



MERALCO

2017 ANNUAL REPORT

Over A Century of Light and Life

115

A BRILLIANT PAST
AN EVEN BRIGHTER
FUTURE

The milestones in Meralco’s rich history played amidst major events in the Philippine landscape, riding on both the crest of successes and on the wings of struggles.

All throughout, Meralco has shown dedication to its mandate. Determined to Serve. Today and For the Future, Meralco continues to pivot and embrace the new digital world.



- 1903

Manila Electric Railroad and Light Company (MERALCO) was formally incorporated on March 14, after Charles M. Swift was granted a 50-year franchise through Ordinance No. 44 to operate an electric street railway service and to furnish electric current for light, heat, and power in the City of Manila and its suburbs.
- 1905

The Meralco tranvia, an electric railway system, was formally inaugurated.
- 1919

The Company was renamed Manila Electric Company.
- 1927

Meralco started to design and construct closed-type autobuses in the Company’s shops with imported engines and chassis. More buses were eventually placed on new lines to meet the growing needs of the city.
- 1947

Republic Act (RA) No. 150 renewed Meralco’s franchise for a period of 20 years (1953-1973).
- 1948

Meralco discontinued its transportation business after its railway system was destroyed beyond rehabilitation by World War II.
- 1950

Rockwell 1 (25 MW) and Rockwell 2 (25 MW) power plants were inaugurated in their location in Makati. Combined, the two (2) units had a generation capacity greater than the installed 45.5 MW capacity of the whole pre-war Meralco system.
- 1962

Don Eugenio H. Lopez, Sr., a Filipino industrialist, led the Filipino buyout of Meralco from its American owners, General Public Utilities (GPU).
- 1964

RA 4159 renewed the Meralco franchise for a period of 30 years (1973-2003).
- 1969

Meralco became the first billion-Peso Philippine company. It received high credit ratings from international banks and institutions, and floated its Mortgage Trust Indenture Bonds on Wall Street.
- 1972

Marital Law was declared. Between 1972 and 1973, the Meralco Foundation, Inc. (MFI) was created and took over Meralco and Meralco Securities Corporation (MSC). At the time of takeover, the 27% stake of Benpres Holdings Corporation (Benpres) in MSC was transferred to MFI, which thereafter controlled both MSC and Meralco. Benpres is a private holding company, now known as Lopez, Inc., established in 1928 as a partnership between brothers Don Eugenio H. Lopez, Sr. and Fernando H. Lopez, a former Philippine Vice President.
- 1975

Talks on the sale of Meralco’s major power plants began.
- 1978-79

Meralco sold its major power plants including Snyder, Gardner, Tegen, Malaya, and Botocan to National Power Corporation (NPC).
- | Meralco Power Plants | | |
|----------------------|------------------|-------------------|
| Power Plant | Capacity (in MW) | Year Commisioned* |
| Blaisdell Plant | 34.5 | 1905-1953 |
| Botocan | 17 | 1930 |
| Rockwell** | 305 | 1950-1963 |
| Tegen 1 and 2 | 200 | 1965-1966 |
| Gardner 1 and 2 | 350 | 1968-1969 |
| Snyder 1 and 2 | 500 | 1971-1972 |
| Malaya 1 and 2 | 650 | 1973-1978 |

* Station units were commissioned separately in different years.

** Rockwell Station remained Meralco’s property, but was leased to NPC.
- 1981

Meralco notched a milestone as its number of customer accounts reached one (1) million.
- 1982

In November 1982, then President Ferdinand E. Marcos approved a three (3)-year program for extension of Meralco services to cover areas within a 60-kilometer radius of Manila. These areas included Bulacan, Rizal, Cavite, and parts of Quezon and Laguna.
- 1986

Manuel M. Lopez, son of Don Eugenio H. Lopez, Sr., returned to the helm of Meralco as President after the People Power revolt at EDSA.
- 1987

Executive Order No. 215 was issued which again allowed entry of Independent Power Producers (IPPs) in power generation.
- 1991

Ten years after reaching the one (1) million mark, Meralco saw its number of customer accounts go up to two (2) million.
- 1992

Meralco shares were listed on the Manila Stock Exchange.

The National Electrification Administration (NEA) approved Meralco’s franchise to operate in San Pascual and Batangas City after municipal and city councils passed resolutions for a transfer to Meralco.

- 1997

Meralco recorded three (3) million customer accounts, six (6) years after reaching two (2) million.
- 2001

RA 9136, the Electric Power Industry Reform Act (EPIRA), was enacted to restructure the power industry and privatize government’s generation and transmission assets.
- 2003

Meralco was granted a new 25-year congressional franchise through RA 9209, the first under the EPIRA.

Number of customer accounts increased to four (4) million.
- 2007

Meralco entered the Performance Based Regulation (PBR) regime.
- 2008

In February, Meralco acquired a 65% stake in Clark Electric Distribution Corporation (CEDC).

In October, San Miguel Corporation (SMC) acquired a significant stake in Meralco.
- 2009

Major stock transactions took place between the Lopez Group and First Pacific Company Limited of Hong Kong (First Pacific). First Pacific, through PLDT, Inc. and Beacon Electric Asset Holdings, Inc. acquired a significant stake in Meralco. The Lopez Group remained as a minority stockholder.

In May, Meralco implemented its Energy Regulatory Commision (ERC)-approved rates for 2RP.
- 2011

Meralco announced its intent to re-enter the power generation business through a wholly-owned subsidiary, MERALCO PowerGen Corporation (MGen).

Number of customer accounts now stood at five (5) million.
- 2012

In June, CEDC entered the PBR Regime.
- 2013

Meralco issued P18.5 billion retail bond, the largest private sector bond offering in the country.

Meralco and First Pacific acquired a 70% stake in Pacific Light Power Pte Ltd. (PLP), a 2x400 MW LNG plant in Jurong Island, Singapore through FPM Power.

Meralco entered into a Technical Services Agreement with Lagos-based Integrated Energy Distribution and Marketing (IEDM) for the latter’s acquisition, operations, and maintenance of the Ibadan Electric Distribution Company and Yola Electric Distribution Company distribution assets in Nigeria.

MPower, the Retail Electricity Supply (RES) unit of Meralco began its operations with the start of Retail Competition and Open Access (RCOA) as mandated by the ERC pursuant to the EPIRA.

MGen and New Growth B.V., a wholly-owned subsidiary of the Electricity Generating Public Company Limited (EGCO) Group of Thailand, signed a Joint Development Agreement (JDA) for the development of the 455 MW (net) San Buenaventura Power Ltd. Co. (SBPL) coal-fired power generation facility in Mauban, Quezon, the first power plant to use supercritical technology.

On December 11, 2013, SMC sold its Meralco common shareholdings to JG Summit Holdings, Inc. (JG), through the Philippine Stock Exchange (PSE).
- 2014

Synchronization and commercial operation of PLP to the Singapore Grid.

Meralco signed a Technical Services Agreement with Comstech to be the Investment Management partner for the operations, maintenance and management of Pampanga Electric Cooperative II’s (PELCO II) distribution facilities.

Meralco was granted a 25-year concession to operate the distribution system of the Cavite Economic Zone (CEZ).
- 2016

From its one (1) million customer count milestone in 1981, Meralco saw its number of customer accounts rise to six (6) million.

Meralco embarked on a comprehensive digital transformation journey anchored on six (6) key areas, otherwise called the “6D’s of Digital”: digital customer interaction, digital grid operations, digital asset management, digital field worker, digital enterprise, and digital energy products and services.
- 2017

In January, Meralco shares (MER) marked 25 years of listing at the PSE.

In June, global credit rating agency Standard & Poor’s Rating Services (S&P) upgraded Meralco’s long-term corporate credit rating to Investment Grade at “BBB-” with Stable Outlook.



COVER STORY:
Meralco has over a hundred years of providing light and power to a nation that has progressed amidst political and economic crises, through various changes in industry and technology. As we celebrate 115 years of service in 2018, the cast-iron commitment to seamless quality service and to unequivocal pursuit for excellence remains.

The journey continues - onward to more years of light and life!

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MERALCO FRANCHISE AREA



WHO WE ARE

- ▶ The largest private sector electric distribution utility company in the Philippines covering

36 cities and 75 municipalities
including Metro Manila

- ▶ Franchise area of over **9,685 km²**
that includes the core of the country's industrial, commercial, and population centers

- ▶ **115 years** in service in 2018

- ▶ Market capitalization of **PhP370.4 billion**
(US\$7.4 billion) at end-2017

- ▶ Committed to being the **total energy solutions provider of choice**

FINANCIAL AND OPERATING HIGHLIGHTS

	2013	2014	2015	2016	2017
FINANCIAL INFORMATION (in Million Pesos, Except Per Share Data)					
Revenues					
Sale of electricity	294,849	261,740	249,773	249,206	275,172
Sale of other services	3,787	4,596	8,626	7,975	7,384
	298,636	266,336	258,399	257,181	282,556
Costs and Expenses					
Purchased power	238,198	203,242	192,117	189,853	214,558
Operating expenses	19,421	20,187	24,336	24,935	25,567
Depreciation and amortization	6,118	6,093	6,910	7,312	7,520
Interest and other financial charges (income) - net	307	669	(322)	(737)	(658)
Others	10,265	9,677	10,482	9,125	7,707
	274,309	239,868	233,523	230,488	254,694
EBITDA	30,682	32,927	31,124	34,049	34,474
Reported net income	17,211	18,053	19,098	19,176	20,384
Core net income	17,023	18,128	18,887	19,583	20,213
Core earnings per share	15.10	16.08	16.76	17.37	17.93
Cash dividends declared per common share	10.20	12.36	15.25	25.08	18.23
Market price per share at end of year	251.00	256.00	320.00	265.00	328.60
Market capitalization	282,902	288,537	360,672	298,681	370,365
Utility plant and others	112,586	120,830	124,913	128,814	133,874
Interest-bearing long-term financial liabilities	31,777	29,642	29,265	28,872	26,670
Notes payable	1,814	400	1,043	11,475	13,586
Equity attributable to equity holders of parent	75,162	79,154	80,276	74,417	73,610
Capital expenditures	10,187	12,582	11,303	11,584	12,127
OPERATING INFORMATION					
Customer Accounts (in Thousands)					
Residential	4,901	5,097	5,296	5,537	5,812
Commercial	453	464	474	486	500
Industrial	10	10	10	10	10
Streetlights	4	4	4	5	5
	5,368	5,575	5,784	6,038	6,327
Energy Sales (in GWh)					
Residential	10,235	10,364	11,121	12,444	13,060
Commercial	13,302	13,814	14,654	15,867	16,597
Industrial	10,417	10,850	11,216	11,697	12,309
Streetlights	130	132	133	134	136
	34,084	35,160	37,124	40,142	42,102
System Loss (in %)					
Meralco	6.92	6.49	6.47	6.35	5.91
CEDC	4.33	4.37	4.01	3.59	2.14


6.3M
Customer Accounts


PhP18.23
Cash Dividends
per Share


PhP282.6B
Total Revenues


PhP34.5B
EBITDA


PhP20.2B
Core Net Income


42,102GWh
Energy Sales


PhP20.4B
Reported Net Income


PhP12.1B
CAPEX


5.91%
Meralco System Loss



MANUEL V. PANGILINAN
Chairman of the Board

MESSAGE FROM THE CHAIRMAN, PRESIDENT AND CEO

We continue to outperform on our 115th year

To our Fellow Shareholders,

Year 2017 was another strong period for Meralco. The favorable sales, operating and financial results underscore the commitments we charted in our previous Annual Report – to focus on operating excellence, on our growth and profitability pillars, on superior customer experience, and on our technology innovations and digital transformation to a utility of, and for, the future.

The achievements were made in a conducive business environment of a rapidly expanding Philippine economy, robust consumer spending, bullish business and public sector investment with the Government's Public-Private Partnership and more recently, *Build, Build, Build* programs, and strong demand for electricity. These factors pushed energy sales and customer count higher and boosted our operational excellence and financial strength.

Consolidated energy sales reached its highest level in 2017, rising 5% to 42,102 GWh over 2016. Electricity sales volume consistently breached the 3,000 GWh level in every month of the year, a first in Meralco's history. Contributing to these gains in sales volume were the combined effects of our expanding customer base, the positive economic conditions with gross domestic product (GDP) at 6.7%, moderate inflation at 2.9%, and favorable power supply conditions which saw reduced power plant outages. The number of our customer accounts grew by 5% to 6.3 at end-2017.

Sustained investments in an efficient and reliable sub-transmission and distribution system, and initiatives from our Customer Retail Services and Networks organizations, helped drive our strong sales outcomes. These initiatives include strategic partnerships with Industrial and Commercial customers, Local Government Units (LGUs) and real estate developers, to help spur growth and development. Innovations toward simpler, faster, and automated/digitally-enabled customer processes and systems, as well as early project design, facilitation and energization, enabled earlier sales realization.

Peak demand in our franchise area was at 6,973 MW, 3% higher than the 6,748 MW in 2016. Peak demand in the Luzon Grid reached 10,054 MW, up 3% from the 2016 level of 9,726 MW.

Our 2017 Consolidated Core Net Income (CCNI) grew to PhP20.2 billion, 3% higher than in 2016. The increase in energy distributed, higher financing income due to improved yields, as well as adjustments of provisions with the favorable resolution of certain commercial and business issues, sparked the rise in our CCNI. Consolidated Reported Net Income amounted to PhP20.4 billion, 6% higher than the year before. Core Earnings per Share reached PhP17.93 while Reported Earnings per Share stood at PhP18.09.

Consolidated Core EBITDA was up 2% to PhP34.6 billion, equivalent to a Core EBITDA margin of 12% on consolidated revenues, a percentage point lower than in 2016.

We continue to reinvest heavily to address the pressing need to continuously expand, strengthen, modernize and digitally adapt our distribution network and customer service infrastructure – all imperatives to ensure adequate, reliable, and least-cost power supply to customers in our franchise area. Our consolidated CAPEX in 2017 amounted to PhP12.1 billion, higher by 5% compared with the previous year.

The Company has consistently demonstrated operating excellence, surpassing regulatory standards and prior years' records, on system reliability and availability, power quality, speed to energize customers and system loss.

The positive operating and financial results from our core distribution business and our subsidiaries allowed us to maintain a strong balance sheet. Our cash flows from operations stood at PhP28.4 billion, while free cash flows amounted to PhP19.2 billion. Cash and cash equivalents were at PhP45.9 billion. Placements in available-for-sale (AFS) and held-to-maturity (HTM) instruments, and other cash placements amounted to PhP45.3 billion, classified under other noncurrent assets and other current assets according to their maturities.

The positive operating and financial results from our core distribution business and our subsidiaries allowed us to maintain a strong balance sheet.

Total interest-bearing debt was unchanged at PhP40.3 billion, including debt of PhP1.6 billion at the subsidiary level, at end-2017. A total of PhP15.5 billion are due to mature within 2018.

Providing meaningful additions to our CCNI are two of our subsidiaries, CIS Bayad Center, Inc. (Bayad Center) and Radius Telecoms, Inc. (Radius).

Bayad Center, a 95%-owned subsidiary and the biggest and widest multi-channel payment platform in the Philippines, contributed PhP260.1 million to Meralco's CCNI, on revenues of more than PhP1.5 billion, a 7% increase over 2016. Bayad Center formalized a capital alliance arrangement in May 2017 with Densan System Limited Co. (DSK), a Japanese integrated solutions conglomerate specializing in payments fulfillment and e-commerce, enabling technology transfer and partnership in the payments space. Bayad Center, with 12,000 customer touchpoints, saw its bills payment transactions grow in 2017 to over 91 million with over 255 billers served consisting of utilities, airlines, financial institutions, and government agencies, among others.

