As a result, One Meralco spent nearly PhP 54 billion in 2022 on local procurement contracts, a significant amount of investment in local businesses that in return impact their own partners in their value chains.

TOTAL PROCUREMENT SPEND IN 2022 (in PhP million)			
	LOCAL	FOREIGN	SUBTOTAL
Meralco	28,550	5,610	34,160
Subsidiaries	25,142	17,803	42,945
TOTAL	53,692	23,413	77,105

TOTAL NUMBER OF SUPPLIERS BY CLASSIFICATION IN 2022			
	TIER 1	NON-TIER-1	SUBTOTAL
Meralco	2,228	-	2,228
Subsidiaries	2,549	215	2,764
TOTAL	4,777	215	4,992

TOTAL NUMBER OF SUPPLIERS BY LOCATION IN 2022			
	LOCAL	FOREIGN	SUBTOTAL
Meralco	1,834	394	2,228
Subsidiaries	2,513	251	2,764
TOTAL	4,347	645	4,992

One Meralco directly influences the revenue and business growth of its suppliers. In turn, these partners impact the Group's overall ESG performance, making it imperative for One Meralco to engage with all constituents in its value chain to adopt sustainability principles in their own operations.

In 2022, Meralco continued to roll out the Meralco Supplier Sustainability Scorecard (MS³), which defines 131 sustainability criteria based on the GRI Standards and covers 14 of the 17 SDGs for suppliers to comply with to continue to be accredited with Meralco. MS³ has since been rolled out to 218 suppliers who collectively constitute 95% of the Company's procurement spend.

MS³ was established the previous year to introduce sustainability in Meralco's supply chain in three waves: Introduce from the second half of 2020 to 2021, Influence in 2022, and Ingrain in 2023 and beyond. The "Introduce" wave focused on gathering data and baselining the ESG performance of Meralco's top suppliers based on an initial set of sustainability criteria. The "Influence" wave in 2022 built upon the

baseline, establishing sustainability standards, and assessed all of Meralco's suppliers based on the said sustainability criteria and requirements. A passing score in the assessment is a prerequisite for suppliers' continuing accreditation with Meralco. "Ingrain" beginning in 2023 will be focused on driving sustainability excellence in Meralco's supply chain through continuous improvement measures such as expanding ESG requirements and increasing sustainability standards.

Beyond compliance, MS³ has borne greater fruit and today serves as a platform for Meralco to have meaningful conversations with its suppliers. Meralco thus began understanding the challenges suppliers face on becoming more sustainable, enabling the Company to guide suppliers in building their own sustainability strategies and programs.

Harnessing the momentum of this groundbreaking program, Meralco's Supply Chain Management team is set to introduce and implement more sustainability initiatives going forward, touching on topics such as circular economy, Scope 3 emissions reduction, and supplier diversity.

Stories of Light: Closing the Loop with Meralco's Circular Economy Program

With its position as the Philippines' premier electric distribution utility, Meralco saw a distinctive opportunity to enlarge the scope, influence, and impact of its sustainability agenda—particularly among the Company's supply chain partners.

In 2022, Meralco launched the Circular Economy Program—as part of its broader Supply Chain Sustainability Journey initiative—to reduce discarded waste and promote the efficient use of resources throughout the Company's operations and value chain. Rooted in the fundamental principles of circular economy (elimination of waste and pollution, reuse of old materials and products, and regeneration of natural systems), Meralco set in motion the following initiatives:

- Sale of scrap copper wires to local manufacturers of electrical connectors
- Reuse of the wooden pallets in deliveries
- Upcycling of scrap pallets and used linemen's gloves into corporate giveaways

Through these efforts, the Company is not only reducing its ecological footprint but also creating new business opportunities and driving progress towards **SDG 12: Responsible Consumption and Production**.

12 Our Governance

GRI 2-9 | GRI 2-10 | GRI 2-11 | GRI 2-12 | GRI 2-13 | GRI 2-14 | GRI 2-15 | GRI 2-16 | GRI 2-19 | GRI 2-20 | GRI 2-26 | GRI 2-27 | GRI 205-1 | GRI 205-2 | GRI 205-3 | GRI 406-1

At the heart of every thriving organization lies the unwavering pillars of purposeful leadership and robust organizational management. For Meralco, these are driven by its Board of Directors, which shapes the company's vision, core values, structure, and functions. It also guides Meralco's environmental and social endeavors, enabling the Company to drive its commitment to sustainability and amplify its positive impact on the world.

12.1 Corporate Governance: Operationalizing Ethical Business Principles

Corporate governance remains a vital key to Meralco's growth and success, permeating all facets of the Company's organizations, business operations, and stakeholder touchpoints and driving the Company forward towards its long-term strategic objectives.

Through good corporate governance, Meralco ensures that it strictly conforms to relevant laws, regulations, contracts, strategies, and policies governing its operations. As such, in 2022, the Company is fully compliant with the corporate governance code, rules, and regulations promulgated and enforced by the Securities and Exchange Commission (SEC), Philippine Stock Exchange (PSE), Philippine Dealing & Exchange Corp. (PDEX), and other relevant regulatory bodies.



However, the Company recognizes that corporate governance is more than sheer compliance; it exists to create a strong and sustainable corporate culture, anchored on the fundamental principles of fairness, accountability, integrity, transparency, and honesty, that enables the Company to create and sustain value, gain competitive advantage, and embrace environment, social, and governance objectives.

Accordingly, guided by its vision, mission, and core values, Meralco continues to strengthen its governance structure, policies, controls, and practices, in accordance with the SEC Memorandum Circular No. 19, Series of 2016, otherwise known as the Code of Corporate Governance for Publicly Listed Companies (“SEC CG Code”) and the ASEAN Corporate Governance Scorecard (“ACGS”).



A. BOARD GOVERNANCE RESPONSIBILITIES

The Company is headed by a competent, working Board of Directors (“Board”) that fosters the long- term success of the corporation, and ensures that it sustains its competitiveness and profitability in a manner consistent with its corporate objectives and the long-term best interests of its shareholders and other stakeholders.

The Board is responsible for defining and reviewing the Company’s vision, mission, overall strategic directions, corporate objectives, long-term goals and core values annually. It oversees and monitors the development and implementation of the Company’s business objectives and strategy and ensures that obligations to stockholders and to all stakeholders are understood and fulfilled.

Pursuant to the SEC CG Code, the Board adopted in 2017 a Manual of Corporate Governance (“CG Manual”) which provides the framework of good governance and ethical business practices that the Company’s directors, officers, and employees are expected to observe and adhere to in dealing with various stakeholders. Management in turn, ensures that the operations of the Company are aligned with the CG Manual.

The CG Manual conforms to regulations set forth by the SEC, the PSE, PDEX, and other relevant regulatory bodies and is reviewed annually to ensure that it is up to date with local and international best practices, and in keeping with the Company's strategic direction. The CG Manual was amended by the Board on July 25, 2022.

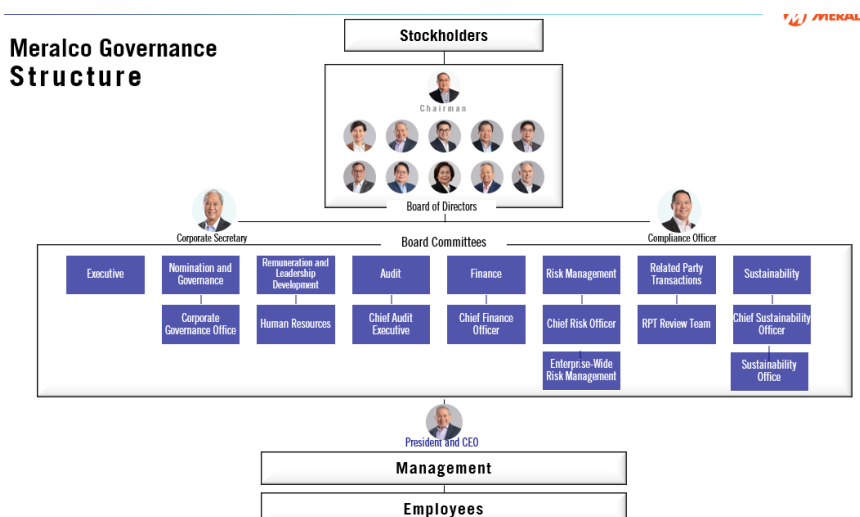


In accordance with the CG Manual, the Board formulates and annually reviews the Company's vision and mission statement, strategic objectives, key policies and the mechanism for performance assessment of the Board and Management, principally the President and Chief Executive Officer (CEO).

The Board, in its regular meeting held on February 28, 2022 as part of the Board's assessment of the Company's performance in the past year, reviewed the Company's material controls (including operational, financial and compliance controls) and risk management systems and confirmed the Company's full compliance with the code of corporate governance. In 2021, the Board revised the vision, mission, and values statements as well as the corporate strategic objectives of the Company and the same was reviewed and confirmed by the Board in 2022.

A.1 COMPOSITION

The Board is composed of directors with collective working knowledge, experience or expertise that is relevant to the company's industry/sector. In accordance with the Revised Corporation Code, the Company has a diverse Board consisting of eleven (11) directors, majority of whom are non-executive directors while three (3) are Independent Directors (ID), including a female independent director.



The Nomination and Governance Committee (Nom&Gov) reviews the nomination, selection, and composition of the Board pursuant to the Nomination and Election Policy. Additionally, the Board affirms that its members have a proper mix of qualifications, background, experience, independence, and skills needed to effectively perform its responsibilities and that its members remain qualified for their positions individually and collectively to enable them to fulfill their roles and responsibilities and respond to the needs of the organization.

The Board adopts a Board Diversity Policy promotes diversity to encourage critical discussion and foster balanced decision-making in the attainment of the Company's strategic objectives and sustainable development. The Policy likewise provides for measurable objectives for implementing its board diversity policy and for reporting on progress in achieving its objectives.

The Board ensures that independent decision-making is encouraged, and that no individual director dominates decision-making. The non-executive directors actively participate in discussions at the Board and Board Committee levels, as well as with Management.

A.2 INDEPENDENT DIRECTORS

On April 13, 2022, the Nom&Gov assessed the profiles of the directors and found that the independent, non-executive directors are indeed free of relationships with the Company, its related corporations, its management or substantial shareholders that could interfere, or be reasonably perceived to interfere, with the exercise of directors' independent business judgment. The Nom&Gov had reviewed the multiple board representations held presently by the directors and assessed that they do not hinder in any way the performance of their duties to the Company.

Given the nomination for election to the Board of Directors of independent directors, Retired Chief Justice Artemio V. Panganiban and Mr. Pedro Emilio O. Roxas after the maximum nine-year term, the Board provided for the meritorious justification for their retention in accordance with the CG Manual which was consequently approved by the shareholders during the 2022 Annual Stockholders' Meeting.

The retention of these independent directors was viewed in light of the unprecedented backdrop of the COVID-19 pandemic. The most recent corporate financial and operational indicators have clearly shown that the global COVID-19 pandemic has brought about unique and serious operational, legal and regulatory risks, that unfortunately have continued to loom relentlessly over the company and the nation as a whole. In the midst of such uncertainty, Meralco and its stakeholders will benefit from stability in the Board brought about in part by Retired Chief Justice Panganiban's and Mr. Roxas' deep experience and knowledge of the company that will enable them to continue to provide steady guidance and meaningful participation towards the crafting of policies and strategies to immediately address these risks.

A.3 CHAIRMAN OF THE BOARD

The Chairman of the Board, Mr. Manuel V. Pangilinan, serves to represent the interests of all shareholders and stakeholders, and oversees the performance of the Board and its directors. He champions exemplary ethical governance principles for directors, officers, and employees to emulate and espouse.

Together with the President and CEO, Atty. Ray C. Espinosa, the Corporate Secretary, Atty. Simeon Ken R. Ferrer and the Compliance Officer, Atty. William S. Pamintuan, the Chairman sets a clear agenda before each Board meeting. He provides opportunities for all directors to actively participate, addresses governance-related issues that non-executive, independent directors may raise, and ensures that the Board exercises strong oversight over the Company and its Management, such that any corporate risk or threat is adequately and effectively addressed. His roles and responsibilities are specified in the CG Manual accessible at the Company's website.

A.4 MEETINGS AND MAJOR ACCOMPLISHMENTS

The Board of Directors reviews and approves major projects, policy decisions, annual budgets, major investment funding, and major restructuring of core businesses on a fully informed basis, in good faith, with due diligence and care, and in the best interest of the company.

The Board jointly plans meeting dates at the start of the calendar year, meets regularly once a month, and holds special meetings as may be required.

2022 ASM AND BOARD MEETING ATTENDANCE			
Director	Designation	Annual Stockholders' Meeting	Board and Organizational Meetings
Manuel V. Pangilinan	Chairman / Non-Executive Director	Present	13/13
Ray C. Espinosa¹	Executive Director	Present	13/13
Anabelle L. Chua	Non-Executive Director	Present	13/13
James L. Go	Non-Executive Director	Present	11/13
Frederick D. Go	Non-Executive Director	Present	13/13
Lance Y. Gokongwei	Vice Chairman / Non-Executive Director	Present	13/13
Lydia B. Echauz	Independent Director	Present	13/13
Jose Ma. K. Lim	Non-Executive Director	Present	13/13
Artemio V. Panganiban	Lead Independent Director	Present	13/13
Pedro Emilio O. Roxas	Independent Director	Present	13/13
Victorico P. Vargas	Non-Executive Director	Present	13/13
¹ <i>President and CEO</i>			

In 2022, the Board's major accomplishments included the following:

Major Projects/Policy Decisions

- Evaluation of compliance to the SEC Revised Code of Corporate Governance
- Approval of the Integrated Annual Corporate Governance Report (I-ACGR)
- Review and approval of the Sustainability Committee Charter
- Review and approval of the Beneficial Ownership Policy
- Screening of nominees to the Board
- Conduct of the 2022 ASM
- Approval of 2023 schedule of Board meetings
- Approval of Recommended Collective Bargaining Agreement (CBA)
- Review and approval of the board committee composition
- Evaluation of compliance to ERC requirements
- Review and approval of business separation and unbundling plan reports
- Review and approval of public-private partnerships
- Approval of construction, development, and commissioning of substation assets
- Review and approval of power generation projects, interim power supply agreements (IPSAs) and power supply agreements (PSAs), technical services agreements, pole relocation projects, and other local and international business initiatives
- Approval of Audited Financial Statements
- Evaluation of incumbent external auditor and nomination of external auditor for 2022
- Approval of report of external auditors covering the Company's Audited Financial Statements
- Approval of dividend declaration
- Review and approval of material RPTs
- Enterprise performance evaluation and assessment
- Performance assessment of the Board, Board Committee, and President and CEO
- Review and approval of rank conferment, appointment, and extension of officers
- Review and approval of executive promotions, rightsizing policy and succession planning
- Review and approval of employee performance management plan
- Review and approval of various supply contracts in excess of PHP 50 million

Business Plan and Annual Budgets

- Review and approval of the 2023 budget
- Monitoring of investment committee report
- Review and approval of corporate strategic objectives
- Monitoring of the implementation of corporate strategies
- Review of forecast of subsidiaries' projects

Major Investment Fundings

- Infusion of equity to subsidiaries
- Renewal of credit lines, credit facilities, and bonds

A.5 CORPORATE SECRETARY AND COMPLIANCE OFFICER

All Board members have direct and independent access to the Corporate Secretary, the Compliance Officer and Management.

The Corporate Secretary, a fellow of the Institute of Corporate Directors, Atty. Simeon Ken R. Ferrer, under the direction of the Chairman, is responsible for ensuring that good information flows within the Board and Board Committees and between Management and non-executive directors. He also facilitates the orientation and assists with the professional development of directors as required by regulators. He met all the qualifications and skills required for his position.

The Board is likewise assisted by Company's Compliance Officer and Senior Vice President, Atty. William S. Pamintuan, who monitors, reviews, evaluates and ensures the full compliance by the corporation, its directors and officers with relevant laws, rules and regulations and all governance issuances of regulatory agencies and report violations thereof to the Board and recommends the imposition of appropriate disciplinary action.

The qualifications, duties and responsibilities of the Corporate Secretary and Compliance Officer are stated in the MCG and Board Charter. Both of them regularly attend trainings on corporate governance.

A.6 BOARD COMMITTEES

The Board has formed various Board Committees, namely Executive Committee (ExCom), Audit Committee (AuditCom), Risk Management Committee (RMC), Nom&Gov Committee, Remuneration and Leadership Development Committee (RLDC), Finance Committee (FinCom), Related Party Transactions Committee (RPTCom), and Sustainability Committee. The Board has delegated specific responsibilities to each of these Committees guided by their respective committee charters.

2022 BOARD COMMITTEE MEETING ATTENDANCE								
	Finance	Audit	RMC	RPT	Nom & Gov	RLDC	Executive	Sustainability
Manuel V. Pangilinan ¹	N/A	N/A	N/A	N/A	N/A	3/3	4/5	-
Ray C. Espinosa	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Anabelle L. Chua ²	12/12	7/7	2/2	2/2	4/4	N/A	N/A	N/A
James L. Go	11/12	6/7	2/2	2/2	4/4	N/A	5/5	N/A
Frederick D. Go	N/A	7/7	2/2	2/2	4/4	N/A	N/A	-
Lance Y. Gokongwei	9/12	N/A	N/A	N/A	N/A	3/3	5/5	-
Lydia B. Echauz ³	12/12	7/7	N/A	N/A	4/4	N/A	N/A	N/A
Jose Ma. K. Lim ⁴	1/1	7/7	2/2	2/2	4/4	N/A	5/5	-

Artemio V. Panganiban⁵	N/A	7/7	2/2	2/2	N/A	N/A	5/5	N/A
Pedro Emilio O. Roxas⁶	12/12	7/7	2/2	2/2	4/4	3/3	N/A	-
Victorico P. Vargas	12/12	N/A	N/A	N/A	N/A	3/3	N/A	N/A
¹ Chairman, Executive Committee, Remuneration & Leadership Committee, and Sustainability Committee								
² Chairman, Finance Committee from January to November 2022.								
³ Independent Director								
⁴ Mr. Jose Ma. K. Lim was appointed as new member and Chairman of the Finance Committee in the November 28, 2022 Board meeting. Chairman, Risk Management Committee								
⁵ Chairman, Audit Committee; Lead Independent Director								
⁶ Chairman, Nomination & Governance Committee, and Related Party Transaction Committee; Independent Director								

The functions, authority and responsibilities of each Board committee and their accomplishments are as follows:

- A. EXECUTIVE COMMITTEE (EXCOM)** is composed of five (5) directors, one (1) of whom is an independent director. The ExCom may act, by majority vote of all its members, on such specific matters within the competence of the Board, as may be delegated to it under the By-Laws, or upon a majority vote of the Board, subject to the limitations provided by the Corporation Code.

The ExCom conducted five (5) meetings in 2022 and reviewed the following:

- Interim Power Supply Agreement (IPSA)
- Power Supply Agreement with the Original Proponent Terra Solar Philippines Inc. (TSPI)
- MIESCOR Infrastructure and Development Corp. (MIDC) Submission of Offer bid for the Globe Tower Sale and Lease Back
- Third Party Bids and Awards Committee's (TPBAC) Completeness Review and Report-Recommendation on the Detailed Evaluation of Unsolicited Proposals.

- B. REMUNERATION AND LEADERSHIP DEVELOPMENT COMMITTEE (RLDC)** is composed of four (4) directors, one (1) of whom is an independent director. The duties and responsibilities of RLDC as defined in its charter include assistance to the Board in the development of the Company's overall performance management, compensation, retirement, and leadership development policies and programs based on the Company-approved philosophy and budget.

The RLDC held three (3) meetings in 2022 and accomplished the following:

- Approval of candidates for rank conferment
- Review of performance evaluation plan results
- Review of the budget for Collective Bargaining Agreement
- Review of merit increase programs
- Review of annual incentive plan
- Approval of Recommendation for Appointment and Employment Extension

The RLDC recommends to the Board, for the approval of the shareholders, a framework of remuneration for Directors and Management, including the President and CEO.