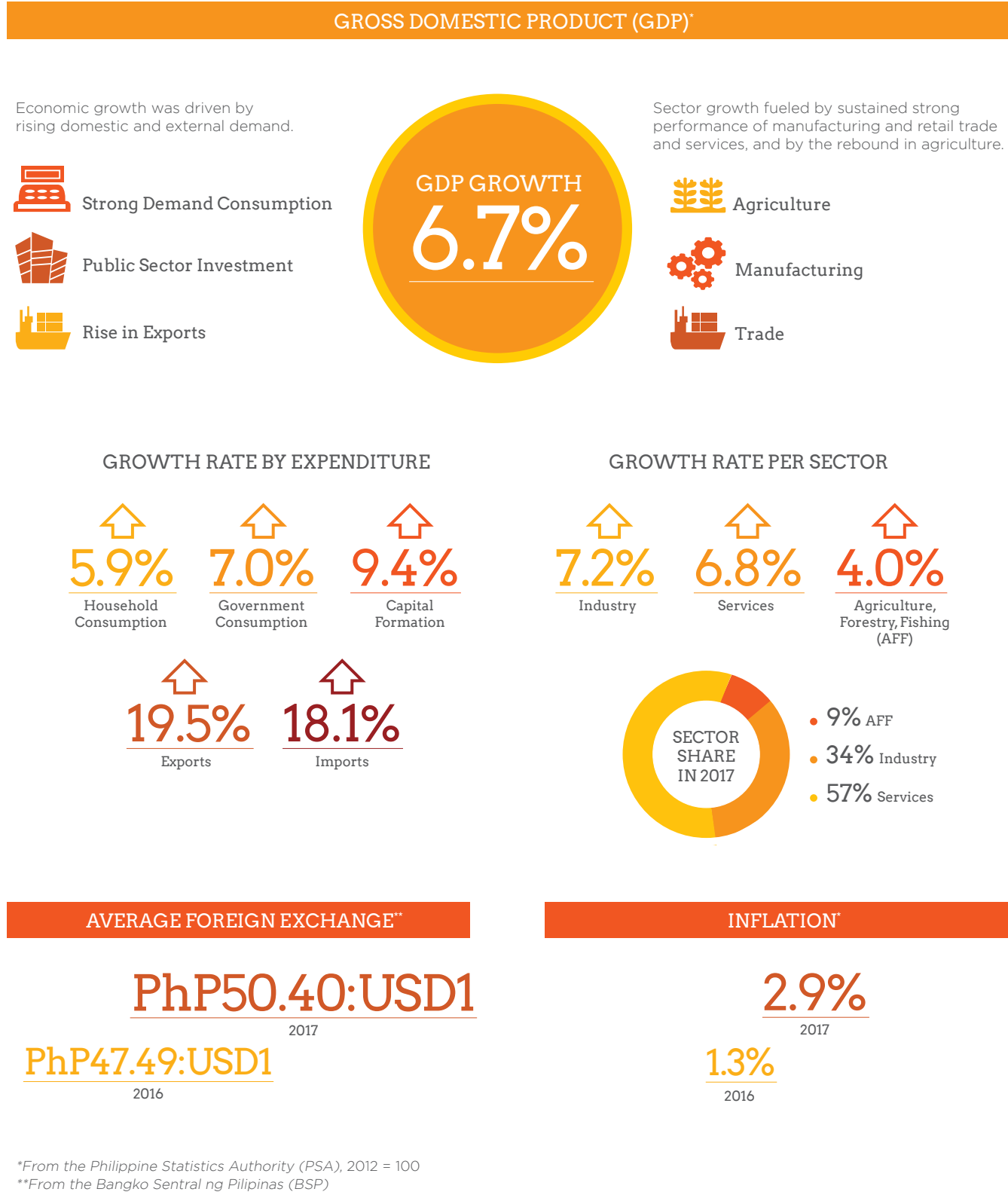
Radius, whose end-to-end fiber optic platform in Mega Manila enables service providers and companies to transmit digital information and business applications, contributed PhP394.1 million to Meralco's CCNI on revenues of PhP1.1 billion, 39% higher than 2016. This increase is attributable to its expanded customer base and the completion of its bandwidth upgrade and installation of additional fiber circuits.

All these enabled good returns for our over 43,000 shareholders. Total cash dividends declared out of our 2017 CCNI amounted to PhP12.554 per share or a payout of 70% out of the CCNI. The total consisted of the interim regular cash dividend of PhP4.489 per share, and a final cash dividend of PhP8.065 per share that is made up of a final regular cash dividend of PhP4.478 per share and a special cash dividend of PhP3.587 per share. During the year, the Board of Directors declared a PhP5.0 billion special cash dividend equivalent to PhP4.436 per share out of Meralco's retained earnings, in addition to the regular interim cash dividend.



OSCAR S. REYES
President and
Chief Executive Officer

2017 Macroeconomic Highlights





Meralco's corporate milestones in business have been matched by milestones in its Corporate Social Responsibility (CSR) programs through One Meralco Foundation (OMF). OMF's advocacies – from providing electricity access to remote, off-grid schools and communities, to energy education, youth development, grassroots partnerships, disaster response, and employee volunteerism – have transformed the lives of over 50,000 families across the country.

Our performance results and advocacies are discussed more extensively in the succeeding sections of this Annual Report.

AMONGST CHANGES AND DISRUPTIONS

The story of 2017 echoed certain challenges of years past: periodic episodes of power plant and Malampaya gas facility outages and the consequent power supply interruptions and higher WESM prices, fortunately infrequent in 2017, energy policy and regulatory uncertainties, intensifying competition in the retail electricity market, technological disruptions, and the need for massive capital expenditures in power distribution and investments in new power generation to stay ahead of the curve vis-à-vis growing power demand.

The imperative for the Philippine energy industry continues to be energy security in terms of available, highly reliable, least cost power supply, and 24x7 transmission and distribution to customers across the various grids.

Meralco PowerGen Corporation (MGen), is in joint ventures for the development of new power plants to assure the highly reliable and cost efficient power supply required by our customers in the Meralco franchise area and in the Luzon Grid. These include the country's first supercritical coal-fired power plant, the 455 MW San Buenaventura Power Limited (SBPL) power plant in Mauban, Quezon; the first ultra-supercritical coal-fired power plant, the 2x600 MW Atimonan One Energy, Inc. (A1E) plant in Atimonan, Quezon, and the first phase of the 2x300 MW Redondo Peninsula Energy (RP Energy) circulating fluidized bed (CFB) coal-fired power plant at the Subic Freeport Zone. The Power Supply Agreements (PSAs) for A1E and RP Energy, which along with SBPL will significantly contribute to energy security, are awaiting regulatory approval.

Retail Competition and Open Access (RCOA) which commenced four and a half years ago for contestable customers with a load of 1 MW and

above, has provided customers the freedom of choice of their electricity supplier from among their existing distribution utility and the various retail electricity suppliers. As of end-2017, there were a total of 30 Retail Electricity Suppliers (RES) and 25 Local Retail Electricity Suppliers (Local RES), licensed to provide electricity to voluntary contestable customers with demand now down to at least 750 kW in Luzon and the Visayas, where 1,675 qualified contestable customers are based. Of the total number of contestable customers, 947 with a total demand of 2,397 MW have opted for contestability and are being served by 26 suppliers.

Our local RES unit, MPower and affiliate RES, Vantage Energy Solutions and Management, Inc. (Vantage Energy), served 294 customers in 2017 with total demand of 827 MW. The RCOA market continues to grow and has become highly competitive.

Even as we focus on bringing MGen's key power generation projects to commercial operations, and competing in the retail electricity market, we are also embracing the emerging realities of increasingly grid-competitive Renewables, particularly solar and wind, distributed generation, and the potential market and use cases for electric vehicles (eVehicles).

Meralco entered into long-term PSAs for an aggregate of 185 MW of utility-scale solar with solar plant developers and is in the final stages of contracting long-term wind power supply of 150 MW with wind plant developers, as of end-2017.

Meralco is venturing into the growing renewable energy market through its wholly-owned subsidiary, MSpectrum Inc. (Spectrum) for rooftop solar, and utility scale solar installations. Meralco has also formed eSakay, Inc. (eSakay) to provide eVehicles and charging infrastructure solutions to service public utility and private sector eVehicle requirements.

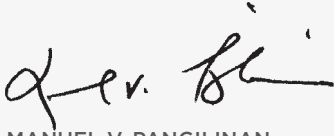
The story of 2017 echoed certain challenges of years past.

LOOKING AHEAD TO MORE YEARS OF LIGHT AND LIFE

Challenges notwithstanding, Meralco remains steadfast in its commitment to fully support the country's continued progress. We have always been ready to invest in capital expenditures for a highly resilient, customer-responsive, digitally-enabled distribution business, and fuel-efficient, reliable and environment-friendly power generation plants. We will continue to do so with an enabling policy and pro-active regulatory environment, to create shared value for our customers and for the country.

In closing, we thank our customers and the communities we serve for their continued trust in our Company and its services. We express our gratitude to our Board of Directors for their vision, governance, and guidance; our Management team and employees, for delivering excellent service in the face of continuing challenges; and our shareholders and stakeholders, for their continued support of the Company.

Here's to celebrating more years of light and life!


MANUEL V. PANGILINAN
 Chairman of the Board

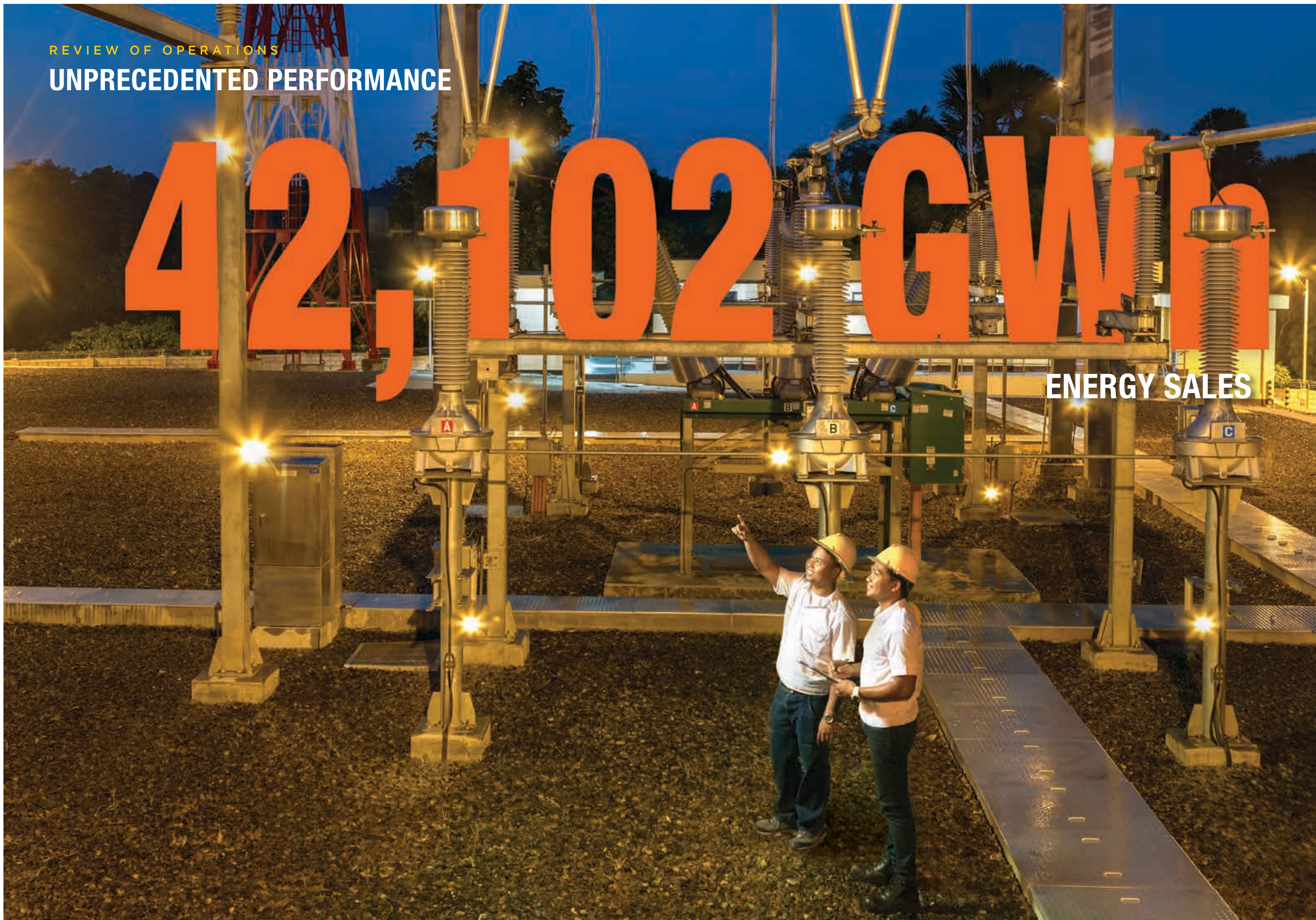

OSCAR S. REYES
 President and Chief Executive Officer

REVIEW OF OPERATIONS

UNPRECEDENTED PERFORMANCE

42,102 GWh

ENERGY SALES



ENERGY SALES

Energy sales, including volumes from Clark Electric Distribution Corporation (CEDC), reached its highest level in 2017 at 42,102 GWh, increasing by 5% from 40,142 GWh in 2016.

Sales were mainly driven by the strong demand for electricity, boosted by the continuous growth of the Philippine economy, low inflation at only 2.9%, stable power supply, and good weather conditions. The Company's efficient and reliable network, innovative customer programs along with early project processing, design, execution, and energization contributed to the record-setting sales.

- Residential energy sales grew 5% to 13,060 GWh from 12,444 GWh, bolstered by new customer accounts that increased by 274,801, by the lesser incidents of power plant outages, and fewer weather disturbances
- Commercial energy sales expanded by close to 5% to 16,597 GWh from 15,867 GWh, attributed to an active real estate, private services, and retail trade sectors
- Industrial energy sales was up 5% to 12,309 GWh from 11,697 GWh with growth leaders from the electrical machinery, food and beverages, and basic metals industries
- Streetlights volume accounted for the balance at 136 GWh

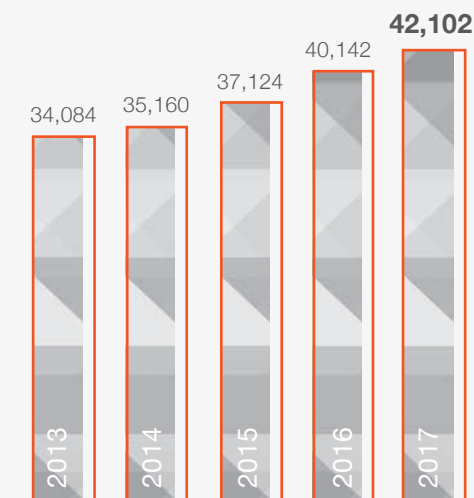
Providing added impetus to sales growth were internal initiatives, in particular, the strategic partnerships with Local Government Units (LGU), and developers and conglomerates; business centers positioned as strategic partners in enabling growth and development.

In terms of percentage share to total energy sales, the commercial segment had the highest contribution at 39%, followed by the residential segment at 31%, and industrial segment at 29%. Flat streetlights accounted for the balance at less than 1% of the total.

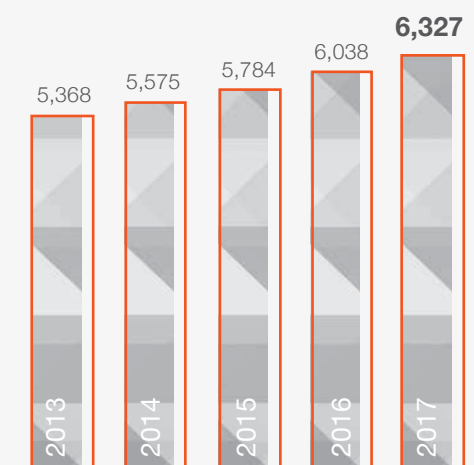
Consolidated customer count reached a record 6,326,691, up by almost 5% from the previous year.

- Residential customers rose 5% with 5,812,069 accounts, comprising 92% of total
- Commercial customers grew 3% with 499,567 accounts, making up 8% of total
- Industrial customers increased by 2% at 10,327 accounts, comprising less than 1% of the total
- Streetlight customers accounted for less than 1% share with 4,728 customers

↑
5%
ENERGY SALES
(In GWh)

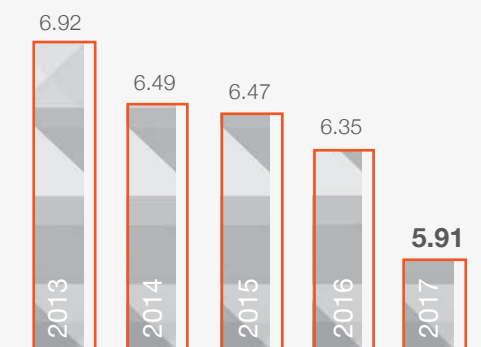


↑
5%
CUSTOMER ACCOUNTS
(In Thousands)



The Company's efficient and reliable network, innovative customer programs along with early project processing, design, execution, and energization contributed to the record-setting sales.


5.91%
MERALCO SYSTEM LOSS
 (In Percent)



OPERATING PERFORMANCE

Meralco continued to outperform standards set by the Energy Regulatory Commission (ERC), recording all-time best levels in 2017 particularly in the areas of system reliability and availability, and system loss.

System Average Interruption Frequency Index (SAIFI) improved by 15% to 1.86 times from 2.18 times. System Average Interruption Duration Index (SAIDI) was lower at 53.69 minutes, improving by 2% over the 54.68 minutes recorded in 2016. The milestone system reliability and availability performance is attributed to the Company's continuous system upgrading and storm-hardening programs.

System loss sustained its record-breaking feat for the seventh consecutive year, reaching an all-time low at 5.91% in 2017. This is 0.44 percentage point improvement over 6.35% in 2016 and is 2.59 percentage points below the 8.5% regulatory cap. The continued implementation of system loss reduction programs and initiatives, which include the unrelenting drive to minimize electricity pilferage, enabled the Company to consistently surpass prior years' records.

External factors likewise influenced system loss achievement, such as the relatively lower temperature in 2017 and the robust growth of primary-metered sales. A lower temperature tends to lower technical system losses and the propensity for electricity pilferage; primary-metered sales helps lower losses to the distribution system, and consequently lower average total system loss rate.

The lower system loss rate resulted in cumulative savings of Php33.5 billion to Meralco customers or an average of Php0.10 per kWh since 2008.

CAPITAL EXPENDITURES

Total capital expenditures (CAPEX) in 2017 was Php12.1 billion, 5% higher than in 2016, for meeting load and customer growth, upgrading network infrastructure, storm-hardening and resiliency, enhancing safety and security, and improving customer service.

Five (5) substation-related major electric capital projects (ECPs) were completed, including the new Lucena and Pulilan Substations, the additional 300 MVA bank at Balintawak Substation, and the capacity expansion projects at San Miguel and Veinte Reales Substations.

Meralco continued to outperform standards set by the ERC, recording all-time best levels in 2017 particularly in the areas of system reliability and availability, and system loss.

Boosting network system reliability and efficiency were the additions of the 115 kV subtransmission line at Paco Substation, the new power transformer banks at Malibay and Urdaneta Substations, and the 18 uprated 115 kV power circuit breakers at Balintawak Substation. Primary distribution lines gained greater flexibility and reliability with the completion of 40 other projects.

The Company relocated 691 poles affected by Public-Private Partnership (PPP) projects, and 1,080 poles affected by the Department of Public Works and Highways (DPWH) projects, in support of the National Government's development and growth initiatives.

Projects completed during the year increased total substation power transformer capacity to 17,795 MVA, and total primary circuit length to 18,363 km.



17,795 MVA
 SUBSTATION POWER
 TRANSFORMER CAPACITY

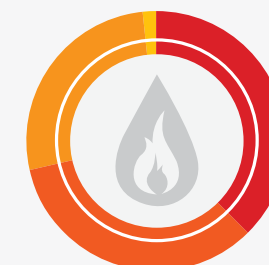
MORE THAN **4%**

INCREASE IN NET SYSTEM INPUT (NSI) IS LESS THAN THE ALMOST 5% INCREASE IN SALES VOLUME, LARGELY DUE TO FURTHER IMPROVEMENT IN SYSTEM LOSS PERFORMANCE



SHARE OF BILL COMPONENTS TO TOTAL 2017

- 55% Generation
- 17% Distribution
- 12% Taxes/Subsidies/Universal Charges
- 10% Transmission
- 4% System Loss
- 2% FIT-Allowance



FUEL MIX 2017

- 37% Natural Gas
- 34% Coal
- 27% Multi Fuel*
- 2% Liquid Fuel**

* Includes coal, hydro, geothermal, and biomass

** Used as coal substitute during the unavailability of Malampaya gas supply

MERALCO CUSTOMER BILL

The 2017 average retail electricity rate across all customer classes increased by PhP0.53 per kWh to PhP8.03 per kWh, from the PhP7.50 per kWh in 2016.

- Generation charge remains to be the single largest component of the average customer bill at 55%, averaging PhP4.40 per kWh, which was PhP0.54 per kWh higher than the PhP3.86 per kWh in 2016. The increase in generation charge is attributed to the softening of the peso, higher fuel prices, and higher prices from the Wholesale Electricity Spot Market (WESM)
- Transmission charge made up 10% of the average customer bill at PhP0.78 per kWh, down by 9% from the PhP0.85 per kWh in 2016. The reduction in the transmission charge was primarily due to lower National Grid Corporation of the Philippines (NGCP) ancillary service charges
- Meralco's distribution charge, which remained at PhP1.42 per kWh, comprised only 17% of the average customer bill
- System loss charge accounted for 4% of the average customer bill and remained the same at PhP0.32 per kWh
- Taxes, subsidies, and universal charges accounted for 12% of the customer bill at PhP0.95 per kWh, up by about 1% from PhP0.94 per kWh in 2016
- The Feed-in-Tariff Allowance (FIT-ALL) for renewable energy made up about 2% of the average customer bill at PhP0.16 per kWh, up by 45% from PhP0.11 per kWh following the ERC's approval of National Transmission Corporation's (TransCo) petition for a higher FIT-ALL for calendar year 2016

POWER SUPPLY AND DEMAND

Net system input (NSI) reached a new milestone of 44,639 GWh, 4% higher than the 42,866 GWh in 2016, propelled by the growing demand for power.

Peak demand in the Meralco franchise area went up by 3% to 6,973 MW from 6,748 MW in 2016. The Luzon peak demand rose to 10,054 MW, 3% higher than in 2016.

ANNUAL AVERAGE MERALCO RATE IN PHP PER KWH

Rate Component	2016	2017
Generation	3.86	4.40
Transmission	0.85	0.78
Distribution	1.42	1.42
System Loss	0.32	0.32
Taxes/Subsidies/Universal Charges	0.94	0.95
Feed-in-Tariff Allowance	0.11	0.16
TOTAL	7.50	8.03

POWER SOURCES IN GWH

Source	2016	2017
Power Supply Agreements (PSAs)	16,071	14,855
Independent Power Producers (IPPs)	13,635	13,302
Retail Electricity Suppliers (RESs)	7,909	10,744
Wholesale Electricity Spot Market (WESM)	4,498	5,107
Special Contracts	752	632
TOTAL NET SYSTEM INPUT (NSI)	42,866	44,639

CUSTOMER SERVICE

6.3M

CUSTOMERS
SERVED



Customer centricity remains one of the Company's top priorities. Key activities were implemented in 2017 to align with changing customers' needs.

CUSTOMER SERVICE

Customer centricity remains one of the Company's top priorities. Key activities were implemented in 2017 to align with changing customers' needs.

Customer Experience Transformation Program (CXTIP)

The Company began its journey to deliver simple, fast, and convenient customer experience anchored on the automation of processes and on the introduction of a digital platform.

The online service application processing for business centers was introduced in 2017. It substantially improved application processing time by 39% for customer applications which number over 200,000 annually and enhanced the overall experience of both customers and Meralco frontliners.

The next phase involves availability of the Meralco online portal and app that will enable customers to view their bill, subscribe to paperless billing, pay online, and report outages. The portal and the app have an inquiry facility where customers can ask about their Meralco service. Customers who enroll in Meralco's digital platform shall also receive notifications on planned outages and payment reminders.

Parallel to the development of automated processes and digital platform is the transformation of the Meralco workforce to deliver service in this new channel.

In partnership with leading global vendors, Meralco will pilot the portal and app in 2018.

Prepaid Electricity Service

Meralco more than doubled its prepaid electricity service (PRES) base, ending 2017 with close to 90,000 customers. The service is available in residential areas in the cities of Manila, Mandaluyong, Makati, and Pasig; the municipalities of Angono, Cainta, Binangonan, and Taytay in Rizal; and parts of Taguig, Pasay, San Juan, Parañaque, Novaliches, Caloocan, Cavite, Tagaytay, and Bulacan.

Apart from residential customers, PRES has also attracted developers who cater to students and young families living in mid- and high-rise buildings.

Information drives continued in targeted areas, as the Company worked with real estate developers to lay the groundwork for a future smart city integrating smart meters as an initial step.

PRES has received international recognitions with seven (7) awards and two (2) finalist berths since 2015.

Smart Grid National Policy and Roadmap

Meralco supported the Department of Energy (DOE) in the formulation of a national policy on smart grid, which covers Advanced Metering Infrastructure (AMI) and Advanced Network Automation (ANA). The Company presented its smart grid roadmap as inputs to DOE's national plans in a series of meetings and national workshop with the smart grid technical working group (SG-TWG) formed by the DOE.

The SG-TWG is led by the DOE with members from the Philippine Electric Plant Owners Association (PEPOA), National Electrification Administration (NEA), National Grid Corporation of the Philippines (NGCP), and other key power industry players. It consists of six (6) working groups, namely, consumer empowerment, power system operation, standardization, sustainable and renewable energy, ICT and cyber security, and regulatory support. Through the SG-TWG, the DOE aims to create a national policy, roadmap, and implement rules that will shape smart grid implementation in the Philippines that will positively impact customer experience.

Orange Tag

Orange Tag was developed to fill the information gap for customers wanting to learn on how to save on, and how to control, their electricity consumption. The Company partnered with 26 appliance brands and released 120 orange tags in the market. Partners saw an increase in their sales ranging from 13 % to 94% upon joining the Orange Tag program. The program

was disseminated through a customer education campaign on radio, digital advertising placements and on social media, and continues to be visible in select units of partners in appliance stores and on Meralco's website.

Launched in 2015, Orange Tag provides customers with information on costs to operate an appliance, specific brand, model, and stock keeping unit. Based on research conducted by Kantar TNS, customers who were exposed to Orange Tag included the cost to operate in their top three (3) purchase decision considerations, aside from brand and price. The costs are tested by the Meralco Power Lab and are based on how customers generally use their appliances as established in a third-party survey. With such information, customers can now calibrate their appliance usage according to their budget. The Orange Tag simplified technical data into accessible and understandable information that benefits customers.

Energizing Partnerships

The Energizing Partnerships Program (EPP) yielded 51 partnerships with LGUs in 2017. Under the EPP, Meralco works together with LGUs for joint strategic planning. LGUs are able to plan their projects while allowing Meralco to dovetail with the plans in its infrastructure and community electrification program. The Company's technical expertise has been essential in planning, building, and maintaining energy infrastructures that power emerging communities in the franchise area. Collaboration with the LGUs ensures timely energization.

The EPPs include programs that are pro-business and pro-environment. Meralco and LGUs cooperate to reduce the processing time for the Certificate of Final Electrical Inspection (CFEI), so that entrepreneurs can get their business energized in the soonest possible time. LGUs and Meralco also join hands in advocating the use of electric vehicles, such as e-trikes and e-jeepneys, to minimize air pollution.

Social Media

Globally, the Meralco Facebook and Twitter accounts are among the top in the industrial category for responsiveness and customer

engagement. Meralco's Facebook page received Facebook's "Very Responsive" badge of honor for consistently replying to customer inquiries within 15 minutes. Facebook has consistently grown annually as one of the most relevant touchpoints of the Company. Relevant posts on power interruption updates, safety and energy efficiency tips, and innovations drove customer engagements and awareness which resulted in a 147% increase in the monthly average of customer inquiries in 2017.

Meralco's Facebook and Twitter accounts were also recognized by SocialBakers, a European social media analytics company, as among the "Top Socially Devoted" industrial brands both globally and locally. In the Philippines, Meralco's Facebook page ranked first in the Socially Devoted Brands in six months of the year. Globally, while Meralco was consistently in the top 10 for the industrial category of Socially Devoted brands, the Company reached 1st place for the first time in the second quarter of 2017.

Meralco also expanded its LinkedIn presence beyond a talent resource channel to one that aims to engage the corporate community and establish Meralco as a thought leader in the energy space. There are currently more than 14,000 followers on the Meralco LinkedIn Company page, which is expected to grow as the Company implements efforts in publishing content establishing Meralco as a leader in the energy industry.





Workforce productivity as measured by sales per employee ratio (SPER) and customer per employee ratio (CPER) obtained its highest level in 2017.

HUMAN RESOURCES

Workforce productivity as measured by sales per employee ratio (SPER) and customer per employee ratio (CPER) reached its highest level in 2017. SPER was at 7.50 GWh from 7.11 GWh in 2016, while CPER stood at 1,142 from 1,084 in 2016. Regular employee count at year-end 2017 was 5,539, down 1% from 5,569 in the previous year.

The implementation of employee programs remained top priority and is a continuing goal as the Company aims to sustain high levels of workforce productivity and engagement. It also ensures a steady pipeline of key leadership and technical talents.

Key people programs implemented in 2017 covered employee engagement, leadership and technical development, performance management, change management, organizational safety, and environment management, disaster resiliency and response.

Employee engagement. 2017 THE PULSE: Employee Engagement Survey was conducted to determine people engagement levels and ways to further enhance programs in the areas of learning and development, career growth and leadership interaction, among others. The survey showed a 91% total engagement score, the highest so far, with 99% of employees responding.

The program Orange Fit remained to be a highly motivating program for employees' total wellness in body, mind, and spirit. Teamwork, communication, employee engagement, and productivity were strengthened through activities on values cascade, management dialogues, and collaboration tools such as Workplace by Facebook.

Leadership and technical development. This involved interventions that reinforce and build the leadership and technical capabilities of talents, focusing on digital, innovation, and technical capabilities of engineers and linemen.