DETAILS OF 2022 BOARD REMUNERATION (in PhP)			
	Remuneration for Board Meetings Attended in 2022	Remuneration for Committee Meetings Attended in 2022	TOTAL
EXECUTIVE DIRECTOR			
Ray C. Espinosa	₱1,680,000	₱0	₱1,680,000
NON-EXECUTIVE DIRECTOR			
Manuel V. Pangilinan	₱1,680,000	₱168,000	₱1,848,000
Lance Y. Gokongwei	₱1,680,000	₱408,000	₱2,088,000
Anabelle L. Chua	₱1,680,000	₱648,000	₱2,328,000
James L. Go	₱1,400,000	₱720,000	₱2,120,000
Frederick D. Go	₱1,680,000	₱360,000	₱2,040,000
Jose Ma. K. Lim	₱1,680,000	₱504,000	₱2,184,000
Victorico P. Vargas	₱1,680,000	₱360,000	₱2,040,000
INDEPENDENT DIRECTORS			
Pedro Emilio O. Roxas	₱1,680,000	₱720,000	₱2,400,000
Artemio V. Panganiban	₱1,680,000	₱384,000	₱2,064,000
Lydia B. Echaz	₱1,680,000	₱552,000	₱2,232,000
TOTAL INDEPENDENT DIRECTORS	₱5,040,000	₱1,656,000	₱6,696,000
GRAND TOTAL	₱18,200,000	₱4,464,000	₱23,024,000

The Directors and Officers are covered by a Casualty Line Insurance Policy effective until June 27, 2022. The policy covers Company Securities, Company Employment Practices Breach, Regulatory Crisis Event Costs, Investigation Costs, Public Relations Expenses, Investigation Costs for Derivative Demands, Tax Liability and other additional limits such as Bodily Injury & Property Damage Defense Costs, Health & Safety Costs, Gross Negligence Manslaughter Defense Costs and Environmental Violation (Defense Costs Including Civil and admin Fines).

For the President and Management, the framework takes into account all aspects of executive remuneration including salaries, allowances, bonuses, and benefits in kind. The framework is benchmarked against pay and employment conditions within the industry and it links rewards to corporate and individual performance.

The Company's directors receive per diem fees for their attendance to Board and Board Committee meetings. Each director is entitled to a per diem allowance of PhP 140,000 for every board meeting attended and PhP 24,000 for every committee meeting.

Remuneration of Key Management and Employees

The Company adopts a remuneration policy comprised of fixed and variable components in the form of base salary and variable bonus linked to the Company's and the individual's performance. Compensation packages and revisions of key Management's remuneration are subject to the review and approval of the RLDC.

The top five (5) key officers of the Company have received an aggregate remuneration of PhP 238 million. For more information on the aggregate total remuneration paid to all key officers, please refer to the discussion entitled Compensation of Key Management Personnel in the Notes to Consolidated Financial Statements.

Advisers/Consultants to Remuneration and Leadership Development Committee

Meralco engaged a human resources consultancy firm to assist in the areas of employee engagement, and compensation and benefits management.

C. Nomination and Governance Committee (Nom&Gov)

The Nom&Gov is composed of six (6) directors with an independent director as chair. The duties and responsibilities of Nom&Gov as reflected in its charter include screening qualified nominees for election as directors, assessing the independence of directors, introducing improvements on Board organization and procedures, setting-up of mechanisms for performance evaluation of the Board and Management, and providing programs for continuing education of the Board.

The Nom&Gov undertakes the process of identifying the qualification of directors aligned with the Company's strategic directions. It reviews and recommends to the Board the appointment of members to the Board Committees. The process involves identifying, reviewing, and recommending potential candidates to the Board for consideration.

The Nom&Gov has put in place a formal and transparent process for the nomination of new Directors to the Board. Stakeholders who have identified suitable candidates submit the Nomination and Acceptance Letters, Full Business Interest Disclosure Forms and curriculum vitae of such candidates to Nom&Gov for discussion and review on or before the deadline set by the Nom&Gov.

These candidates are sourced from the business networks of Board members and from professional search firms such as the Institute of Corporate Directors (ICD), or from shareholders. These candidates should be skilled in core competencies such as strategic planning, business expertise, and industry knowledge.

The shareholders elect the directors during the Annual Stockholders' Meeting ASM held every last Tuesday of May.

The Company sends out a formal letter setting the responsibilities of the duly elected director. The new director then attends an onboarding program facilitated by the CGO.

The Nom&Gov Comm held four (4) meetings in 2022 and performed the following:

- Reviewed the results of Board, Board Committees, and President and CEO performance assessment
- Assessed Meralco's public ownership report
- Screened the nominees to the Board
- Reviewed the Board committee composition
- Assessed Meralco's compliance to the Revised ASEAN Corporate Governance Scorecard (ACGS)
- Reviewed and endorsed Meralco's Integrated Annual Corporate Governance Report (I-ACGR) for 2021
- Reviewed and approved the Human Rights Policy, Revised Social Media Policy, Revised Manual of Corporate Governance, Revised Code of Ethics
- Reviewed the Company's Vision, Mission, and Values Statements
- Discussed the updates on the implementation of Project One Meralco Governance
- Facilitated the annual CG enhancement and continuing education programs

D. Audit Committee (AuditCom)

The AuditCom consists of three (3) independent directors, and four (4) non-executive directors, one of whom, Ms. Annabelle Chua has over twenty (20) years of experience in the areas of accounting, corporate finance, treasury, financial control and credit risk management and was a Vice President at Citibank, N.A. for ten (10) years. The AuditCom is chaired by the lead independent director.

The AuditCom had six (6) meetings in 2022 with the following accomplishments:

Internal Control

- Obtained management's assurance on the adequacy and effectiveness of the Company's internal control system and noted Management's Control Policy
- Evaluated the effectiveness of the internal control system of the Company
- Reviewed and discussed updates on fraud investigations, recoveries from losses and appropriate actions of the Management.

Financial Reporting

- Reviewed the unaudited consolidated quarterly financial statements and the audited consolidated annual financial statements of the Company
- Endorsed for Board approval the Audited Consolidated Financial Statements of the Company

Audit Process

- Assessed the independence, performance, and effectiveness of the External Auditors, SGV & Co. CPAs (SGV) taking into consideration their credibility, competence, ability to understand complex transactions, and the adequacy of their quality control procedures. Based on this assessment, SGV was re-nominated by the Committee to the Board as the External Auditors of the Company with the assurance that the lead audit partner complies with Rule 68 of the Securities Regulation Code on rotation of External Auditors.
- Held executive sessions with the External Auditors and Internal Audit without the presence of Management. On December 8, 2022, the Audit Committee held separate executive session with the engagement partner of the external auditors, SGV, including the private session of the Audit Committee Chair with the Chief Audit Executive. The agenda in these meetings involved matters the Audit Committee and the auditors believe should be discussed without the presence of the executive director or officers from management.
- Reviewed and approved the audit plan, scope of work and proposed fees of SGV for audit and non-audit services.
- Reviewed and approved the annual Internal Audit Plan, the related key performance indicators, and all subsequent changes to the Internal Audit Plan, as needed.
- Discussed and dissected the results of audits reported by the Chief Audit Executive in her quarterly and year-end status reports to the Committee.
- Monitored Management's timely implementation of appropriate corrective actions to address the audit issues and recommendations of Internal Audit and the External Auditor.
- Assessed Internal Audit's performance for the preceding year.
- Assessed the performance of the Subsidiaries' Audit committees
- Reviewed the Internal Audit and Audit Committee Charters on an annual basis for any updates or changes.

Compliance

- Reviewed and assessed Management's processes of monitoring compliance with laws and regulations through Internal Audit.
- Reviewed and assessed subsidiaries' and associate companies' processes of monitoring compliance with laws and regulations.

E. Risk Management Committee (RMC)

The RMC consists of two (2) independent directors and four (4) non-executive directors. It assists the Board in its oversight role on the risk management process. The following activities were accomplished by RMC:

- Reviewed One Meralco's Key Enterprise Risks Report for the Distribution Utility and Subsidiaries
- Review of Risk Confirmation Statements for submission to Metro Pacific Investments Corp. (MPIC)
- Reviewed and discussed with the Chief Risk Officer and external auditors One Meralco's key business risks as well as its ongoing and proposed risk mitigation measures.
- Reviewed the integration of Environment, Social, and Governance matters into the Company's Risk Assessment process.
- Evaluated the effectiveness and certified the adequacy of One Meralco's risk management process such that material risks are periodically identified, evaluated, managed, and reported appropriately by management.

The Board of Directors, through the RMC, institutes a framework of prudent and effective controls which enables risks to be identified, assessed, and managed accordingly.

F. Finance Committee (FinCom)

The FinCom is composed of seven (7) directors, two (2) of whom are independent directors, with the Chief Finance Officer (CFO) as ex-officio member. It reviews the financial operations of the Company and matters regarding major purchase contracts, and acquisition and/or divestment of investments, businesses, or ventures.

In its twelve (12) meetings in 2022, its major accomplishments were:

- Review and approval of all service and supply contracts in excess of PhP50 million
- Review of Unaudited Quarterly Consolidated Financial Statements and Audited Annual Consolidated Financial Statements
- Treasury updates
- Declaration of cash dividend
- Renewal of credit lines and bonds
- Review and approval of cash optimization strategy
- Review and approval of PSAs and any changes or issues regarding their execution
- Review and approval of annual budget and medium- term business plan and forecast
- Review of Meralco directors' and officers' insurance policy
- Review additional capital call, surety bonds, capital infusions for subsidiaries
- Review of equity call
- Review of investments
- Review and endorsement of the renewal of Wholesale Electricity Spot Market surety bond for the retail electricity supply transactions

G. Related Party Transactions Committee (RPTCom)

The RPTCom consists six (6) directors, two (2) of whom are independent directors. It assists the Board in reviewing De Minimis, Significant, and Material RPTs to determine whether they are in the best interest of the Company and shareholders, and ensure that all RPTs of the Company are conducted in fair and at arms' length terms. The following activities were accomplished by the RPTCom in 2022:

- Discussed and improved the RPT Review Process for Purchase Orders (POs) and Non-POs
- Reviewed the RPT Policy Guidelines
- Reviewed and approved De Minimis, Significant, and Material RPTs
- Reviewed RPT Reports together with the RPT Review Team, and evaluated Meralco's purchases of goods and services from related parties to be fair and at arm's length terms
- Endorsed Material RPTs to the Board for approval

H. Sustainability Committee (SusCom)

In 2021, the SusCom was established to institutionalize Meralco's sustainability commitment and corporate ESG imperatives. Composed of seven (7) members, including the President and CEO and Chief Sustainability Officer who are both acting as non-voting members, SusCom is responsible for overseeing the Company's sustainability strategy, policies, and programs. The Committee also accounts for and monitors the economic, environmental, social, and governance (EESG) performance of the Company in alignment with the UN SDGs, with the aim of delivering long-term value to all the stakeholders.

A.7 ORIENTATION AND CONTINUING EDUCATION PROGRAMS

The Board of Directors ensures that the Company complies with all relevant laws, regulations, and endeavors to adopt best business practices. Towards this end, the Board keeps abreast with the latest developments in the corporate governance regulatory landscape and implements a policy on orientation and continuing training for all directors and key officers, including an annual CG training with SEC-Accredited providers, in accordance with the Board Charter and the MCG.