The training programs included: a) *Advance metering infrastructure: Internet of things for utilities and customers*, an in-depth discussion and best-practice sharing on the visioning, strategy forming, financing, risk minimizing, and the adoption

of advance metering infrastructure (AMI) system in the distribution utility industry; b) *Data story telling for business*, a session on creating and presenting engaging data stories to generate data-driven insights and informed decision-making; c) *IEC 61850: Smart Substation*, a discussion on the fundamentals and principles of IEC 61850-Smart substation, including data modelling, communication, testing, and networking aspects; and d) *Underground curriculum*, a program to raise the proficiency level of line personnel in building a reliable and resilient underground distribution system, covering cable splicing and termination training, pad-mounted switchgear (PMSG) operation training, and ring main unit (RMU) operation training.

Performance Management.

AppRACE, an online system for performance management, was fully implemented in 2017 enabling a highly visible and measurable goal-setting process, performance monitoring and evaluation across the organization.

Change Management. Change management support was provided for transformational programs, such as the Customer Experience Engine (CXE) that will enable the organization to go digital, and improve and streamline processes for more efficient operations and customer service as well.

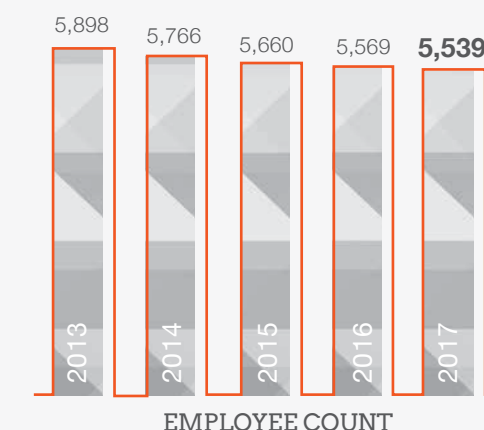
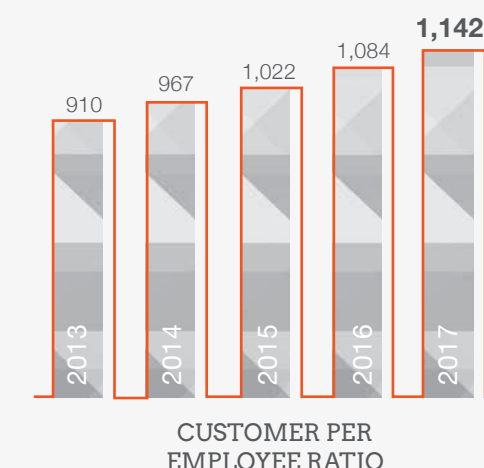
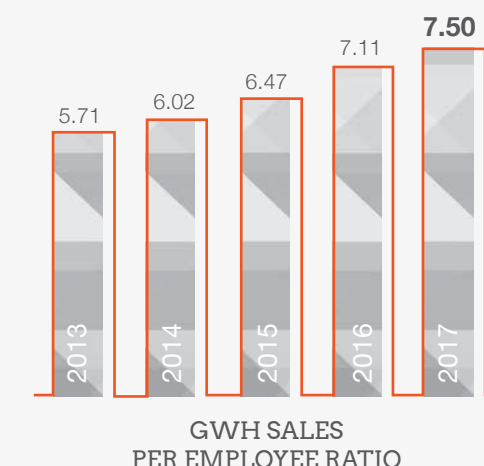
Organizational Safety. Sustainable health and safety programs were developed to bolster safety culture within the Company. Programs were aligned with the Department of Labor and Employment (DOLE) requirements such as incident reporting and recording, basic occupational safety and health training for line supervisors, and accreditation of safety practitioners. Hazard Hunter, an on-line safety inspection app, was developed and implemented to empower employees to report hazards in the workplace. The Meralco Environmental Safety and Health (ESH) Management system was recertified with the ISO 14001* and OHSAS 18001 standards.**

Environment. Environment-related initiatives, all compliant with environmental laws and good governance principles of the Company, are continuing efforts in the path towards a sustainable future. The initiatives include the "Balik Baterya" program, which ensures proper disposal and recycling of used lead acid batteries to prevent pollution; the re-fleeting program, which ensures the efficiency of and compliance to emission standards of company-owned vehicles; energy and water conservation, air pollution control, wastewater management; and an the earth day caravan, which creates awareness on environmental protection.

Disaster Resiliency. The business continuity framework and strategy map was integrated into the organization's critical business processes. Implemented according to applicable regulatory requirements and standards, the disaster resiliency programs concern the strengthening of emergency response capability, hardening of facilities and electrical infrastructure, material stockpiling, and prepositioning and development of a management system.

*ISO 14001 (Environment Management Systems) specifies requirements for an environmental management system to enable an organization to develop and implement a policy and objectives which take into account legal and other requirements to which the organization subscribes, and information about significant environmental aspects. It applies to those environmental aspects that the organization identifies as those which it can control and those which it can influence.

**OHSAS 18001 (Occupational Health and Safety Management Certification) is an international standard which provides a framework to identify, control and decrease the risks associated with health and safety within the workplace.



CORPORATE SOCIAL RESPONSIBILITY

56,854
LIVES TRANSFORMED

Sustained commitment to nation-building

While continuing to break records in terms of service reliability, customer base and energy sales, Meralco also reached new milestones in the area of corporate social responsibility. Its advocacies, implemented by its social development arm, One Meralco Foundation, transformed the lives of 56,854 families across the country through various programs — from providing electricity access to energy education, youth development, grassroots partnerships, disaster response and employee volunteerism.


56,854
FAMILIES DIRECTLY BENEFITED FROM VARIOUS SOCIAL DEVELOPMENT PROGRAMS


9,443
FAMILIES BENEFITED FROM RELIEF OPERATIONS


8,276
HOUSEHOLDS ENERGIZED

Within its franchise area, the Company's primary advocacy is the household electrification program. It provides assistance to low income families without access to electricity. In 2017, the program made electricity available in 8,276 previously unenergized homes, bringing the total families benefited since the program's launch in 2011 to over 30,000.

Meralco also endeavors to provide an alternative source of electricity to off-grid public schools through its school electrification program. It benefits schools located in mountain and island communities, such as those that provide education to indigenous peoples. Under the program, schools are installed with up to 2 kilowatt-peak solar photovoltaic (PV) systems capable of producing enough electricity to power classroom lights, laptop computers and multimedia learning equipment.

Meralco's preference for solar-based technology is a testament to the Company's support for the development of renewables, especially in areas where connection to the grid is a challenge. Solar power is also abundant and unobstructed in most rural communities, and is relatively easy to operate and less costly to maintain — an ideal solution for schools that rely on government subsidy for maintenance.

The Company also encourages its employees to partake in the mission of improving the learning experience of students in off-grid schools by donating multimedia learning equipment to maximize their use of electricity. In 2017, Meralco employees donated laptop computers, high-definition LED TVs, and printer-scanner-photocopier machines to each of the 36 public schools energized by the school electrification program of One Meralco Foundation in the provinces of Albay, Palawan, Iloilo, North Cotabato, Zamboanga del Norte, Compostela Valley and Sulu. The goal is for students in these schools to develop 21st century skills required in the modern workplace with the help of technology.



As an increasing number of communities become energized, more and more people appreciate and enjoy the benefits of electricity. Being in the power industry for more than a century, Meralco has lasted long enough to see the transformation of many urban communities into burgeoning cities, of small towns into industry centers, of local entrepreneurs into global conglomerates.

As the pace of technological advancement gets faster, the use of products that require electricity continues to rise, and so is the demand for power. If addressed irresponsibly, our customers' insatiable thirst for electricity could take a toll on nature's finite resources.

This is why Meralco pioneered an advocacy that educates the youth on essential topics pertaining to energy such as generation, distribution, efficiency, safety and renewables. The goal of the energy education program is to develop the capacity of teachers to impart energy concepts in an in-depth and contextualized manner, and provide students with resources that will help them develop innovative ways for communities to use electricity sustainably.

In its franchise area, the Company's primary advocacy is the household electrification program. It provides assistance to low income families without access to electricity.

Meralco partnered with the Coalition for Better Education (CBE), a non-profit organization focused on improving the quality of education in the country, to develop its "Energy Ed" flashcard kit, a set of 200 flashcards on energy-related topics aligned with lessons in the Department of Education's K to 12 curriculum. These kits are now being used by 239,545 students in 686 schools.

Teacher training is key to the accomplishment of the goals of the program. This is why Meralco and CBE continue to develop training programs and workshops to enable teachers to effectively integrate the flashcards in their classroom discussion, and develop their own energy learning resources. Seventeen learning sessions were held during the year.

Meralco takes on a proactive role in promoting energy safety and efficiency in public schools within its franchise area. Each year, the Company participates in the week long national school maintenance program called “Brigada Eskwela” of the Department of Education (DepEd), sending hundreds of employee-volunteers to inspect the electrical safety of classrooms and offices, clear nearby powerlines of safety hazards (e.g. tree branches), and recommend ways to improve efficient energy use. In 2017, 223 public schools were engaged in this effort.

Together with the Department of Environment and Natural Resources (DENR), Meralco launched a competition that recognizes the best energy efficiency and safety programs implemented in schools. Out of more than a hundred participants of the nationwide competition, the Sta. Rosa Elementary School, Luzon National High School and Universidad de Zamboanga were recognized as the national winners.

Meralco believes that strategic partnerships multiply the effect of its CSR initiatives especially in the grassroots level. This is why a number of the Company’s advocacies are in partnership with LGUs, private entities and civic organizations. In total, 105 community relations projects were implemented during the year. These include donation of computers, greening activities, relief operations, livelihood trainings, sports program sponsorships, classroom construction and medical missions.

Sports is also one vehicle that carries Meralco’s genuine concern for the development of the youth, promotion of a peaceful society and care for the environment. The Company continued its support of the “Football for Peace” program of the Philippine Marine Corps, which brings around 200 kids from conflict-prone areas to the country’s capital annually to learn football and experience living in a society made progressive by peace, with the hope of weaning them away from a culture of conflict.

Meralco also supported a budding but very promising sports advocacy led by the Ateneo de Davao University. The “Mindanao Peace Games” brings together amateur athletes from all regions of Mindanao for a weeklong tournament and leadership training. Although rooted in sports, the program’s goal is to instill values and hone the leadership potential of participants. Peace is also the central theme of the program as it encourages healthy competition among teams who come from diverse cultural backgrounds and faiths. Over 500 young Filipino athletes were engaged by this program in 2017.

The work environment at Meralco is one that encourages the interweaving of work and play. This allows employees to develop their skills holistically while at the same time making work a productive part of their lifestyle. The Company is one of the top companies in the Philippines that set aside adequate space for sports and wellness facilities for the well-being of employees. It also recognizes special interest organizations of its employees such as running, biking, diving and mountaineering groups, among others.

These groups represent Meralco in various sports-for-a-cause activities. The Meralco Chess Club, a group of chess enthusiasts held trainings and tournaments throughout the year. These activities encourage public school students and out-of-school youths to learn this mind-exercising sport. Meralco’s running, biking and mountaineering groups also participated in the Cordillera Mountain Ultra, an ultra marathon organized by the Cordillera Conservation Trust to promote and raise funds for the reforestation and protection of the Cordilleras.

In May, One Meralco Foundation launched a campaign within the Meralco organization to raise funds for its annual back-to-school program. The beneficiaries this year were school children in poor communities in the Meralco franchise area. Its goal was to provide all-weather preparedness kits to at least 5,000 kindergarten and elementary students in time for the start of the next school year in June. The Foundation successfully raised PhP 1.3 million which benefited 5,051 children in 66 public schools.

Meralco’s CSR advocacies begin at home. Each year, the Company recognizes the academic achievement of dependents of its employees through the MVP Academic Achievement Awards (MVP AAA) program. In 2017, 290 children and siblings of the rank-and-file and supervisory employees received recognition in the form of an educational assistance package and a medal of honor. Of these, 60 were hailed as “Top Achievers” having been consistently achieving academically for the past two (2) years.

Meralco also offers its employees the opportunity to give back to society through volunteerism. Over 2,700 employees participated in 23 volunteering activities throughout the year. These include tree planting, sports clinics, relief operations, community launches, among others. In total, they have rendered 8,753 service hours valued at PhP 3.7 million.

While Meralco celebrates its accomplishments both in business and in CSR, it is also mindful of the unfateful event which upset the entire nation throughout the second half



of the year: the Marawi Crisis. The five (5)-month long siege not only razed the entire city to the ground, it also displaced thousands of families, destroyed the local economy and claimed innocent lives.

Aside from the 1,250 care packages immediately distributed to internally displaced families in evacuation centers in response to the crisis, Meralco also donated PhP 3.7 million worth of power restoration equipment in December to the Lanao del Sur Electric Cooperative whose franchise covers Lanao del Sur, including Marawi City itself. These include generators, power transformers, power lines and work tools for the cooperative’s linemen and engineers. This benefited more than 8,000 returning residents in areas that the government declared safe for habitation.

Although the crisis is over, much of the work to rebuild Marawi City is yet to begin. Meralco, through One Meralco Foundation, remains steadfast in its commitment to help ensure a brighter future for the people of Marawi and the rest of the country.





MOVING FORWARD:

Framing the Future of Corporate Governance

Meralco believes that a strong management framework should be anchored on the highest standards of corporate governance. Over the years, the Company has created a brand of governance that operates on the principles of Fairness, Accountability, Integrity, and Transparency in the conduct of its business and other dealings with its shareholders, customers, employees, government regulators, and other stakeholders. In 2017, the Company redefined its governance framework by incorporating the principle of Honesty as one of its pillars of corporate governance. It considers honesty as a policy to foster an atmosphere of trust and confidence between management and employees. It also develops an ethical workplace where the Company policies and guidelines are faithfully observed.

In this light, the Company strengthened its Be Right Communication Policy through various awareness campaigns, seminars, and roadshows. It not only reminds but encourages employees to observe governance policies such as the No Gifts Policy, and the Conflict of Interest Disclosure, and report, through various channels, any improper behavior that violates the Revised Code of Ethics, Code on Right Employee Conduct (COREC), and other governance policies.

2017 was also a year of significant developments in the regulatory landscape. From mandatory compliance, governance frameworks of publicly-listed companies (PLCs) like Meralco, are now regulated under the “Comply-or-Explain” approach which combines voluntary compliance with mandatory disclosure through the introduction of the Securities and Exchange Commission (SEC) and Philippine Stock Exchange (PSE) Integrated Annual Corporate Governance Report (I-ACGR) template. The Company, nonetheless, has always endeavored to faithfully comply - and is in full compliance - with the corporate governance code, rules, and regulations promulgated and enforced by the SEC, PSE, Philippine Dealing & Exchange Corp. (PDEX), and other relevant regulatory bodies, consistently keeping itself abreast of regulatory developments in the industry.

Indeed, 2017 was one of moving forward, a year of framing the future of the Company’s corporate governance where the Board of Directors (Board) champions, the Management oversees and employees observe, compliance with the corporate governance policies, practices and programs of the Company. Guided by principles of Fairness, Accountability, Integrity, Transparency and Honesty (FAITH), the Company is clearly set for a better, wider and stronger corporate governance.

CORPORATE GOVERNANCE STRUCTURE



A. RESPONSIBILITIES OF THE BOARD

The Board promulgates the Company’s Revised Manual of Corporate Governance (MCG) 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 MCG.

The MCG 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 relevant to the Company’s strategic direction. Pursuant to the SEC Memorandum Circular No. 19, Series of 2016, otherwise known as the “Code of Corporate Governance for Publicly Listed Companies,” the Board approved a Revised Manual of Corporate Governance which was submitted to the SEC on April 24, 2017.

The Board is mandated to enhance shareholder value by fostering the long-term success of the Company and sustaining its competitiveness and profitability in a manner consistent with the Company’s vision, mission, and corporate strategic objectives.