The Company has a policy that encourages directors to attend annual continuing training programs. In fulfillment of such policy and the requirements of the Company's MCG, the ERC Resolution No. 1, Series of 2004, and the SEC Memo Circular No. 20, Series of 2013, the Directors, together with the Senior Management, attended via online platform the MVP Group Annual Corporate Governance Enhancement Session (ACGES) on September 22, 2022, entitled "The Metaverse and How it will Transform Business & Human Interaction" by Mr. Matthew Ball and "Proof of Learn: A Philippine Perspective to the Metaverse" by Ms. Sheila Lirio Marcelo. This session covered four (4) hours of governance training and was accredited by the SEC.

2022 ATTENDANCE TO CORPORATE GOVERNANCE TRAINING AND CONTINUING EDUCATION PROGRAMS		
Director	Program	Resource Person/ Name of Training Institution
Manuel V. Pangilinan Anabelle L. Chua Ray C. Espinosa Jose Ma. K. Lim Victorico P. Vargas Ret. Chief Justice Artemio V. Panganiban Lydia B. Echauz Pedro Emilio O. Roxas	MVP Group Annual Corporate Governance Enhancement Session: “The Metaverse and How it will Transform Business & Human Interaction” and “Proof of Learn: A Philippine Perspective to the Metaverse”	Mr. Matthew Ball Ms. Sheila Lirio Marcelo
Frederick D. Go	MVP Group Annual Corporate Governance Enhancement Session: “The Metaverse and How it will Transform Business & Human Interaction” and “Proof of Learn: A Philippine Perspective to the Metaverse” Sustainability Masterclass	Mr. Matthew Ball Ms. Sheila Lirio Marcelo JGS Executive Development Program
Lance Y. Gokongwei	Sustainability Masterclass Unbox Extra: The Gokongwei Group Innovation Festival	JGS Executive Development Program JG Summit Digital Transformation
James L. Go	Sustainability Masterclass SEC Granted Mr. James L. Go a permanent exemption from the corporate governance training requirement in its en banc meeting on November 10, 2015.	JGS Executive Development Program

A.8 BOARD, COMMITTEE AND CEO PERFORMANCE ASSESSMENT

The Board annually conducts a self-assessment of its performance individually, collectively, and as members of the different Board Committees. The self-assessment results are key factors in the enhancement of directors’ performance and effectiveness in the discharge of their duties.

The Board conducted the performance assessment on March 10, 2022, wherein directors were given opportunity to give their opinions and suggestions or identify special issues of interest about their performance or different aspects of the Company’s operation.

Every three years, the assessments are supported by an external facilitator. In 2023, the Company engaged the services of the Good Governance Advocates and Practitioners of the Philippines (GGAPP) in the evaluation of the 2022 performance of the board, board committees, the Chairman, the CEO, and other key officers.

PERFORMANCE INDICATORS	
Financial	Non-Financial
Measures reflecting the financial results and financial position of the Company to the shareholders, such as revenues, consolidated core net income, reported net income, EBITDA, cash and cash equivalents, debt and stockholders' equity, dividend payouts, etc.	<ul style="list-style-type: none"> ▪ S-Factor Indicators <ul style="list-style-type: none"> - System Loss (SL) - System Average Interruption Frequency Index (SAIFI) - System Average Interruption Duration Index (SAIDI) - Momentary Average Interruption Frequency Index (MAIFI) - Time to Process Applications (TPA) - Time to Connect Premises (TCP) - Call Center Performance (CCP) ▪ Guaranteed Service Level (GSL) Metrics

B. RESPECTING THE RIGHTS OF SHAREHOLDER

The Company recognizes the rights of all shareholders as provided in the Corporation Code of the Philippines, other pertinent laws, rules, and regulations, the Company's Articles of Incorporation, Amended By-Laws and MCG.

B.1 RIGHT TO DIVIDENDS

DIVIDEND POLICY

The Company's dividend policy, as approved by the Board on February 22, 2010, and ratified by the shareholders during the May 25, 2010 ASM, calls for the payment of regular cash dividends equivalent to 50% of the audited CCNI for the year with a "look-back" basis, which allows the Company to pay special dividends beyond 50% of the CCNI for the year, subject to the availability of unrestricted retained earnings in accordance with the guidelines of the SEC.

Following are the cash dividends declared by the Board on common shares for 2022:

Declaration Date	Record Date	Payable Date	Rate per Share
February 28, 2022	March 30, 2022	April 26, 2022	PhP 10.226
July 25, 2022	August 23, 2022	September 14, 2022	PhP 5.806

B.2 RIGHT TO PARTICIPATE IN DECISIONS

The Company upholds the rights of all shareholders, including the minority shareholders, to participate in:

- changes or amendments to the Company's Articles of Incorporation or By-laws
- authorization for issuance of additional shares
- authorization of extraordinary transactions, including the transfer of all or substantially all assets that in effect result in the sale of the Company
- approval of remuneration or increase in remuneration of directors
- voting by proxy and attendance in stockholders' meeting in *absentia* or through remote communication.

B.3 RIGHT TO VOTE AND PARTICIPATE EFFECTIVELY DISCLOSURE AND RELEASE OF NOTICE TO ANNUAL STOCKHOLDERS' MEETING (ASM)

To provide shareholders enough time to examine the Company's information, the ASM Notice was posted on the Company's website on February 7, 2022. The Definitive Information Statement (DIS) was distributed to the shareholders starting May 2, 2022. Similar to all Company notices and circulars, the ASM Notice is written and published in English.

ASM

It is the Company's policy to encourage stockholders, including institutional and minority stockholders, to attend and actively participate in the ASM. The 2022 ASM was held on Tuesday, May 31, 2022, at 10:00 AM at the Meralco Compound, Ortigas Avenue, Barangay Ugong, Pasig City. In light of the COVID-19 pandemic, the Company conducted its third virtual ASM via live broadcast of the proceedings through the Stockholders Electronic Registration and Voting Express (SERVE). Stockholders were given opportunity to propound questions and raise concerns to the Board during the meeting.

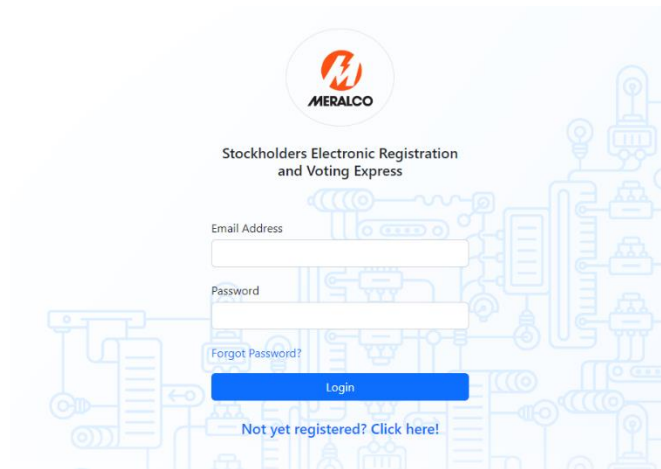
As in the previous years, the Company facilitated participation of stockholders who cannot attend the virtually by enclosing proxy forms in the ASM Notice where they can indicate their votes on matters that are taken up during the ASM. Shareholders can download the proxy forms together with details on how to appoint a proxy from the Company's website.

The Company granted all stockholders, including minority stockholders, the right to nominate directors and propose or inquire on agenda items. The "Call for Nominations" was posted on the Company's website on February 7, 2022, for submission of proposed agenda and nomination of qualified

candidates on or before March 4, 2022. The agenda and nominees were approved by the Board during its meeting on February 7, 2022, and March 28, 2022, respectively.

Voting Procedures

The Corporate Secretary reported a quorum with the attendance of stockholders who own or hold a total of 902,548,837 shares or approximately 80.08% of the total issued and outstanding shares of the Company. An electronic system facilitated the registration and vote tabulation to ensure accuracy and reliability of information. SERVE was also enhanced to allow the stockholders to attend and actively participate via remote communication and to cast their votes for the agenda items online.



The Corporate Secretary explained the vote tabulation procedures to the shareholders and stated that all shareholders were entitled to one vote for one share. Representatives from Reyes Tacandong & Co., an independent third party, validated the voting results for each agenda item. The Company also allowed shareholders to freely express their views and raise their questions during the ASM through the SERVE portal.

The Chairman of the Board, Chairman of the AuditCom, Chairman of the RLDC, Chairman of the Nom&Gov, Chairman of the Finance Committee, the Board, President and CEO, Chief Finance Officer (CFO), Corporate Secretary, Assistant Corporate Secretary other officers of the Company, and its external auditor attended the ASM to present the performance results of the Company and respond to any question from the shareholders relevant thereto. The appropriate meeting procedures and guidelines were followed before, during and after the ASM.

The Company posted the resolutions approved during the ASM on its website the following day so that non-attending shareholders may be immediately informed.

B.4 RIGHT TO APPROVE MERGERS AND ACQUISITION

In the event of mergers and acquisitions requiring shareholders' approval, the Company appoints an independent party to evaluate the merits of the transaction as well as the fairness of the transaction price.

B.5 INSTITUTIONAL INVESTORS

Meralco recognizes the exercise of ownership rights by all shareholders, including institutional investors. The Company does not have any shareholder owning more than 50% of its total outstanding shares.

The complete list of the Public Ownership Report of Meralco as at December 31, 2022, was disclosed to the SEC, PSE, and PDEx on January 11, 2023, where approximately 73.83% of the Company shares are held by principal and strategic shareholders, and the remaining 26.11% shareholdings are held by directors, officers, employees, the government, other corporations, and other individuals. The Company has a straightforward structure of alliance among its affiliates, and joint ventures. There is no pyramid shareholding structure within the Group. Details of holding companies, subsidiaries, and other related companies are disclosed in the map showing relationships among the Companies within the Group. *(Please refer to Schedule I of Meralco's SEC Form 17-A for the complete conglomerate map.)*

C. EQUITABLE TREATMENT OF SHAREHOLDERS

C.1 Shares and Voting RIGHTS

The Company has only one (1) classification of shares (common shares), with each share entitled to one (1) vote.

C.2 NOTICE OF ANNUAL STOCKHOLDERS' MEETING (ASM) AND DEFINITIVE INFORMATION STATEMENT (DIS)

The Notice of ASM and DIS contain, among others, the resolutions to be considered by the stockholders for each agenda item during the ASM. There is no bundling of several items into one resolution. It also provides the following information:

- Profiles of each director seeking election/ re-election—age, academic qualification, date of first appointment, experience, and directorships in other listed companies
- External auditor seeking appointment/ re-appointment
- Dividend policy
- Amount of dividends declared and any dividends payable
- Readily available proxy statements

The Notice of ASM and DIS are available on the Company's website.

C.3 POLICY ON DEALINGS IN COMPANY SHARES OF STOCKS (INSIDER TRADING/BLACKOUT PERIOD)

The Insider Trading Policy prohibits directors, officers, and employees from benefiting from information that is not generally available to the investing public through observance of a blackout period ten (10) trading days before and two (2) trading days after the release or announcement of the Company's material information or financial and operating results, during which trading in Company shares is prohibited.

The Company strictly enforces and monitors compliance with its policy on insider trading. Under the revised policy approved for implementation on December 1, 2014, directors and officers are required to disclose to the Compliance Officer the details of any trading, dealing, acquisition, disposal, or change in their beneficial ownership of the Company (MER) shares, not later than one (1) trading day after the transaction.

C.4 RELATED PARTY TRANSACTIONS (RPTS) BY DIRECTORS AND KEY EXECUTIVES

The RPT Policy requires the review of material/significant RPTs, to determine whether they are in the best interest of the Company and its shareholders and ensure that all RPTs of the Company are conducted in fair and at arm's length terms. The Policy provides for materiality thresholds, i.e., de *minimis*, significant, material RPTs including SEC material RPTs which constitute ten percent (10%) of the Company's assets.

The Company provides all the names of related parties, degree of relationship, nature, and value for each material/ significant RPT. Details are found in Note 23 to the Consolidated Financial Statements.

In 2022, all the RPTs were conducted in fair and at arm's length terms and there was no case of insider trading or policy violations involving directors and officers of the Company. Also, no RPT that can be classified as financial assistance to entities other than wholly owned subsidiary companies. The Company is fully compliant with the Code and policies on corporate governance.

Conflict of Interest (COI) Policy

The COI Policy requires all directors, officers and employees to annually disclose their interest in transactions and any other conflicts of interest affecting the Company through the FBID Form for directors and officers, and the COI Form for employees. The Company requires directors and key Management personnel to abstain from and/or inhibit themselves from participating in discussions on a particular agenda when a conflict exists or may exist between their personal interest and that of the Company.

C.5 PROTECTING MINORITY SHAREHOLDERS FROM ABUSIVE ACTIONS

The Company's policies recognize and protect the rights of the minority stockholders while pursuing corporate interest. Some salient provisions include:

- Timely, fair, and accurate disclosure of material information
- Review of existing and development of new policies that will prevent the major stockholders from gaining undue advantage over and at the expense of minority stockholders
- RPTs are disclosed in Note 23 of the consolidated financial statements
- Disinterested stockholders decide on all RPTs which require stockholders' approval

D. ROLE OF STAKEHOLDERS

D.1 RESPECTING THE RIGHTS OF STAKEHOLDERS

The Company strictly observes the principles of fairness, accountability, integrity, transparency, and honesty (FAITH) in its obligations to, and dealings with, its various stakeholders. The Company values its stakeholders and protects their rights, as mandated by relevant laws and internal policies. Sanctions and penalties based on the provisions of the Company's Code on Right Employee Conduct (COREC) and other related policies are imposed upon violators.

Customers

The Company renders excellent service, ensures fair treatment, and provides complete and accurate information, to its customers.

Suppliers/Contractors

To ensure a mutually beneficial relationship with its suppliers and contractors, the Company prescribes clearly defined and transparent procurement and supplier selection process through the Suppliers' Business Conduct Policy and Vendor Accreditation Program. It ensures faithful compliance with all the terms and conditions of its procurement contracts.

Creditors

The Company faithfully complies with all loan agreements with creditors. It ensures timely payment of its loans and efficiently operates its business to assure creditors of the Company's sound financial standing and loan payment capabilities.

Environment and Community

As an advocate of sustainable development, the Company is committed to operate profitably within the bounds of its social and environmental responsibility.

Employees

Meralco is committed to the development and welfare of its employees. The Company provides its employees with opportunities for learning and development, fair and competitive remuneration, and programs to promote health and safety. The Company devotes conscious effort to build a culture of excellence, knowledge sharing, personnel integrity, and development.

D.2 PERFORMANCE-ENHANCING MECHANISMS FOR EMPLOYEES

Employee Development Programs

Training programs and other developmental interventions including job-specific development training programs and managerial/leadership development training are implemented to enable employees and officers to acquire the technical and leadership competencies to effectively perform their jobs for their professional growth. The Company uses globally accepted training and development metrics relevant to value creation for business and society. Learning and development initiatives are delivered using the strategic framework of 70-20-10: 70% on-the-job learning, 20% from coaching and feedback, and 10% formal training. In 2022, the average training man-hours is at 42.91 hours per person.

TALENT MANAGEMENT AND DEVELOPMENT	PROGRAM DESCRIPTION
Analyst Curriculum	<p>In Meralco, analysts are the second largest employee group. Their role in the company is vital in the day-to-day operations and there is a need for our analysts to be fully equipped in performing their roles — hence the Analyst Curriculum was developed. The Analyst Curriculum is composed of eight common competencies that an analyst should possess, namely: (1) Problem Analysis and Solution Formulation, (2) Process Management, (3) Policy Management, (4) Data Management, (5) Project Management, (6) Stakeholder Management, (7) Documents & Records Management, and (8) Risk Management. Meralco has already conducted training programs for 6 out of the 8 competencies in the curriculum, with the last 2 competencies (Policy and Documents & Records Management) for curriculum design.</p>
New Frontiers	<p>New Frontiers is a 20-day/40-half-day program in partnership with the Asian Institute of Management. This program is composed of modules that are linked with Meralco's leadership competencies and identified job focus areas for middle managers. The curriculum includes modules like Thinking Suite, Strategy Series, Finance and Accounting, Functional Drivers and Enablers, and Leadership and Mastery. It uses a blended learning approach consisting of action learning projects, case studies, gamification, and business simulations. Completion of the course is a minimum requirement for consideration for any future nominations for promotion to EC/SC ranks.</p>
Breakthroughs	<p>Breakthroughs is a twice a week, 3-month classroom / virtual instructor-led training program which aims to equip high potential individual contributors to be ready to take on a first-line leadership position. This program focuses on the important roles and functions expected from a Team Leader and highlights skills like Data Analytics, Developing a Business Mindset, Execution Excellence, and Enhancing Team Performance. E-learning, Case Study, Lecturette, Structured Learning Experiences, Simulation, and Action Learning Projects are utilized as delivery methods. Completion of the course is a minimum requirement for consideration of any future nominations for promotion to TC 1-4 ranks.</p>
LEAP	<p>This is a 5 half-day leadership program designed for incumbent team leaders or supervisors in the organization. This is to aid</p>

	<p>them (1) in carrying out the responsibilities expected from supervisor-leaders; and (2) in managing and leading teams and its resources in support of their organization’s business goals.</p>
Meralco Linecrew Training Curriculum I	<p>The Meralco Linecrew Training Curriculum 1, which is intended for apprentice/linecrew- trainees, is a six- month program which aims to equip linecrew trainees with the necessary knowledge, skills, and attitude to perform duties and responsibilities of a linecrew trainee as an individual and working as part of a crew. At the end of the program, the participants are expected to observe industrial safety practices, apply electrical formula in simple circuits, install and retire line materials and equipment of de-energized overhead line, and assist upper class lineman by acting as the groundman and performing good housekeeping. Through this, we are able to ensure that the Business is supported by a steady supply of skilled workforce to support business requirements.</p>
Meter Technician Curriculum	<p>The Meter Technician Curriculum is divided into three parts – Basic, Specialized and Supplemental Courses. Each part is anchored on the approved technical competency framework which serves as guide for the development of our Meter Field Technicians. The training programs and learning interventions were mapped based on the competency descriptors identified. This curriculum aims to provide the participants necessary knowledge and skills to perform their job responsibilities efficiently and safely</p>
Meralco Cadet Engineering Program	<p>Meralco Cadet Engineering Program (MCEP) is a five- to seven-month onboarding program of Meralco Learning & Development for cadet engineers (newly hired registered electrical engineers) that aims to expose them to the business of Meralco. This cadetship program is designed to help cadets gain basic knowledge about the whole Meralco, specializing on the assigned organization. Over the course of this program, cadets will learn theoretical knowledge through classroom sessions and experience them in practical setting to help prepare cadets upon their deployment by immersing them in different offices. During the immersion, cadets will be able to meet and interact with the employees which would also enable understanding of the Meralco culture. We also incorporated programs to develop in the cadets the necessary life skills to be able to upgrade themselves not just professionally, but also personally.</p>

Company-wide training programs on corporate governance including those pertaining to anti-bribery and corruption were also implemented in 2022 and participated by 749 senior managers, 754 middle managers, 4,639 rank and file employees, and 707 employees of Company vendors.

Compensation Philosophy/Principles

The Company has measurable standards to align the performance-based remuneration of the executive directors and senior executives with long-term interest. The Company's performance management process measures employee performance on the basis of: 1) actual vs. desired results; and 2) how results were delivered in light of corporate core values. The achievement of financial and non-financial indicators is reflected in performance planning and assessment, which drives the Company's merit and incentive pay programs.

The Company implements short-term and long-term incentive programs to attract, retain, and motivate its employees. The Company compensates employees based on Company, team, and individual performance to help achieve corporate goals and targets. The Company evaluates performance beyond short-term financial measures. It also provides for short-term incentives through variable pay, such as annual performance-based bonuses and variable incentive plan, to reward individual and team performance that contribute to the achievement of corporate goals and objectives.

Long-term incentives include additional compensation conditioned on Meralco's achievement of a specified level of Consolidated Core Net Income (CCNI) approved by the Board and determined on an aggregate basis for a three (3)-year period as well as executives' attainment of a specified performance rating.

Succession Planning of President and CEO and Senior Management

The Company's Board and the Remuneration and Leadership Development Committee (RLDC) is responsible for overall guidance and direction on succession planning and leadership development of the President and Chief Executive Officer (CEO) and senior management. The RLDC, working closely with the head of Human Resources (HR), drives the strategy for succession planning, leadership development, and talent management. The HR head develops and implements the processes and the tools to ensure robust pools of succession candidates for the President and CEO, senior management, middle management, and first line management.