The MCG further mandates the Board to formulate and to annually review the Company’s vision and mission statements, corporate 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 January 30, 2017, as part of the Board’s assessment of the Company’s performance in the past year, reviewed and confirmed the vision, mission, and corporate strategic objectives of the Company. In the same meeting, the Board also 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.

The Company has an 11-seat Board, majority of whom are non-executive directors and in accordance with the Securities Regulation Code, two (2) of whom are independent directors (ID), namely, Ret. Chief Justice Artemio V. Panganiban and Mr. Pedro E. Roxas. The Board has a female director in the person of Ms. Anabelle L. Chua and a non-executive director who has had prior work experience in the sector or broad industry group to which the Company belongs. Former Ambassador Manuel M. Lopez was the Chairman, President and CEO of the Company in different periods from 2001 to 2010.

In accordance with recommendations from the MCG, the ASEAN Corporate Governance Scorecard, and the SEC’s Code of Corporate Governance for Publicly-listed Companies (PLCs), the Board approved the Board Diversity Policy on December 18, 2017 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 Nomination and Governance Committee (Nom&Gov) reviews the nomination, selection, and composition of the Board and affirms that its membership has a proper mix and diversity of qualifications, background, experience, independence, and skills needed to effectually perform its responsibilities.

- VISION**
TO BE A WORLD CLASS COMPANY AND THE SERVICE PROVIDER OF CHOICE

MISSION
TO PROVIDE OUR CUSTOMERS THE BEST VALUE IN ENERGY, PRODUCTS AND SERVICES

CORPORATE STRATEGIC OBJECTIVES

 - I. STRENGTHEN THE CORE DISTRIBUTION BUSINESS**
 - II. BUILD THE POWER GENERATION PORTFOLIO**
 - III. PARTICIPATE IN RETAIL ELECTRICITY SUPPLY**
 - IV. GROW THE ELECTRIC DISTRIBUTION SERVICE AREA**
 - V. DRIVE THE EXPANSION OF SUBSIDIARIES**

The Board is responsible for setting the Company’s vision, mission, overall strategic directions, corporate objectives, and long-term goals, and ensures that obligations to shareholders and to all stakeholders are understood and met.

To properly guide the Board in the director selection process, the Board approved the Nomination and Election Policy on September 25, 2017 which details the Board nomination and election procedures adopted by the Company.

The Nom&Gov ensures that independent decision-making is encouraged, and that no individual director dominates the Board’s decision-making. The non-executive directors actively participate in discussions at the Board and Board Committee levels, as well as with Management.

On March 20, 2017, the Nom&Gov assessed the profiles of the directors and found that the independent, non-executive directors are indeed independent of the Company, its related corporations, its management or substantial shareholders that could interfere, or be reasonably perceived to interfere, with the exercise of the director’s independent business judgment. The Nom&Gov had reviewed the multiple board representations held presently by the directors and assessed that they are reasonable and do not hinder in any way the performance of their duties to the Company.

To reinforce Board independence, the Board approved on December 18, 2017 the proposal to designate a lead independent director pursuant to the recommendation under ASEAN Corporate Governance Scorecard and the SEC’s Code of Corporate Governance for PLCs. The Senior/Lead Independent Director shall have the following functions:

- a. To serve as an intermediary between the Chairman and the other directors when necessary

- b. To convene and chair meetings of the non-executive directors
- c. To contribute to the performance evaluation of the Chairman, as required

The Chairman of the Board, Mr. Manuel V. Pangilinan, serves to represent the interests of all shareholders and stakeholders, and to oversee the performance of the Board and its directors. He champions exemplary ethical governance principles for directors, officers, and employees to emulate and likewise espouse. Together with the President and CEO, Mr. Oscar S. Reyes, 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 MCG which is accessible at the Company’s website.

The Board 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.

Director	Designation	May 30, 2017		Board Meeting Attendance
		Annual Stockholders’ Meeting (ASM)	Organizational Meeting	
Manuel V. Pangilinan ¹	Chairman	Present	Present	11/13
Lance Y. Gokongwei	Director	Present	Present	12/13
Oscar S. Reyes	Director	Present	Present	13/13
Anabelle L. Chua	Director	Present	Present	13/13
Ray C. Espinosa ²	Director	Present	Present	12/13
James L. Go	Director	Absent	Absent	11/13
John L. Gokongwei Jr.	Director	Present	Present	13/13
Jose Ma. K. Lim ³	Director	Present	Present	12/13
Manuel M. Lopez	Director	Present	Present	12/13
Artemio V. Panganiban ⁴	Independent Director	Present	Present	13/13
Pedro E. Roxas ⁵	Independent Director	Present	Present	13/13

¹ Chairman, Executive Committee; Chairman, Remuneration and Leadership Development Committee
² Chairman, Finance Committee
³ Chairman, Risk Management Committee starting May 30, 2017 ASM/Organizational Meeting
⁴ Chairman, Audit Committee; Chairman, Risk Management Committee until May 30, 2017 ASM/Organizational Meeting
⁵ Chairman, Nomination and Governance Committee; Chairman, Related Party Transactions Committee

In 2017, the Board’s major accomplishments included the following:

Major Projects/Policy Decisions

- Evaluation of compliance to the 2017 PSE Corporate Governance Disclosure Guidelines Survey
- Review of SEC’s Revised Code of Corporate Governance
- Review and approval of the Revised Manual of Corporate Governance
- Approval of Consolidated Changes in the Annual Corporate Governance Report (ACGR)
- Review and approval of the Board Diversity Policy
- Review and approval of the Nomination and Election Policy
- Review and approval of the Related Party Transactions Committee Charter
- Review and approval of the designation of a Senior Lead Independent Director
- Update of Corporate Governance Principles
- Conduct of the 2017 Annual Stockholders’ Meeting
- Appointment of Inspectors and Canvassers for Annual Stockholders’ Meeting ballots
- Screening of nominees to the Board
- Approval of 2018 schedule of Board meetings
- Evaluation of compliance to ERC requirements
- Review of the Retail Competition and Open Access (RCOA) Rules
- Review and approval of Business Separation and Unbundling Plan Package
- Review and approval of Public-Private Partnerships
- Approval of construction, development, and commissioning of substation assets
- Review and approval of power generation projects
- Review and approval of other local and international business initiatives
- Review and approval of Interim Power Supply Agreements (IPSAs) and Power Supply Agreements (PSAs)
- Approval of pole relocation projects
- Approval of audited financial statements
- Approval of report of external auditors covering the Company’s audited financial statements
- Approval of dividend declaration
- Review and approval of material related party transactions
- Enterprise Performance Evaluation and Assessment
- Performance assessment of the Board, Board Committee, and President and CEO
- Review and approval of executive promotions, rightsizing policy and succession planning
- Review and approval of Employee Performance Management Plan and Long-Term Incentive Plan

Business Plan and Annual Budgets

- Review and approval of the 2018-2022 Business Plan
- Approval of budget realignment for certain services
- 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

In 2017, the Company’s non-executive directors met five (5) times without the presence of the executive director, Mr. Oscar S. Reyes. The agenda in these meetings were the Management’s reports, corporate governance directions, reports of the internal and external auditors, and the performance assessment of the President and CEO.

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, 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.

- Among the duties of the Office of the Corporate Secretary are the following:
- Schedule Board meetings and other related activities and notify the Board accordingly
 - Provide the necessary Board papers associated with items on the meeting agenda at least five (5) business days ahead of the Board meetings
 - Provide ready and reasonable access to information that directors may need for their deliberation on issues listed on the agenda of the Board
 - Assist the Board in the performance of its duties
 - Attend all Board meetings, take the minutes of meetings and maintain records of the same and ensure proper safekeeping of all Board papers
 - Ensure that all Board procedures, rules, and regulations are faithfully followed
 - Submit required reports and disclosures to SEC, PSE, PDEx and other regulatory agencies
 - Conduct orientation program for new members of the Board regarding the Company’s organizational structures and business operations

The Company’s Corporate Secretary, Atty. Simeon Ken R. Ferrer met all the following qualifications and skills required for his position:

- Resident Filipino citizen of good moral character
- With adequate legal, administrative, basic accountancy, company secretarial and interpersonal skills
- Attends continuing education seminars where he receives regular updates of the laws, rules, and regulations relevant to his duties
- With working knowledge of the operations of the Company and loyal to the Company mission, vision, and corporate strategic objectives

The Board is likewise assisted by the Company’s Compliance Officer, Atty. William S. Pamintuan, who has the following functions, among others:

- Ensures proper on-boarding of new directors (i.e., orientation on the Company’s business, charter, articles of incorporation and by-laws, among others)
- Monitors, reviews, evaluates and ensures the compliance by the corporation, its officers and directors with the relevant laws, rules and regulations and all governance issuances of regulatory agencies

- Reports violations of the aforementioned rules to the Board and recommends the imposition of appropriate disciplinary action
- Ensures the integrity and accuracy of all documentary submissions to regulators
- Appears before the SEC when summoned in relation to compliance with the Code
- Collaborates with other departments to properly address compliance issues which may be subject to investigation;
- Identifies possible areas of compliance issues and works towards the resolution of the same
- Ensures the attendance of board members and key officers to relevant trainings
- Performs such other duties and responsibilities as may be provided by the SEC

Both the Corporate Secretary and the Compliance Officer regularly attend trainings on corporate governance.

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), and Related Party Transactions Committee (RPTComm). The Board has delegated specific responsibilities to each of these Committees. These Committees had been formed and are guided by their respective committee charters.

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.

RLDC held three (3) meetings in 2017. The following were accomplished by the RLDC:

- Review and approval of criteria for rank conferment
- Approval of candidates for rank conferment of First Vice President and Senior Vice President

- Review of performance evaluation plan results
- Review of merit increase programs
- Review of Annual Incentive Plan
- Review and endorsement of the 2016-2018 Long-term Incentive Plan
- Review of Toplighting Initiative's core actions and key objectives
- Presentation and review of the HR Scorecard
- Presentation and review of proposed succession planning programs
- Performance evaluation of the President and CEO

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.

2017 BOARD COMMITTEE MEETING ATTENDANCE

Member	Executive	Nomination and Governance	Audit	Risk Management	Related Party Transactions ³	Renumeration and Leadership Development	Finance
Manuel V. Pangilinan	2/2	n/a	n/a	n/a	n/a	3/3	n/a
Lance Y. Gokongwei	2/2	3/4	6/9	2/2	0/1	3/3	n/a
Oscar S. Reyes	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Anabelle L. Chua	n/a	4/4	9/9	2/2	1/1	n/a	11/12
Ray C. Espinosa	n/a	n/a	n/a	n/a	n/a	n/a	12/12
James L. Go	2/2	3/4	7/9	1/2	1/1	n/a	10/12
John L. Gokongwei Jr.	n/a	n/a	n/a	n/a	n/a	n/a	12/12
Jose Ma. K. Lim ¹	2/2	3/4	7/9	1/1	1/1	3/3	n/a
Manuel M. Lopez	n/a	n/a	n/a	n/a	n/a	n/a	12/12
Artemio V. Panganiban ²	2/2	n/a	9/9	2/2	1/1	n/a	n/a
Pedro E. Roxas ²	n/a	4/4	9/9	2/2	1/1	3/3	10/12

¹ Chairman and member, Risk Management Committee starting May 30, 2017

² Independent director

³ Related Party Transactions Committee was created/approved in April 2017

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.

In 2017, the ExCom accomplished the following:

- Approval of the execution of short-term PSAs under mutually acceptable terms to take effect upon ERC approval
- Review and evaluation of the power supply and demand outlook and endorsement of certain recommended investments in power generation

DETAILS OF 2017 BOARD REMUNERATION (IN PhP)

	Remuneration for ASM and Board Meetings Attended	Remuneration for Committee Meetings Attended	Total
EXECUTIVE DIRECTOR			
Oscar S. Reyes	1,560,000	-	1,560,000
TOTAL	1,560,000	-	1,560,000
NON-EXECUTIVE DIRECTORS			
Manuel V. Pangilinan	1,320,000	100,000	1,420,000
Lance Y. Gokongwei	1,440,000	320,000	1,760,000
Anabelle L. Chua	1,560,000	540,000	2,100,000
Ray C. Espinosa	1,440,000	240,000	1,680,000
James L. Go	1,320,000	480,000	1,800,000
John L. Gokongwei, Jr.	1,560,000	240,000	1,800,000
Jose Ma. K. Lim	1,440,000	340,000	1,780,000
Manuel M. Lopez	1,440,000	240,000	1,680,000
TOTAL	11,520,000	2,500,000	14,020,000
INDEPENDENT DIRECTORS			
Artemio V. Panganiban	1,560,000	280,000	1,840,000
Pedro E. Roxas	1,560,000	580,000	2,140,000
TOTAL	3,120,000	860,000	3,980,000
GRAND TOTAL	16,200,000	3,360,000	19,560,000

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. The Board ensures that the remuneration of its members and key officers is aligned with the long-term interest of the Company. Directors do not participate in discussions or deliberations involving their own remuneration.

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 PhP120,000 for every board meeting attended and PhP20,000 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 PhP228 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)

is composed of five (5) directors with an independent director as chairman. 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 for the appointment of directors and 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 should be skilled in core competencies such as strategic planning, business expertise, and industry knowledge. These candidates are sourced from the business network of Board members and from professional search firms such as the Institute of Corporate Directors (ICD), or from shareholders. One of the Company's directors, who is also the President and CEO, Mr. Oscar S. Reyes is a Fellow of the ICD. The Company's Corporate Secretary, Atty. Simeon Ken R. Ferrer is also an ICD Fellow.

The shareholders elect the Directors during the Annual Stockholders' Meeting (ASM) held every last Tuesday of May.

Upon appointment, the Company sends out a formal letter setting the director's roles and responsibilities and the new director will then attend various briefings with Management.

The Nom&Gov had four (4) meetings in 2017. The following were accomplished by the Nom&Gov:

- Results and discussion of Board, Board Committees, and President and CEO Performance Assessment
- Assessment of Meralco's Public Ownership Report
- Screening of nominees to the Board
- PSE Corporate Governance Guidebook
- Assessment of compliance to the Revised ASEAN Corporate Governance Scorecard
- Review of SEC Revised Code of Corporate Governance
- Review and endorsement of Meralco's Consolidated Changes in Annual Corporate Governance Report (ACGR) for 2016
- Review of Meralco's PSE CG Guidelines Disclosure Survey
- Review and approval of the following policies:
 - Revised Manual of Corporate Governance
 - Nomination and Election Policy
 - Board Diversity Policy
 - RPT Committee Charter
 - Update to the Corporate Governance Policies
- Facilitation of Annual CG Enhancement and Continuing Education Programs

D. Audit Committee (AuditCom) is composed of two (2) independent directors, and four (4) non-executive directors, one of whom has over 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 10 years. The AuditCom is chaired by an independent director.