Presently, the succession plan covers the top 666 leaders of the Company. The succession planning process involves the assessment of the Company's leaders' career aspirations, strengths, and development needs. A key feature of the Company's succession planning process is the talent review conducted at the senior management level and at various levels of the organization. The senior management talent review has resulted in a pool of about 17 candidates who, subject to the realization of their development plans, could become management committee members within the next five (5) years.

Code of Business Conduct and Ethics

The Company's Code of Ethics prescribes the ethical values and behavioral standards, which all directors, officers, and employees of the Company are required to observe in the performance of their respective duties and responsibilities. Copies of the Code of Ethics are disseminated to all officers and employees.

The Company, through the Corporate Governance Office (CGO), monitors the implementation of, and compliance to, the Code of Ethics. An online HR Express Corporate Governance Facility is made available to all employees for the Corporate Governance (CG) disclosures and commitment required from them. All directors, senior management, and employees are required to annually submit duly accomplished Full Business Interest Disclosure (FBID) Forms and/or Conflict of Interest (COI) Forms. They are also required to disclose gifts they received from third-party business partners through the online Gift Registry. Failure to comply with CG disclosures is sanctioned accordingly. On July 25, 2022, the Code of Ethics was amended and remade into "Code of Business Conduct and Ethics."

The Management Control Policy prescribes Management's responsibility to ensure a system of checks and balances and emphasizes the importance of internal control processes as an integral part of the Company's governance system and risk management.

Effective management control is necessary to ensure that behavior and decisions of people in the organization are consistent with the Company's objectives and strategies.

Anti-corruption Programs and Procedures

The Code of Business Conduct and Ethics requires directors, officers, and employees to observe professionalism, integrity, and good faith in transactions with and obligations to the Company's customers, suppliers, business partners, regulators, creditors, competitors, and employees. It enforces practicing ethical standards of behavior and avoiding the commission of any act that may be construed as direct or indirect bribery and corruption, as defined by law, to facilitate any transaction to gain any perceived or actual favor or advantage.

The Anti-Bribery and Corruption Policy of the Company strictly prohibits corporate gift-giving to private and public entities that constitutes bribery or corruption. It cites specific instances of said corrupt practices to better guide directors, officers, and employees.

The Policy on Solicitation and Acceptance of Gifts, on the other hand, prohibits the acceptance of gifts offered and given by suppliers, contractors, and other third-party business partners to prevent all directors, officers, and employees from putting themselves in situations that could affect the fair, objective, and effective performance of their duties and responsibilities.

The Amended Suppliers Business Conduct, in turn, requires vendors to comply, at all times, with all applicable anti-bribery and corruption laws, and to not offer, accept, promise, pay, permit, or authorize bribes and kickbacks, which include giving of gifts to the Company's directors, officers or employees or other means to obtain an undue or improper advantage.

The Company's Internal Audit reviews the compliance of directors, officers, and employees to the Code of Ethics and other corporate governance related policies, including the required Company disclosures. The result of the Internal Audit review is reported to the Audit Committee (AuditCom).

The foregoing policies are available to all stakeholders through the Company's website (www.meralco.com.ph).

D.3 EFFECTIVE REDRESS FOR VIOLATION OF STAKEHOLDERS' RIGHTS AND MEANS OF COMMUNICATION OF ILLEGAL OR UNETHICAL PRACTICES BY EMPLOYEES

Corporate Governance Office
Manila Electric Company (Meralco)

Ground Floor, Lopez Building
Ortigas Avenue, Barangay Ugong
Pasig City, Philippines 1605

Tel: (+632 1622 2798
Mobile: (+63) 9209484787
Email: cgo.staff@meralco.com.ph

The e-Report Mo (Whistleblowing Policy) encourages the reporting of any violation of corporate governance rules or policies, questionable accounting or auditing matters, and other malfeasance committed by the Company's directors, officers, and employees.

Employees, suppliers, customers, and other stakeholders can download, through the Company website, a Whistleblower Report Form and submit the same via email or regular mail to the CGO through the contact information provided therein.

The Company provides appropriate protection against retaliation to an employee/stakeholder who reports illegal/ unethical behavior. In the event of retaliation, the reporting person or witness may file a report to the CGO by filling out a Retaliation Protection Report Form.

In 2022, the Company received certain reports of alleged violations and illegal/unethical behavior. These reports were investigated and accordingly resolved based on the evidence provided and in accordance with the procedures defined in the whistleblowing policy.

NUMBER OF CORRUPTION INCIDENTS IN MERALCO REPORTED UNDER E-REPORT MO			
	2020	2021	2022
Under ongoing investigation	0	0	0
Closed with corresponding corrective action	0	0	0
Closed without corresponding corrective action	0	0	0
TOTAL	0	0	0

COMMUNICATION OF ANTI-CORRUPTION POLICIES AND PROCEDURES IN MERALCO			
	2020	2021	2022
Board of directors	11	11	11
Senior management	690	750	749
Middle management	696	761	754
Rank-and-file	4,429	4,394	4,639
Project-based/Fixed-term hires ³⁶	0	0	323
Third-party workers	0	0	0
Business partners	2,762	2,861	707

TRAINING ON ANTI-CORRUPTION IN MERALCO			
	2020	2021	2022
Board of directors	11	11	11
Senior management	690	750	749
Middle management	696	761	754
Rank-and-file	4,429	4,394	4,639
Project-based/Fixed-term hires ¹¹	0	0	323
Third-party workers	0	0	0
Business partners	0	0	707

NUMBER OF REPORTED DISCRIMINATION INCIDENTS IN MERALCO			
	2020	2021	2022
Under ongoing investigation	0	0	0
Closed with corresponding corrective action	0	0	0
Closed without corresponding corrective action	0	0	0
TOTAL	0	0	0

³⁶ Inclusion of regular project-based/fixed-term employees in Meralco's annual corporate governance disclosure requirement and governance training started in 2022.

E. DISCLOSURE AND TRANSPARENCY

E.1. TRANSPARENT OWNERSHIP STRUCTURE

The following stockholders directly own more than 5% of the Company's (MER) shares as at December 31, 2022.

Name of Shareholder and Beneficial Owner	Total Shares	% of Total Share
Beacon Electric Asset Holdings, Inc.	394,059,235	34.96%
JG Summit Holdings, Inc.	297,189,397	26.37%
Metro Pacific Investments Corporation	140,906,807	12.50%
TOTAL	832,155,439	73.83%

E.2 ENTERPRISE-WIDE RISK MANAGEMENT

Meralco's Enterprise Risk Management (ERM) allows the Company and its subsidiaries to protect and enhance stakeholder value through the creation of a risk governance structure and adoption of mechanisms that effectively manage existing and emerging risks, as well as strengthen the ability of the Company and its subsidiaries to take on additional risks accompanying new growth opportunities.

ERM Framework

Meralco adopts the ISO 31000:2018 as its main model for ERM Framework. Leadership and Commitment sit at the core of the framework, emphasizing the role of top management in setting the strategic direction of the Company and ensuring integration of risk management discipline and practices within its existing management systems, processes, and culture. The Company's Board, through the Risk Management Committee, provides oversight over the risk management policies and activities of the Company and its subsidiaries and conducts at least a semi-annual review of the Company's risk management system. The Chief Executive Officer and Chief Risk Officer work together to lead the direction-setting and decision making on risk management strategies, policies, and mitigation measures.

Meralco Risk Management Process

The Company's risk management process is a continuous cycle that involves risk identification, analysis, evaluation, and treatment across the different levels and functions of the organization, based on an understanding of the external and internal factors that influence the goals, objectives, as well as the risk management activities of the organization. Based on these considerations, the Company has categorized risks under five (5) general risk umbrellas in its Risk Universe: Regulatory and Corporate Laws; Strategic; Financial; Operational; and Environment, Social, and Governance (ESG), which have been integrated for the first time in 2022 into One Meralco's ERM process to more fully capture the existing and potential impact of its business to the environment and its stakeholders, and therefore ensure that these are addressed and mitigated in line with its ESG objectives.

Regulatory, Political, Human Resources, Power Supply and Demand, and Fuel Price Risks are the top five (5) key enterprise risks of the Company and its subsidiaries as at December 31, 2022.

- Regulatory Risks captures the risk that issuances or changes in existing regulations, or decisions on cases and issues, would be unfavorable to the Company. Note that Meralco operates in a heavily regulated industry and is subject to various policies, rules and regulations that govern its operations. The Energy Regulatory Commission (ERC) provides oversight of Meralco's activities and sets and adjusts tariffs, approves power supply agreements, oversees the implementation of energy policies, and decides on various cases related to the energy industry. As such, any changes in regulations, as well as regulatory decisions by relevant authorities that could be disadvantageous for the company can have a significant impact in its operations and financial performance. This risk is mitigated by proactively engaging with regulators to better understand the regulatory environment and advocate for policies that support its operations, participating in public consultations, providing feedback on proposed regulations, and building relationships with key decision-makers.
- Political Risk refers to various factors such as changes in government policies and regulations impacting the electricity industry (e.g., adjustments in power rates, changes in the terms of its franchise agreement), shifts in political regimes, economic slowdowns, and the emergence of new competitors in the market that have an impact on the company's financial performance. Meralco engages with key stakeholders, including government officials, community leaders, and customers, to build relationships and better address stakeholder concerns. Meralco, likewise, participates in industry associations, supports research and development efforts, and proactively coalesces and engages with policymakers both at the national and local levels, as well as regulatory bodies that oversee the energy sector to ensure that its operations are in compliance with regulatory standards and aligned with government policies and priorities.
- Human Resource Risk has recently been identified as one of The Company's Key Enterprise Risks. The scarcity of highly skilled workers in the Philippines has also affected Meralco, specifically in the fields of information technology, engineering, and cybersecurity. This risk is mitigated by implementing the following strategies: capacity planning and workforce review to anticipate future workforce needs and identify potential skill gaps; succession planning and placement for key leadership positions; and other activities such as knowledge transfer, coaching, training of existing pool to upgrade current skill sets and regular updating of individual development plans to continuously equip employees with the needed knowledge and skills to perform their functions effectively.
- Power Supply and Demand Risk stems from operational factors such as the shutdown of power plants, transmission lines, and other critical infrastructure for maintenance or unplanned repairs that leads to outages, supply shortages, and the need to procure more expensive fuel sources or alternatives. Additional factors to be taken into account include the growing demand from consumers for renewable energy, as companies become increasingly aware of the environmental impact of their activities, in contrast with the limited availability of renewable energy resources in the country. Supply Side mitigation include securing long-term Power Supply Agreements to

ensure steady, affordable, and reliable supply to Meralco's customers. Long-term strategies to address supply and demand risk include new investments that will allow Meralco to diversify its power sources. Through its various subsidiaries, the company is growing its renewable energy investments such as solar, wind, and hydro power, as well as traditional power sources such as coal and natural gas.