The AuditCom had nine (9) meetings in 2017 and performed the following:

- 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
 - Prepared a briefing for Sustainability Reporting
- 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, SyCip Gorres Velayo & Co. (SGV), taking into consideration their credibility, competence, ability to understand complex related party transactions, and the adequacy of their quality control procedures. Based on this assessment, SGV was re-nominated by the AuditCom 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 without the presence of 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 including subsequent changes to the audit plan
 - Discussed and dissected the results of audits reported by the chief audit executive in the quarterly reports to the AuditCom
 - Monitored Management's appropriate corrective actions to the audit recommendations of Internal Audit and the external auditors
 - Assessed Internal Audit's performance for the preceding year
 - Assessed the performance of the subsidiaries' Audit committees
 - Updated the Internal Audit Charter
- Compliance
 - Reviewed and assessed Management's processes of monitoring compliance with laws and regulations through Internal Audit
 - Reviewed and assessed subsidiaries' and associates' processes of monitoring compliance with laws and regulations

- Obtained updates on the status of compliance as well as the remaining challenges confronting the Company, as they relate to the requirements of the ERC, the SEC and other regulatory agencies concerned with environment and safety, labor, and others

E. Risk Management Committee (RMC) is composed 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 the RMC:

- Reviewed management's top business risks and discussed on going risk treatments
- Reviewed the Enterprise-Wide Risk Management (EWRM) Plans for 2017-2018
- Considered Management's short- to medium-term plans to streamline EWRM integration in the annual strategic planning activities to institutionalize risk management functions at the subsidiaries and to develop a risk reporting dashboard that will facilitate reporting and monitoring of top risks and mitigation plans
- Reviewed the effectiveness and certified the adequacy of the Company's risk management system

The Board, 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) is composed of six (6) directors, one (1) of whom is an independent director, 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 12 meetings in 2017, its major accomplishments were:

- Review and approval of all service and supply contracts in excess of PhP50 Million
- Review of unaudited consolidated quarterly financial statements and audited consolidated annual financial statements
- Treasury update
- Declaration of final 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 additional capital call, surety bonds, capital infusions for subsidiaries
- Review of special payment agreements
- Review of equity call
- Review of investments
- Review and endorsement of the renewal of WESM surety bond for RES transactions

G. Related Party Transactions Committee (RPTComm)

is composed of six (6) directors, two (2) of whom are independent directors. It assists the Board in reviewing material/significant 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 RPTComm:

- Review and approval of the RPT Committee Charter
- Review and endorsement of material and significant related party transactions

The Board ensures that the Company complies with all relevant laws, regulations, and endeavor to adopt best business practices and to keep it abreast with the latest developments in corporate governance regulatory landscape and best practices, 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 Company's Manual of Corporate Governance.

Orientation and Continuing Education Programs

Each newly elected director is provided with a director's kit which contains policies and other information pertaining to his duties and obligations as a director provided under existing laws and regulations. An in-house orientation program, incorporating briefings from the corporate and regulatory units, are arranged for any new director to better familiarize himself with the Company's businesses, stakeholders, regulatory environment, and governance practices.

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 the 12th Annual Corporate Governance Enhancement Session on September 7, 2017, entitled "Charting the Digital Age, its Risks and Strategies, through Governance, and a Responsive Corporate Culture."



ATTENDANCE TO CORPORATE GOVERNANCE TRAINING AND CONTINUING EDUCATION PROGRAMS

Director	Program	Name of Training Institution
Manuel V. Pangilinan	MVP Group 12th Annual Corporate Governance Enhancement Session: Charting the Digital Age, its Risks and Strategies, through Governance, and a Responsive Corporate Culture	Mr. Aaron Patrick Dignan Founder, The Ready Co-Founder, The Undercurrent Ms. Liza S. Sichon Chief People and Culture Officer PLDT Group Mr. Ralph W. Brunner Chief Customer Experience and Data Analytics Advisor, PLDT
Lance Y. Gokongwei	Corporate Governance Training on "Re-Imaging Leadership in the Age of Disruption"	Ranjay Gulati Harvard Business School

Director	Program	Name of Training Institution
Oscar S. Reyes	MVP Group 12th Annual Corporate Governance Enhancement Session: Charting the Digital Age, its Risks and Strategies, through Governance, and a Responsive Corporate Culture	Mr. Aaron Patrick Dignan Founder, The Ready Co-Founder, The Undercurrent Ms. Liza S. Sichon Chief People and Culture Officer PLDT Group Mr. Ralph W. Brunner Chief Customer Experience and Data Analytics Advisor, PLDT
Anabelle L. Chua	2017 PSE-SCCP-CMIC Corporate Governance Training	Philippine Stock Exchange (PSE)
Ray C. Espinosa	Corporate Governance & AMLA Seminar	Ms. Catherine N. Saplala Former Director, Investments & Research Dept., Securities and Exchange Commission Mrs. Mercedes B. Suleik Former Deputy Director, BSP Former Vice President, DBP Fellow, Institute of Corporate Directors Atty. Richard David C. Funk II Former Deputy Director/Head, Compliance & Investigation Group Anti-Money Laundering Secretariat, BSP Atty. Fidel V. Esquieres Philippine Corporate Enhancement and Governance, Inc.
James L. Go	SEC Granted Messrs. John L. Gokongwei, Jr. and James L. Go a permanent exemption from the corporate governance training requirement in its en banc meeting on November 10, 2015.	
John L. Gokongwei, Jr.	SEC Granted Messrs. John L. Gokongwei, Jr. and James L. Go a permanent exemption from the corporate governance training requirement in its en banc meeting on November 10, 2015.	
Jose Ma. K. Lim	4th SEC-PSE Corporate Governance Forum	SEC
Ambassador Manuel M. Lopez	Annual Corporate Governance Training Program	Ricardo Nicanor N. Jacinto Institute of Corporate Directors
(Ret.) Chief Justice Artemio V. Panganiban	SGV Corporate Governance Seminar	SGV Leonardo J. Matignas, Jr. Partner, SGV
Pedro E. Roxas	MVP Group 12th Annual Corporate Governance Enhancement Session: Charting the Digital Age, its Risks and Strategies, through Governance, and a Responsive Corporate Culture	Mr. Aaron Patrick Dignan Founder, The Ready Co-Founder, The Undercurrent Ms. Liza S. Sichon Chief People and Culture Officer PLDT Group Mr. Ralph W. Brunner Chief Customer Experience and Data Analytics Advisor, PLDT

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 February 27, 2017, through employment of the following assessment forms, with the following processes and criteria:

1. **Board Self-Assessment** - each director assessed the Board performance as a whole and their individual performance on the following categories:
a) Board structure and qualifications
b) Board duties and responsibilities
c) Duties and responsibilities as an individual director

2. General Board Committee Performance Assessment

- each director assessed the overall performance of the Board 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 and CEO's leadership, working relations with the Board, communication and working relations with Management.

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 non-executive and executive directors
- Voting on matters in absentia through the use of proxy forms

B.3 Right to Vote and Participate Effectively

Disclosure and Release of Notice to ASM

To provide shareholders enough time to examine the Company's information, the ASM Notice was posted on the Company's website and distributed to shareholders on April 10, 2017, 50 days prior to the ASM date of May 30, 2017. 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 shareholders, including institutional shareholders and minority shareholders, to attend and actively participate in the ASM. The 2017 ASM was held on Tuesday, May 30, 2017, at 10:00 AM at the Meralco Theater, Lopez Building, Ortigas Avenue, Barangay Ugong, Pasig City.

The Company facilitates participation of shareholders who cannot attend the meeting in person 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 shareholders, including minority shareholders, the right to nominate directors and propose or inquire on agenda items. The "Call for Nominations" was posted on the Company's website on January 30, 2017 for submission of proposed agenda and nomination of qualified candidates on or before March 6, 2017. The agenda and nominees were approved by the Board during its meeting on January 30, 2017 and March 20, 2017, respectively.

Voting Procedures

A three (3)-hour registration period was allotted before the start of the ASM.

The Corporate Secretary reported a quorum with the attendance of shareholders who own or hold a total of 944,212,393 shares or approximately 84% 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.

The Corporate Secretary explained the vote tabulation procedures to the shareholders and stated that all shareholders were entitled to one vote for one share. Votes were tallied and tabulated by the Office of the Corporate Secretary. Representatives from Reyes Tacandong & Co., an independent third party, validated the voting results for each agenda item.

The Company allowed shareholders to freely express their views and raise their questions during the ASM.

The Chairman of the Board, Chairman of the AuditCom, Chairman of the RLDC, Chairman of the Nom&Gov, Chairman of the FinCom, the Board, President and CEO, CFO, Corporate Secretary, Assistant Corporate Secretary, other officers of the Company and its external auditors 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 at the ASM on its website on 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

The Company 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.

PERFORMANCE INDICATORS

Financial	Non-Financial
<ul style="list-style-type: none">• Measures reflecting the state of the Company to the shareholders such as financial results and financial position, cash and cash equivalents, debt and stockholders' equity, revenues, consolidated core net income, reported net income, EBITDA, dividend payouts, etc.	<ul style="list-style-type: none">• Customer Satisfaction Index (CSI)• Customers served and Sales per employee ratios• S-Factor Indicators<ul style="list-style-type: none">- System Average Interruption Frequency Index (SAIFI)- System Average Interruption Duration Index (SAIDI)- Customer Average Interruption Duration Index (CAIDI)- Probability of Voltage Level (PV)- Time to Process Applications (TPA)- Time to Connect Premises (TCP)- Call Center Performance (CCP)- System Loss (SL)• Guaranteed Service Level (GSL) Metrics

On the assessment forms, the Board gives its opinions and suggestions or identifies special issues of interest about its performance or different aspects of the Company's operation.

The Corporate Governance Office (CGO) sends these assessment forms to every director, collects the completed forms, prepares a summary report and submits it to the Nom&Gov and the Board as an agenda item for acknowledgment and discussion.

B. RIGHTS OF SHAREHOLDERS

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 Revised Manual of Corporate Governance (MCG).

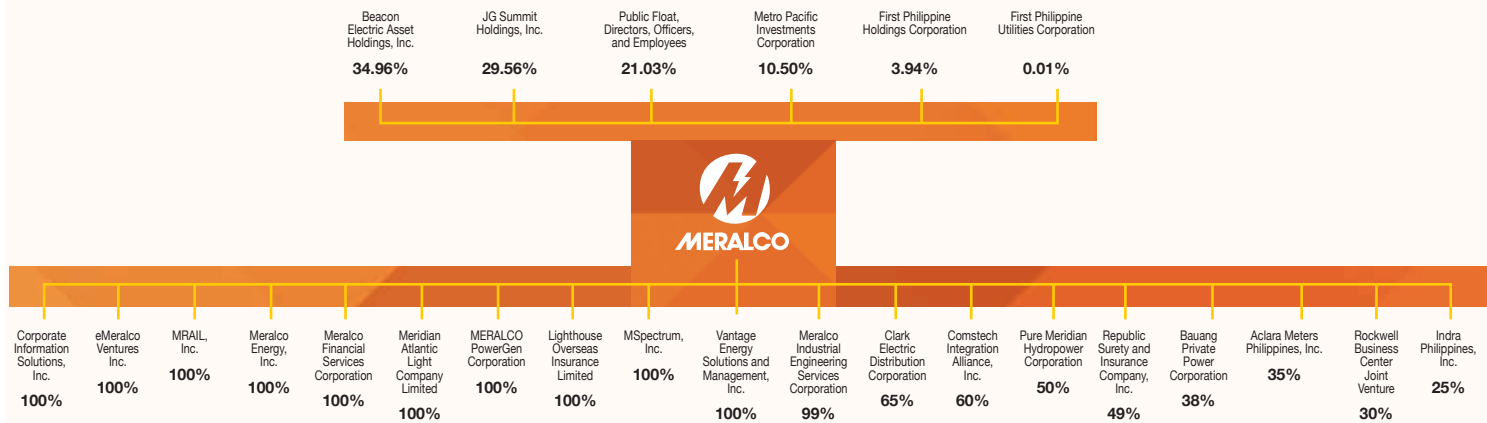
B.1 Right to Dividends

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 dividend equivalent to 50% of the audited consolidated core net income for the year with a "look-back" basis, which allows the Company to pay special dividends beyond 50% of the consolidated core net income 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 2017:

Declaration Date	Record Date	Payment Date	Dividend per Share
2/27/2017	3/27/2017	4/21/2017	PhP 9.30
8/3/2017	8/30/2017	9/22/2017	8.93



The complete list of the Public Ownership Report of Meralco as at December 31, 2017 was disclosed to the SEC, PSE, and PDEx on January 9, 2018, where approximately 78.97% of the Company shares are held by principal and strategic shareholders, and the remaining 21.03% 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 the holding companies, subsidiaries, and other related companies are disclosed in the Map Showing Relationships among the Companies within the Group.

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 ASM and Definitive Information Statement (DIS)

The Notice of ASM and DIS contain, among others, the resolutions to be passed by the shareholders for each agenda item during the ASM. There is no bundling of several items into one resolution. It also provides the following information:

- a) Profiles of each director seeking for election/ reelection— age, academic qualification, date of first appointment, experience, and directorships in other listed companies
- b) External auditors seeking appointment/ re-appointment
- c) Dividend policy
- d) Amount of dividends declared and any dividends payable
- e) Readily available proxy statements

The Notice of ASM and DIS is 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 market through observance of a blackout period 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, PSE, and PDEx 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 by Directors and Key Executives

The Related Party Transactions (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. No RPTs 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. Details are found in Note 22 to Consolidated Financial Statements.

In 2017, there was no case of insider trading or policy violations involving directors and officers of the Company and no RPTs 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 of 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 Full Business Interest Disclosure (FBID) Form for directors and officers, and the Annual Conflict of Interest Disclosure Form for employees. The Company requires directors and key Management personnel to abstain and/or inhibit themselves from participating in discussions on a particular agenda when a conflict exists or may exist between their interest and that of the Company.

C.5 Protecting Minority Shareholders from Abusive Actions

The Company's policies embody an utmost respect to the right of the minority shareholders while pursuing corporate interest. Salient provisions are:

- a) Timely, fair, and accurate disclosure of material information
- b) Review of existing, and development of new, policies that will prevent the major shareholders from gaining undue advantage over and at the expense of minority shareholders
- c) RPTs are disclosed in the Company's Notes to financial statements
- d) Disinterested shareholders decide on all RPTs which require shareholders' approval

D. ROLE OF STAKEHOLDERS

D.1 Respecting Rights of Stakeholders

The Company implements policies and activities that protect the rights and promote the interest of its various stockholders.

Customers

It is the Company's policy to provide all customers with excellent service and fair treatment, and complete and accurate information. Towards this end, the Company:

- Provides customized services to home and micro businesses, small and medium-size enterprises and corporate business groups
- Standardizes policies and work processes related to customers in all business centers and publishes information on the services and rates affecting the customers, (e.g., the monthly Meralco Advisory)
- Communicates significant operational plans and holding appreciation events such as Meralco Luminaries with customers at least once a year
- Undertakes surveys on customers' level of satisfaction to improve the Company's service standards
- Establishes a Consumer Welfare Desk (CWD) at the business centers and a Customer Assistance Office (CAO) at the ERC both manned by trained CWD officers, pursuant to ERC Resolution No. 42, series of 2006
- Implements various programs to delight the customers:
 - Information Drive on Rates and Tips such as the Orange Tag and Power Ideas
 - Customer eXperience Transformation Program
 - Partnership and customer engagements through Power Up Forums and the Power Club Magazine, Meralco Business (Biz) Partnership with SME entities, and Meralco Home and Microbiz engagements with local government units
 - Variety of payment programs such as the Automatic Debit Arrangement program and Interruptible Load program

The Company promotes safety as a way of life by providing a safe and healthy environment to prevent accidents or injuries to its customers. As such, the Company's activities include:

- Undertaking safety and health orientation programs to enhance safety consciousness and safe practice for all customers and stakeholders
- Complying with all applicable safety, and environmental regulations and closely monitoring the state of well-being and safety of all customers and the public at-large
- Conduct of the Kuryenteng Ligtas Awards, the first award-giving body that honors organizations, businesses and individuals that uphold excellence in their practice of electrical safety and promotion of safety in the workplace

Suppliers/Contractors

The Company observes a clearly defined and transparent procurement and supplier selection process through the Suppliers' Business Conduct Policy and Vendor Accreditation Program. It ensures faithful compliance to all the terms and conditions of its procurement contracts. Under these programs,

- Only accredited suppliers are qualified to participate in bids and awards.
- Purchases are made on the basis of competitive bidding – where the commercial and technical requirements are jointly evaluated.
- Suppliers are responsible and accountable for providing the required information in the Suppliers' Business Conduct Commitment Form. They are likewise expected to adhere to certain corporate governance standards and undertaking to apply these standards to their offices and employees.

More details on the Company's bidding, technical and commercial evaluation and awarding procedures are available in www.meralco.com.ph/for-suppliers/vendor-accreditation.

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. In this regard, the Standard & Poor's (S&P) global ratings raised its long-term corporate credit rating on Meralco to Investment Grade at BBB- with Stable Outlook from BB+ with Positive Outlook in 2017.

The rights of creditors are protected by public disclosures of material information such as results of operations, systems of internal controls and regular assessment of risks to compliance with loan covenants and bonds. Periodic reports are made by the Company of its financial position through the submission of its quarterly and latest audited financial statements. The Company also conducts regular financial and operating results briefings.

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. Its commitment is expressed in the One Meralco Foundation, Inc. (OMF or the Foundation) website (<http://www.onemeralcofoundation.org>).

A more comprehensive report on the Company's CSR efforts is found in a separate publication, the OMF's 2017 Annual Report.

Code of Business Conduct and Ethics

The Company's Code of Business Conduct and Ethics (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 CGO, monitors the implementation of, and compliance to, the Code of Ethics. All directors, senior Management, and employees are required to submit duly accomplished FBID Forms and COI Forms annually. They are also required to disclose gifts they received from third parties. An online HR Express Corporate Governance Facility is made available to all employees from the CG disclosures and commitment required of them. Failure to comply with CG disclosures is sanctioned accordingly.

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 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, government, regulators, creditors, competitors and employees and to avoid the commission of any act that may be construed as direct or indirect bribery and corruption, as defined by law, of government officials to facilitate any transaction or gain any perceived or actual favor or advantage.

In line with this, the Policy on Solicitation and Acceptance of Gifts prohibits the acceptance of gifts offered and given by suppliers, contractors, and other third parties 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 Company's Internal Audit Office audits the compliance of directors, officers, and employees to the Code of Ethics and other corporate governance related policies, including required Company disclosures. The result of the Internal Audit review is reported to the Audit Committee.

The foregoing policies are available to all stakeholders through the Company's website (www.meralco.com.ph).

D.2. Effective Redress for Violation of Stakeholders' Rights and Means of Communication of Illegal or Unethical Practices by Employees

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 herein.

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 2017, 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.



Corporate Governance Office

Manila Electric Company (Meralco)
8th Floor, Lopez Building
Ortigas Avenue, Brgy. Ugong,
Pasig City, Philippines
Tel. (+632) 1622 2798
Mobile: +63908 8661670
Email: cgo.staff@meralco.com.ph

Employees

D.3 Performance-enhancing Mechanisms for Employees

Employee Development Programs. 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, and personnel integrity, and development.

The Company is committed to the development and welfare of its employees. Training programs and other developmental interventions are implemented to enable employees to acquire the technical and leadership competencies to effectively perform their jobs for their professional growth. The Company uses a 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 2017, the average training man-hours is at 29.85 hours per person.

Environment, Safety & Health Programs. Environment, Safety & Health (ESH) Programs have been made in the interest of the safety of employees as well as the public. Employee cooperation in the observance and enforcement of these rules ensure safety of the employees, customers, suppliers and contractors, the Company's equipment and facilities, and the public at-large.

The Safety Occupational, Health and Environment Management Office conducts studies, researches, tests, and the like relative to safety and loss control/accident prevention. Employees coordinate the accident prevention/loss control efforts within the scope of their responsibilities in accordance with the Company's Safety Program to prevent accidents.

Earthquake and fire drills are regularly conducted in buildings occupied by Corporate Offices, Business Centers, and Sectors.

Safety Officers are appointed to identify and appraise potential safety hazards and recommend corrective measures. They assist in the administration of safety programs and investigate work-related accidents and public accidents involving company property as deemed necessary.

Every employee is issued a copy of the ESH Code by Safety and Environment Management (SEM) Office upon employment. Employees are expected to carefully study and observe the rules in the performance of their duties. All employees are encouraged to make suggestions regarding the rules or working conditions to promote safety in the Company.

The Company's 2017 Disabling Injury Frequency Rate (DIFR), previously termed Lost time Injury Rate (LTIR) is at 1.27. Improvements in occupational safety and health management practices continue as the Company aims for an integrated ISO 18001 & 14001 certification. The Company has a lower DIF Rate than the global average of International Association of Oil and Gas Producers. The Company has undertaken pro-active safety activities and programs currently in full swing (e.g. enhanced visibility requirement of SEM engineers through field inspections; regular conduct of safety meetings in business centers; public safety initiatives through pocket sessions conducted in building work sites, among others).

Compensation Philosophy/Principles

The Company's performance management process assesses 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 measures 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 provides for assessment that account for performance beyond short-term financial measures. It also provides for short-term incentives through variable pay, such as Annual Performance-Based Bonuses (APB) and Variable Incentive Plan (VIP), 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 specified level of consolidated core net income approved by the Board and determined on an aggregate basis for a three (3)-year period as well as executives' attainment of a minimum level of performance rating.

Succession Planning of CEO and Senior Management

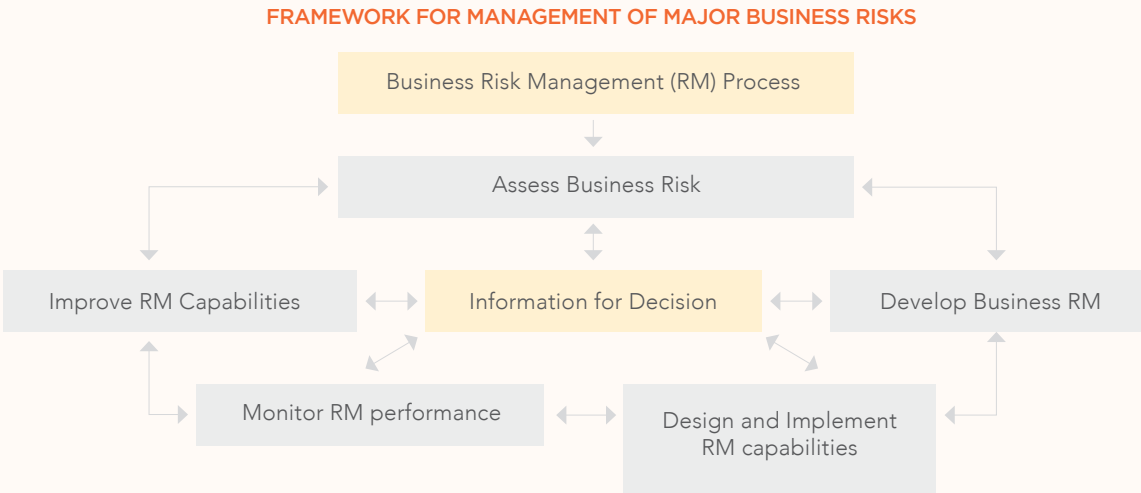
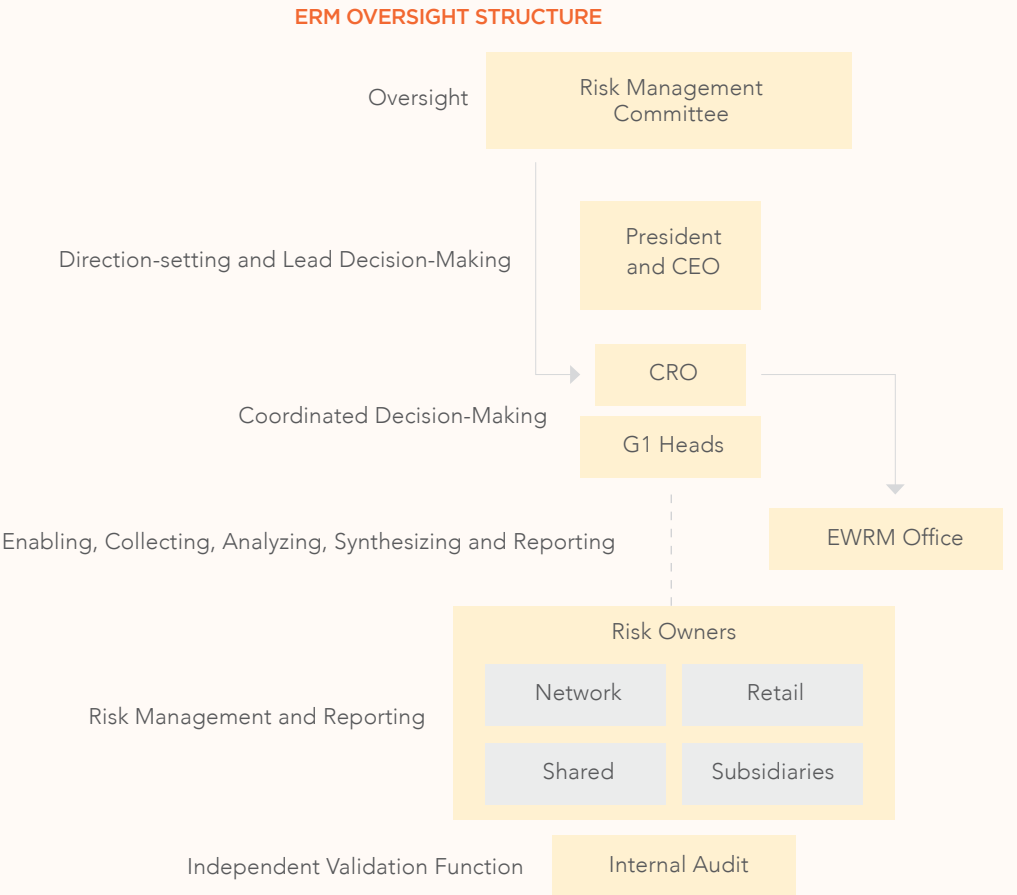
The Company's Board and the RLDC are responsible for overall guidance and direction on succession planning and leadership development of the President and CEO and Senior Management. The Committee, working closely with the head of Human Resources (HR), drives the strategy for succession planning, leadership 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.

Presently, the succession plan covers the top 584 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 24 candidates who, subject to the realization of their development plans, could become management committee members within the next five (5) years. The talent reviews have been a hallmark of the Company's process and is a best-in-class talent management practice. The process deliverables are individual development plans designed to bring key talents to higher levels of performance and accountability. It involves authentic and extensive management discussions and deliberations by leaders on the aspirations, strengths, development needs, and challenges of key talents.

All of these have created a development mindset throughout the organization and have established a strong and robust leadership pipeline that will adequately meet Meralco's senior leadership requirements well into the future.

E.2 Enterprise Wide Risk Management

The Company adopted the following framework and structure for managing its major business risks, namely: a) financial risks; b) operational risks; c) regulatory and compliance risks; and d) strategic and corporate risks.



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, 2017.

Name of Shareholder and Beneficial Owner	Total Shares	% to Total Outstanding Shares
A. Principal Stockholder		
Beacon Electric Asset Holdings, Inc.	394,059,235	34.96%
JG Summit Holdings, Inc.	333,189,397	29.56%
Metro Pacific Investments Corporation	118,364,807	10.50%
TOTAL	845,613,439	75.02%

E.3 Disclosure of Related Party Transactions (RPT)

In 2017, the Board approved the Organizational Charter of the RPT Committee and delegating upon the RPT Committee the responsibility of reviewing material/significant RPTs, determining whether they are in the best interest of the Company and shareholders, and ensuring that all RPTs of the Company are conducted in fair and at arm's length terms. The names of all related parties, degree of relationship, nature and value for each material/significant RPT are disclosed by the Company in Note 22 to the Consolidated Financial Statements.

E.4 Economic, Environmental, Social, and Governance Information

The Company is committed to the cause of protecting the environment and mitigating the adverse impact of climate change. The Company's ESH Policy ensures an environmentally-friendly value chain and compliance with all pertinent environmental laws. The Company 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. Sustainable, reliable, secure and cost effective energy supply is, and will continue to be, an essential enabler of economic performance, market competitiveness and societal prosperity at a community, country and regional level.

E.5 Directors' and Officers' Dealings in Company Shares



SHAREHOLDINGS OF DIRECTORS AND KEY OFFICERS AS AT DECEMBER 31, 2017

Name	January 1, 2017	Buy	Sell	December 31, 2017	Direct Holdings	Indirect Holdings	Total Shares	% to Total Outstanding Shares
A. Directors								
1. Manuel V. Pangilinan - Chairman	40,000	-	-	40,000	40,000	-	40,000	0.00%
2. Lance Y. Gokongwei - Vice-Chairman	12,310	5,000	-	17,310	17,310	-	17,310	0.00%
3. Oscar S. Reyes - President and CEO	268	-	-	268	268	-	268	0.00%
4. Ray C. Espinosa	31,000	5,000	-	36,000	36,000	-	36,000	0.00%
5. James L. Go	285,300	205,000	-	490,300	490,300	-	490,300	0.04%
6. John L. Gokongwei, Jr.	10,810	5,000	-	15,810	15,810	-	15,810	0.00%
7. Anabelle L. Chua	60	5,000	-	5,060	5,060	-	5,060	0.00%
8. Jose Ma. K. Lim	15,010	20,000	-	35,010	35,010	-	35,010	0.00%
9. Manuel M. Lopez	1,011,118	-	996,734	14,384	14,384	-	14,384	0.00%
Manuel M. Lopez &/or Ma. Teresa Lopez	1,449,293	-	1,449,293	-	-	-	-	0.00%
10. Pedro E. Roxas	1,000	-	-	1,000	1,000	-	1,000	0.00%
11. Artemio V. Panganiban	1	-	-	1	1	-	1	0.00%
TOTAL	2,856,170	245,000	2,446,027	655,143	655,143	-	655,143	0.06%