- Fuel Price Risk refer to increases in fuel price that can significantly affect the cost that Meralco's energy providers incur, such as global events and other macro-economic factors that could trigger volatility in the global oil and gas markets (e.g., global supply cuts, geopolitical tensions, inflation); and is mitigated by using various hedging strategies and financial contracts with counterparties to lock in prices for fuel, to help protect the Company from price volatility in the fuel market.

Information, Communications, and Technology Governance

The Board, through its Risk Management Committee, oversees the governance process around IT issues including disruption, cyber security, disaster recovery, to ensure that all key risks are identified, managed and reported to the board.

The Management, through ICT Governance Office and ICT Planning and Program Management Office, uses Control Objectives for Information and Related Technology (COBIT) framework to ensure that IT goals and objectives are in line with the overall business strategy of Meralco. This involves delivering value from IT investments, managing IT risks, optimizing IT resources, measuring performance, and communicating with stakeholders. ICT Governance Office provides a comprehensive approach to aligning IT with business objectives, mitigating risks, and ensuring compliance with policies and standards.

Management is likewise accountable to the Board for the Company's information security governance. Through the Cybersecurity Office, the Management provides the strategic direction and adequate resources to manage appropriately the information security risks of the organization. Management reviews and approves the information security policies ensuring that the implementation of information security management system requirements is coordinated and integrated in the relevant processes across the organization, and adequate resources are in place and establishes clear assignment and designation of authority for the information security roles and responsibilities across line organizations.

The Company adopts an Information Security Policy that adheres with the ISO/IEC 27001 Information Security Management standards. This policy guides the Meralco workforce in supporting the company thrust and in managing and protecting the Company's information assets. This forms the foundation for building strategies and controls for mitigating cybersecurity risk within Meralco. The policy provides mechanisms to help identify areas for improvement, protect from possible cyber threats, detect cyber related attacks, quickly respond, and recover during incidents that may compromise the security of information assets and critical infrastructure.

E.4 ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG) INFORMATION

Meralco is committed to the cause of protecting the environment and mitigating the adverse impact of climate change and strictly monitors its business activities and operations to ensure sustainable development and safeguard the quality of life of society, communities, and the environment in the areas where it operates.

The Company discloses its policies and practices on the management of ESG issues, in accordance with the GRI Standards, SASB Standards for Electric Utilities and Power Generators as well as the TCFD Recommendations.

E.5 Directors' and Officers' Dealings in Company Shares

SHAREHOLDINGS OF DIRECTORS AND KEY OFFICERS AS AT DECEMBER 31, 2022								
NAME	JAN. 1, 2022	BUY	SELL	DEC. 31, 2022	DIRECT HOLDINGS	INDIRECT HOLDINGS	TOTAL SHARES	% TO TOTAL SHARES
Directors								
1. Manuel V. Pangilinan	55,000	0	-	55,000	55,000	-	55,000	0.005
2. Lance Y. Gokongwei	10,010	9,303	-	19,313	19,313	-	19,313	0.002
3. Ray C. Espinosa	51,000	5,000	-	56,000	56,000	-	56,000	0.005
4. Anabelle L. Chua	16,060	5,000	-	21,060	21,060	-	21,060	0.002
5. Lydia B. Echauz ¹	1,100	-	-	6,100	6,100	-	6,100	0.001
6. Frederick D. Go	10,030	-	-	10,030	10,030	-	10,030	0.007
7. James L. Go	194,450	5,000	-	199,450	199,450	-	199,450	0.018
8. Jose Ma. K. Lim	55,010	20,000	-	75,010	75,010	-	75,010	0.007
9. Artemio V. Panganiban	14,001	-	-	14,001	14,001	-	14,001	0.001
10. Pedro Emilio O. Roxas	1,000	-	-	1,000	1,000	-	1,000	0.000
11. Victorico P. Vargas	8,917	-	-	13,917	13,917	-	13,917	0.005
Officers								
12. Simeon Ken R. Ferrer	767	-	-	767	767	-	767	0.000
13. Roberto R. Almazora	93,082	-	-	93,082	93,082	-	93,082	0.008
14. Ronnie L. Aperoch	14	-	-	14	14	-	14	0.000
15. William S. Pamintuan	-	-	-	-	-	-	-	0.000
16. Betty C. Siy-Yap	-	-	-	-	-	-	-	0.000

17. Maria Luisa V. Alvendia	-	-	-	-	-	-	-	0.000
18. Edgardo V. Carasig	-	-	-	-	-	-	-	0.000
19. Ferdinand O. Geluz	12,877	3,000	-	15,877	15,877	-	15,877	0.001
20. Melanie T. Oteyza	-	-	-	-	-	-	-	0.000
21. Jose Ronald V. Valles	-	-	-	-	-	-	-	0.000
22. Antonio M. Abuel, Jr.	10,427	-	2,500	7,927	7,927	-	7,927	0.001
23. Francis Euston R. Acero ¹	500	-	-	500	500	-	500	0.000
24. Ireneo B. Acuna	18,355	-	-	18,355	18,355	-	18,355	0.002
25. Patrick Dave B. Bacani	-	-	-	-	-	-	-	0.000
26. Joseph L. Amosco ¹	5,198	-	-	5,198	5,198	-	5,198	0.000
27. Roque D. Bacani	-	-	-	-	-	-	-	0.000
28. Bennette D. Bachoco	-	-	-	-	-	-	-	0.000
29. Joseph Allan C. Baltazar	-	-	-	-	-	-	-	0.000
30. Rita D. Bantigue	-	-	-	-	-	-	-	0.000
31. Sante C. Buella ¹	-	-	-	-	-	-	-	0.000
32. Ricardo Carmelo D. Buenafe ¹	5,070	-	-	5,070	5,070	-	5,070	0.000
33. Alberto N. Castillo ¹	600	-	-	600	600	-	600	0.000
34. Ricardo L. Concepcion ¹	-	-	-	-	-	-	-	0.000
35. Benjamin U. Cusi ²	24,050	-	-	24,050	24,050	-	24,050	0.002
36. Jenevi L. Dela Paz ³	-	-	-	-	-	-	-	0.000
37. Ma. Cecilia M. Domingo	1,495	-	-	1,495	1,495	-	1,495	0.000
38. Lawrence S. Fernandez	4,500	-	-	4,500	4,500	-	4,500	0.000
39. Maria Carmela T. Migriño ⁴	-	-	-	-	-	-	-	0.000
40. Richard O. Ochava ³	-	-	-	-	-	-	-	0.000
41. Charina P. Padua	41,609	1,000	-	42,609	42,609	-	42,609	0.004
42. Raymond B. Ravelo	-	-	-	-	-	-	-	0.000
43. Glen N. San Pedro	-	-	-	-	-	-	-	0.000
44. Jerry B. Lao ¹	-	-	-	-	-	-	-	0.000

45. Erville D. Magtubo ¹	-	-	-	-	-	-	-	0.000
46. Jose S. Reyes, Jr.	8,827	-	-	8,827	8,827	-	8,827	0.001
47. Froilan J. Savet	8,435	-	-	8,435	8,435	-	8,435	0.001
48. Jeffrey O. Tarayo ¹	-	-	-	-	-	-	-	0.000
49. Jose Antonio T. Valdez ⁴	-	-	-	-	-	-	-	0.000
50. Maria Zarah R. Villanueva-Castro	-	-	-	-	-	-	-	0.000
51. Agapito R. Zaldarriaga	10,369	-	-	10,369	10,369	-	10,369	0.001
52. Ma. Cynthia C. Soluren	11,575	-	-	11,575	11,575	-	11,575	0.001
TOTAL	674,328	55,803	2500	730,131	730,131	0	730,131	0.075
¹ Rank Conferment effective January 1, 2022.								
² Mr. Benjamin U. Cusi retired effective November 30, 2022.								
³ Redeployed/Reassigned to external role effective May 31, 2022.								
⁴ Ms. Maria Carmela T. Migriño resigned effective November 1, 2022.								
⁵ Mr. Jose Antonio T. Valdez resigned effective February 15, 2022.								

E.6 Audit

Internal Audit

Meralco's Internal Audit (IA) unit adopts a risk-based audit approach in formulating the annual audit plan and strategy that aligns to the key strategies and risks across the Group's business and is reassessed quarterly to consider business changes and emerging risks. This plan is developed in coordination with the relevant business units and subsidiaries and reviewed and approved by the Audit Committee (AuditCom). The assurance and control advisory reviews are aimed at assisting the Board through the AuditCom in promoting sound enterprise risk management, robust internal controls, and good corporate governance. Design and operating effectiveness of controls that govern the key business processes, systems and risk areas at the Distribution Utility and subsidiaries are evaluated particularly on financial reporting, operations, information technology systems reviews, cybersecurity, data privacy, sustainability, revenue assurance, legal and regulatory compliance and subsidiary oversight. This provides an independent assurance to the Audit Committee on the adequacy and effectiveness of the governance, risk management, internal controls, and compliance systems.

The IA communicates the results of audit engagements covering various units of the Company and its subsidiaries including specific areas of concerns identified by Management to the AuditCom. The findings and any improvement opportunities are reviewed by AuditCom which then are reported to the Board for guidance and oversight. Significant concerns, which have been reported by Internal Audit Group and the implementation of responsive remedial measures by Management, are acted upon by Management and monitored by AuditCom. The AuditCom Report to the Board included the review of Meralco Group's system of internal controls (financial, operational, and compliance controls) and risk

management systems which are found to be in place and functioning. A certification attestation of the Internal Controls is issued biannually as a result of the combined risk and control assessment of the Management and Internal Audit including the scope of audit review for the financial year.

IA is headed by the Group Chief Audit Executive and First Vice President, Ms. Melanie T. Oteyza, who reports functionally to the AuditCom and administratively to the President and CEO, as outlined in the Company's Internal Audit Charter. The appointment and removal of the Chief Audit Executive require the approval of the AuditCom.

All internal auditors are members of the Institute of Internal Auditors and adopts the International Standards for the Professional Practice of Internal Auditing laid down in the International Professional Practices Framework. The internal auditors are comprised of highly certified professionals: Certified Public Accountants, Certified Internal Auditors, Certified Information Systems Auditors, Certified Quality Assurance Validator, Certified Fraud Examiner, Registered Electrical Engineers and others with Certification in Control Self-Assessment, Certification in Risk Management Assurance, and Qualification in Internal Audit Leadership.

IA recruits and employs suitable and qualified professional staff with the requisite skillsets, competencies, and experience. Relevant trainings and continuing professional development are provided to its staff to ensure that internal audits are performed effectively and that the team possess the technical knowledge needed for the job and to remain relevant and value-adding to the organization. IA also provides a confirmation of their independence to the Audit Committee on an annual basis.

CONSOLIDATED EXTERNAL AUDITOR'S FEES* (in million PhP)		
	2022	2021
Financial Statements Audit*	19.0	18.1
Audit of financial statements in accordance with the requirements of the Business Separation and Unbundling Plan of the ERC and Audit of universal charge reports as required by PSALM	0.7	0.7
<i>Note: The fees for non-audit services did not exceed those for audit services.</i>		

External Audit

The Company's external auditor, SGV, was evaluated, nominated, and recommended for appointment including its audit fees by the AuditCom, and such recommendation was approved by the Board. The reappointment of SGV was thereafter confirmed by the shareholders in the ASM held on May 31, 2022.

E.7 Medium of Communication

Quarterly Reports

The Company reports its quarterly and full-year financial results through the SEC, PSE, and PDEX to provide its shareholders, its investors, and the public

a balanced and informed assessment of the Company's performance, position, and prospects.

Quarterly Reports: <http://www.meralco.com.ph/investor-relations/quarterly-reports>

Financial Results: <http://www.meralco.com.ph/investor-relations/financial-results>

Annual Reports: <http://www.meralco.com.ph/investor-relations/annual-reports>

Investors' Briefings/Media Briefings

The officers of the Company, led by the Chairman and the President and CEO, with the CFO, Investor Relations Office, and other leaders, present information on performance results, business progress, industry trends, impact of external factors, and regulations to shareholders, analysts, investors, and media every quarter during the investors' briefing and teleconference, as well as the media briefing. Presentation materials used in these meetings are posted on the Company's website to ensure comprehensive information dissemination to all stakeholders and investors, including those who were not able to participate in the briefings.

Schedule of Events: <http://www.meralco.com.ph/investor-relations/calendar-of-events>

Press Releases: <http://www.meralco.com.ph/investor-relations/press-releases>

Company Website

The Company website provides information on Meralco's products and services as well as the following corporate governance information:

Section	Link
Business Operations	http://biz.meralco.com.ph/ http://corporatepartners.meralco.com.ph/ http://www.meralco.com.ph/news
Financial Statements/Reports	http://www.meralco.com.ph/investor-relations/financial-results https://company.meralco.com.ph/investor-relations/quarterly-reports
Materials provided in briefings to analysts and media	http://www.meralco.com.ph/investor-relations/press-releases
Shareholding Structure	http://www.meralco.com.ph/about-us/meralco-shareholding-structure
Group Corporate Structure	http://www.meralco.com.ph/about-us/organizational-structure
Downloadable Annual Report	http://www.meralco.com.ph/investor-relations/annual-reports
Notice of ASM	http://www.meralco.com.ph/company-disclosures/notice-of-annual-or-special-stockholders-meetings
Minutes of ASM	http://www.meralco.com.ph/company-disclosures/minutes-of-all-general-or-special

	stockholders-meetings
Company's By-Laws and Articles of Incorporation	http://www.meralco.com.ph/about-us/articles-of-incorporation-and-by-laws

E.8 TIMELY FILING/RELEASE OF ANNUAL/QUARTERLY FINANCIAL REPORTS

The Company's 2022 Audited Financial Statements were released on March 1, 2023, 60 days after financial year-end. The true and fair representation of the Annual Financial Reports was affirmed by the Board through the Chairman, President and CEO, and CFO of the Company on the Statement of Management's Responsibility section of this Annual Report. This can be accessed at the Company website.

E.9 INVESTOR RELATIONS

Meralco's Investor Relations Office regularly communicates relevant and timely information about the Company to both current and potential investors, analysts, fund managers, potential business partners, and the general public.

Stories of Light: Meralco celebrates and promotes good governance in CG Week 2022

In November 2022, Meralco held its first-ever Group-wide Corporate Governance (CG) Week with the theme "Turning Awareness into Action".

Meralco's Corporate Governance Office (CGO), in partnership with the Good Governance Advocates and Practitioners of the Philippines (GGAPP), spearheaded initiatives to raise awareness across One Meralco on the role of corporate governance in the private sector as well as on the Company's governance policies and programs, highlighting that maintaining good governance in the organization is the responsibility not only of the Company's senior management but also of every employee.

As part of the week-long initiative, Meralco conducted a webinar on social media ethics and etiquette, which covered topics such as principles of ethical social media use, legal responsibility on social media usage, and the Company's Revised Social Media Policy. Meralco also held numerous sessions for eight of its subsidiaries to share best practices on corporate governance. Furthermore, the Company launched a photography contest where entrants submitted photos showcasing Meralco's governance principles of Fairness, Accountability, Integrity, Transparency, and Honesty (FAITH).

Another key highlight of the CG Week was the formation of a One Meralco-wide council of CG Champions. This group of CG advocates from Meralco and its subsidiaries will help align the corporate governance policies across the Group and promote best practices across the organization.

Finally, the CGO also launched the Corporate Governance Portal, an online platform where employees can access Meralco's governance policies, trainings, information materials, and updates as well as report employee violations.

As a testament to the Company's robust and effective corporate governance framework and programs, Meralco was recognized in December 2022 with an ASEAN Asset Class Award—an annual recognition given to companies across Southeast Asia that have demonstrated outstanding corporate governance practices—for attaining a score of 100.9 in the 2021 ASEAN Corporate Governance Scorecard regional assessment. A month later, Meralco was awarded a three Golden Arrow Awards by the Institute of Corporate Directors for its outstanding performance in the 2022 domestic assessment.

Moving forward, Meralco will continue being a champion of good governance—aligned with **SDG 16: Peace, Justice, and Strong Institutions**—by heightening its support for its subsidiaries through efforts such as policy review, implementation, and training.

12.2 Sustainability Governance: Institutionalizing Sustainability Leadership

Sustainability is at the core of One Meralco's strategy and operations. To embed sustainability in the Group's strategic growth, Meralco established its Sustainability Office in September 2019, immediately after President and CEO, Atty. Ray C. Espinosa, assumed office and placed sustainability at the top of his agenda. The Sustainability Office is mandated to drive sustainability within One Meralco and champions Group-wide sustainability direction and long-term goals. In January 2020, Meralco appointed its first Chief Sustainability Officer (CSO), Raymond B. Ravelo, who reports directly to the President & CEO, ensuring that the Group's sustainability agenda is aligned with and has the strong support of the top leadership. As a result of this direct engagement with the President & CEO, in March 2021, Meralco established a Board-level Sustainability Committee that helps ensure the Company and its subsidiaries align with and adopt coherent sustainability strategies, frameworks, policies, and programs.

The establishment of Meralco's Board-level Sustainability Committee and the approval of a Sustainability Committee Charter is a strong push forward, boosting the work and impact of the Company's Sustainability Office. As a result, sustainability was added as a core value of Meralco in 2021, with both senior leadership and Group-wide employees echoing the official value statement: "Sustainability is the core of all we do. We work to power our communities, to preserve our planet, to empower our people, and to create prosperity for all."

The SO is comprised of two units:

STRATEGY AND REPORTING

This organization is responsible for developing One Meralco's sustainability agenda and integrating it into the Group's corporate objectives and strategies. It also spearheads the development and periodic update of the Group's long-term sustainability strategy. It likewise identifies ESG metrics and determines appropriate baselines and targets that accurately capture the Group's sustainability performance.

As a thought partner and adviser to senior and middle managers, this unit supports and enables organizations in One Meralco to ideate, develop, and monitor sustainability strategies and programs at the business unit level, ensuring alignment with and promotion of corporate sustainability goals and thrusts.

Additionally, this group is in charge of measuring and monitoring sustainability performance as well as ensuring accountability and transparency across One Meralco. It is also responsible for capturing and codifying the Group's sustainability efforts and outcomes—in line with global ESG reporting standards and best practices—through the annual sustainability disclosure required by the Securities and Exchange Commission.

Finally, this unit facilitates engagement with ESG rating agencies, which produce independent ESG reports used by Meralco to assess and improve its overall sustainability performance.

PROGRAMS AND COMMUNICATION

This organization leads and guides the effective and efficient execution of sustainability programs across One Meralco. The team drives and integrates key cross-functional and cross-organizational programs, including Green Mobility, Resource Conservation and Efficiency, Race to Zero Waste, and #Mbrace Diversity & Inclusion.

This unit also assists and empowers the Group's organizations in implementing their own sustainability initiatives through targeted support for specific workstreams, provision of sustainability frameworks and tools, and sharing of subject matter expertise.

Furthermore, the team fosters program-specific partnerships with external organizations (e.g., nonprofit organizations, government agencies) to promote not only knowledge and best practice sharing but also alliance-building towards the collective achievement of the SDGs.

Lastly, this group is responsible for increasing awareness on sustainability both within the Group as well as among external stakeholders and the general public, employing various communication channels like Meralco's digital platforms, webinars, TV, and print.

13 Our Outlook

LIGHTING UP A BRIGHTER FUTURE

The unprecedented series of global and local crises over the last three years tested and challenged One Meralco's resilience as an organization. In the same light, however, it also ushered in many opportunities for the Group to translate its sustainability aspirations into concrete action. As unveiled in this report, One Meralco emerged from 2022 better and brighter than ever.

By advancing high-impact initiatives centered around Power, Planet, People, and Prosperity, One Meralco brightened the lives of millions of Filipinos; grew its business in harmony with nature; nurtured its employees in a safe and thriving workplace; and uplifted its customers, communities, and constituents, ensuring that no one was left behind.

As the economic downturn and the triple planetary crisis continue to wreak havoc on the world and on the country, it has become clearer that sustainable development is indeed the best and only way forward. Amid uncertainties in the future, One Meralco will forge ahead and continue accelerating its just, orderly, and affordable transition to clean energy by carrying out its low-carbon transition through 2030, adopting new and green technologies by 2040, and preparing for deep decarbonization towards becoming coal-free before 2050.

Marching towards these goals, One Meralco will continue to harness the power of energy to fuel enduring and meaningful progress for all—enabling many more Filipinos to power better lives not only for ourselves today but also for our children's future.