Name	January 1, 2017	Buy	Sell	December 31, 2017	Direct Holdings	Indirect Holdings	Total Shares	% to Total Outstanding Shares
B. Executive Officers with Shareholdings in the Company								
1. Simeon Ken Ferrer								
- Corporate Secretary	767	-	-	767	767	-	767	0.00%
2. Roberto R. Almazora	93,082	-	-	93,082	93,082	-	93,082	0.01%
3. Ronnie L. Aperoch	14	-	-	14	14	-	14	0.00%
4. Alfredo S. Panlilio	668	-	-	668	668	-	668	0.00%
5. Angelito D. Bermudo	-	-	-	-	-	-	-	0.00%
6. Ramon B. Segismundo	8,500	-	-	8,500	8,500	-	8,500	0.00%
7. Rogelio L. Singson ¹	-	-	-	-	-	-	-	0.00%
8. Betty C. Siy-Yap	-	-	-	-	-	-	-	0.00%
9. Ferdinand C. Alejandro	8,952	-	-	8,952	8,952	-	8,952	0.00%
10. Ruben B. Benosa	22,992	-	-	22,992	22,992	-	22,992	0.00%
11. Rolando M. Cagampan	-	-	-	-	-	-	-	0.00%
12. Benjamin U. Cusi	24,050	-	-	24,050	24,050	-	24,050	0.00%
13. Helen T. De Guzman	26,093	-	-	26,093	26,093	-	26,093	0.00%
14. Ivanna G. Dela Peña	21,000	-	(6,000)	15,000	15,000	-	15,000	0.00%
15. William S. Pamintuan	-	-	-	-	-	-	-	0.00%
16. Antonio M. Abuel, Jr.	10,427	-	-	10,427	10,427	-	10,427	0.00%
17. Ireneo B. Acuna	18,355	-	-	18,355	18,355	-	18,355	0.00%
18. Angelita S. Atanacio	4,000	-	-	4,000	4,000	-	4,000	0.00%
19. Patrick Dave B. Bacani	-	-	-	-	-	-	-	0.00%
20. Bennette D. Bachoco	-	-	-	-	-	-	-	0.00%
21. Joseph Allan C. Baltazar	2,000	-	(2,000)	-	-	-	-	0.00%
22. Edgardo V. Carasig	-	-	-	-	-	-	-	0.00%
23. Bernard H. Castro	463	-	-	463	463	-	463	0.00%
24. Lawrence S. Fernandez	4,500	-	-	4,500	4,500	-	4,500	0.00%
25. Ferdinand O. Geluz	15,877	-	-	15,877	15,877	-	15,877	0.00%
26. Victor Emmanuel S. Genuino	-	-	-	-	-	-	-	0.00%
27. Nixon G. Hao	2,791	-	-	2,791	2,791	-	2,791	0.00%
28. Ernie G. Imperial	460	-	-	460	460	-	460	0.00%
29. Dexter C. Lee	-	-	-	-	-	-	-	0.00%
30. Fortunato C. Leynes ²	6,000	-	-	6,000	6,000	-	-	0.00%
31. Jose Mari P. Melendres	-	-	-	-	-	-	-	0.00%
32. Raymond B. Ravelo	-	-	-	-	-	-	-	0.00%
33. Jose Rainier A. Reyes	-	-	-	-	-	-	-	0.00%
34. Nestor P. Sarmiento	323	-	-	323	323	-	323	0.00%
35. Froilan J. Savet	8,435	-	-	8,435	8,435	-	8,435	0.00%
36. Liza Rose G. Serrano-Diangson	36,983	-	-	36,983	36,983	-	36,983	0.00%
37. Ma. Cynthia C. Soluren	11,575	-	-	11,575	11,575	-	11,575	0.00%
38. Manuel Lorenzo L. Tuason	22,180	-	-	22,180	22,180	-	22,180	0.00%
39. Jose Antonio T. Valdez	-	-	-	-	-	-	-	0.00%
40. Jose Ronald V. Valles	3,000	-	(3,000)	-	-	-	-	0.00%

¹ Appointed Senior Vice President of the Company effective October 1, 2017.
² Retired effective December 31, 2017.



PRINCIPAL, STRATEGIC AND SUBSIDIARY SHAREHOLDINGS AS AT DECEMBER 31, 2017

Name	January 1, 2017	Buy	Sell	December 31, 2017	Direct Holdings	Indirect Holdings	Total Shares	% to Total Outstanding Shares
A. Principal Stockholders								
Beacon Electric Asset Holdings, Inc.	394,059,235	–	–	394,059,235	394,059,235	–	394,059,235	34.96%
JG Summit Holdings, Inc.	305,689,397	27,500,000	–	333,189,397	333,189,397	–	333,189,397	29.56%
Metro Pacific Investments Corporation	169,064,807	–	(50,700,000)	118,364,807	118,364,807	–	118,364,807	10.50%
TOTAL	868,813,439	27,500,000	(50,700,000)	845,613,439	845,613,439	–	845,613,439	75.02%
B. Strategic Stockholders								
First Philippine Holdings Corporation	44,382,436	–	–	44,382,436	44,382,436	–	44,382,436	3.94%
First Philippine Utilities Corporation	93,270	–	–	93,270	93,270	–	93,270	0.01%
TOTAL	44,475,706	–	–	44,475,706	44,475,706	–	44,475,706	3.95%
C. Subsidiary								
Corporate Information Solutions, Inc.	12,526	–	–	12,526	12,526	–	12,526	0.00%
TOTAL	12,526	–	–	12,526	12,526	–	12,526	0.00%

E.6 Audit Fees

Internal Audit

The MCG and the Internal Audit Charter mandates internal audit to monitor the financial reporting process and internal control system; information technology security and control; auditing process; enterprise risk management; and compliance.

An annual assessment using a risk-based audit plan approved by the AuditCom and the RMC on the adequacy of the Company's internal control system is undertaken by the internal audit, in cooperation with relevant business responsibility units. The internal audit reports the results of audits covering various units of the Company and its subsidiaries including specific areas of concern identified by Management to the AuditCom. The findings are reviewed by the AuditCom and the RMC – which in turn, report the same to the Board for guidance and/or appropriate action. Significant concerns, which have been reported by the internal audit group, and the implementation of responsive remedial measures, are monitored by Management and by

the AuditCom. The AuditCom Report in this Annual Report discloses that the Board has conducted a review of and has found adequate the Company's material controls (including operational, financial and compliance controls) and risk management systems.

The Company's Internal Audit Group is headed by the Chief Audit Executive and First Vice President, Ms. Helen T. de Guzman, 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 internal auditor require the approval of the AuditCom.

External Audit

The Company's external auditors, SGV were evaluated, nominated, and recommended for appointment including their 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 30, 2017.

Company Website

The Company website provides information on its 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 http://www.meralco.com.ph/investor-relations/quarterly-reports
Shareholding structure	http://www.meralco.com.ph/about-us/meralco-shareholding-structure
Group corporate structure	http://www.meralco.com.ph/about-us/organizational-structure http://www.meralco.com.ph/about-us/meralco-shareholding-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

EXTERNAL AUDITORS' FEES

	2017	2016
	(in million PhP)	
Financial statements audit	7.7	7.3
Audit of financial statements in accordance with the requirements of the Business Separation and Unbundling Plan of the ERC	0.5	0.3
TOTAL	8.2	7.6

Note: The fees for non-audit services did not exceed those for audit services.

E.8 Timely Filing/Release of Annual/Quarterly Financial Reports

The Company's 2017 Audited Financial Statements were released on March 1, 2018, 60 days after financial year-end. The true and fair representation of the annual financial reports are 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: http://www.meralco.com.ph/files/view/03022017_SEC17C_2016_Consolidated_Financial_Results_March_1_%202017.pdf

facilities to communicate with Meralco through telephone, mail, electronic mail, and website, www.meralco.com.ph. The Investor Relations Office supervises the investors' briefings and teleconference, and attends to institutional investors' needs. Stockholders' Affairs Office attends to the inquiries and other concerns of shareholders.

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 the shareholders, the 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 and other officers, 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>

E.9 Investor Relations

Investors may get in touch with the Company's Investor Relations Office located at the 5/F of Lopez Building, Ortigas Avenue, Barangay Ugong, Pasig City, 1605 Philippines with the e-mail address: investor.relations@meralco.com.ph.

E.10 Shareholder Engagement

The Stockholders' Affairs Office under the Corporate Governance and Compliance Office encourages shareholders to engage with the Company beyond the Annual Stockholders' Meeting by providing them with accessible channels through which timely, fair and accurate disclosures of material information affecting their shares are made and through which concerns on their shares may be addressed. Shareholders and investors are provided with adequate

E. 11 Data Privacy

The Company is committed to ensuring that all personal data collected from its data subjects – customers, employees, vendors, shareholders, and visitors, are processed in adherence to the general principles of transparency, legitimate purpose, and proportionality, and protected to ensure its confidentiality, integrity, and availability. Accordingly, in 2017, the Company adopted a Data Privacy Manual providing for the privacy and data protection practices of the Company and delineating the respective roles of different business responsibility units in the implementation of the data privacy program in compliance with the Data Privacy Act of 2012 (Republic Act No. 10173) and its implementing rules and regulations. Atty. William S. Pamintuan serves as the Company's Chief Data Privacy Officer.

Board of Directors



MANUEL V. PANGILINAN, 71

Chairman (since May 29, 2012)
Director (since May 26, 2009)

Mr. Pangilinan is the President and CEO of PLDT Inc.*, the country's dominant telecommunications company, and Smart Communications, Inc. (the largest mobile phone operator in the Philippines) and continues to serve as their Chairman concurrently. He is also Chairman of listed companies including Metro Pacific Investments Corporation* and Philex Mining Corporation*, and of non-listed companies including Beacon Electric Asset Holdings Inc., PLDT Communications and Energy Ventures Inc., Landco Pacific Corporation, Medical Doctors, Inc., Colinas Verdes Corporation, Davao Doctors Inc., Riverside Medical Center, Inc., Our Lady of Lourdes Hospital, Asian Hospital, Inc., Maynilad Water Services, Inc., Mediaquest, Inc., TV5 Network Inc., Manila North Tollways Corporation, and MERALCO PowerGen Corporation. He is also the Vice Chairman of Roxas Holdings Inc.* Mr. Pangilinan graduated with a Bachelor of Arts degree in Economics, cum laude from the Ateneo de Manila University and a Masters in Business Administration from Wharton School of Finance and Commerce, University of Pennsylvania, where he was a Procter & Gamble Fellow.

OSCAR S. REYES, 71

Director (since July 1, 2010)
President and CEO (since May 29, 2012)
Chief Operating Officer (July 1, 2010 - May 28, 2012)

Mr. Reyes is a member of the Advisory Board of PLDT, Inc.* and of the Council of Advisors of the Bank of the Philippine Islands*. He is an independent director of Manila Water Company*, Basic Energy Corporation*, Cosco Capital Inc.*, Pepsi-Cola Products Philippines, Inc.* (Chairman) and, PLDT Communications and Energy Ventures Inc., among other firms. He is also Co-Chairman of MERALCO PowerGen Corporation and Chairman of Meralco Industrial Engineering Services Corporation, CIS Bayad Center, Inc., Meralco Energy, Inc. (MServ), Redondo Peninsula Energy Inc., PacificLight Pte.Ltd., MSpectrum, Inc. and MRAIL, Inc., and Atimonan One Energy Inc. He served as Country Chairman of the Shell Companies in the Philippines and concurrently as President of Pilipinas Shell Petroleum Corporation and managing director of Shell Philippines Exploration B.V. He is a member of the Board of Trustees of One Meralco Foundation, Inc., Pilipinas Shell Foundation, Inc., SGV Foundation, Inc. and El Nido Foundation, Inc. He completed his Bachelor of Arts degree in Economics at the Ateneo de Manila University, cum laude, and did post-graduate studies at the Ateneo Graduate School of Business, Waterloo Lutheran University and the Harvard Business School.

ANABELLE L. CHUA, 57

Director (since May 31, 2016)

Ms. Chua is Chief Finance Officer of PLDT Inc.* She served as Chief Finance Officer of Smart Communications, Inc. (Smart) (from January 2006), and as Treasurer of PLDT Inc.* (from February 1999), until May 2015. Ms. Chua is a director of Smart, ePLDT, Inc., Smart Broadband, Inc., PayMaya Philippines, Inc., Voyager Innovations, Inc., Digital Telecommunications Phils., Inc., Digitel Mobile Phils., Inc., PLDT Communications and Energy Ventures, Inc., Talas Data Intelligence Inc. and PLDT Global Investments Holdings, Inc., Ms. Chua is also a director of Beacon Electric Asset Holdings Inc., Mediaquest Holdings Inc., TV5 Network Inc., Signal TV and Philstar Daily Inc. She is also a member of the Board of Trustees of the Trust Fund created pursuant to the Benefit Plan of PLDT and PLDT-Smart Foundation, Inc., a member of the Board of Directors of the Philippine Stock Exchange, Inc.*, and Securities Clearing Corporation of the Philippines. Prior to joining PLDT in 1998, Ms. Chua was a Vice President at Citibank, N.A. where she worked for 10 years and has over 30 years experience in the areas of corporate finance, treasury, financial control and credit risk management. She graduated from the University of the Philippines with a Bachelor of Science Degree in Business Administration and Accountancy, magna cum laude.

RAY C. ESPINOSA, 61

Director (since May 26, 2009)

Mr. Espinosa is a member of the Board of Directors of PLDT Inc.*, Metro Pacific Investments Corporation*, Roxas Holdings, Inc.*, and also an independent director of Lepanto Consolidated Mining Company (Lepanto)* and Maybank Philippines, Inc. He is a director of Smart Communications, Inc., MERALCO PowerGen Corporation, TV5 Network, Inc., and Signal TV Inc. He is the Chairman of the Philstar Daily, Inc. and BusinessWorld Publishing Corporation, Chairman of the Finance Committee of Meralco*, Chairman of the Audit Committee of Lepanto and Chairman of the Risk Management Committee of Maybank Philippines, Inc. He is the President of Mediaquest Holdings, Inc., General Counsel of Meralco*, Chief Corporate Services Officer of PLDT and Head of PLDT's Regulatory Affairs and Policy Office. He is also a trustee of the Beneficial Trust Fund of PLDT. Mr. Espinosa joined First Pacific in June 2013. He is First Pacific Group's Head Government and Regulatory Affairs and Head Communications Bureau for the Philippines. Mr. Espinosa has a Master of Laws degree from the University of Michigan Law School and is a member of the Integrated Bar of the Philippines. He was a partner of SyCip Salazar Hernandez & Gatmaitan from 1982 to 2000, a foreign associate at Covington and Burling (Washington D.C., USA) from 1987 to 1988, and a law lecturer at the Ateneo de Manila School of Law from 1983 to 1985 and 1989. He ranked first in the 1982 Philippine Bar examination.

JAMES L. GO, 78

Director (since December 16, 2013)

Mr. Go is the Chairman and CEO of JG Summit Holdings, Inc.* and Oriental Petroleum and Minerals Corporation*; Chairman of Robinsons Land Corporation*, Universal Robina Corporation*, JG Summit Petrochemical Corporation and JG Summit Olefins Corporation; Vice Chairman of Robinsons Retail Holdings, Inc.*; and a member of the Board of Directors of Cebu Air, Inc.*, Marina Center Holdings Private Limited, United Industrial Corporation Limited, Hotel Marina City Private Limited and the PLDT Inc.*. He is also the President and Trustee of Gokongwei Brothers Foundation, Inc. Mr. Go received a Bachelor of Science degree and a Master of Science degree in Chemical Engineering from the Massachusetts Institute of Technology.

*Publicly-listed company



JOHN L. GOKONGWEI, JR., 91
Director (since March 31, 2014)

Mr. Gokongwei is the Chairman Emeritus and a member of the Board of Directors of JG Summit Holdings, Inc.* and some of its subsidiaries including Universal Robina Corporation*, Robinsons Land Corporation*, and JG Summit Petrochemical Corporation. He is currently the Chairman of the Gokongwei Brothers Foundation, Inc., and Deputy Chairman and director of United Industrial Corporation Limited. He is a director of Cebu Air, Inc.*, Robinsons Retail Holdings, Inc.*, Oriental Petroleum and Minerals Corporation*, Marina Centre Holdings Private Limited and A. Soriano Corporation*. Mr. Gokongwei received his Masters in Business Administration from De La Salle University, and took the Advance Management Program from Harvard University in Boston, Massachusetts.

LANCE Y. GOKONGWEI, 51
Director and Vice-Chairman
(since December 16, 2013)

Mr. Gokongwei is the President and Chief Operating Officer of JG Summit Holdings, Inc.*, and the President and Chief Executive Officer of Cebu Air, Inc.*, and Universal Robina Corporation*. He is the Chairman and Chief Executive Officer of Robinsons Retail Holdings, Inc.* effective March 18, 2016. He is also the Vice Chairman and Chief Executive Officer of Robinsons Land Corporation*, and Chairman of Robinsons Bank Corporation. He is the Chief Executive Officer of JG Summit Petrochemical Corporation and JG Summit Olefins Corporation. He is a director of Oriental Petroleum and Minerals Corporation and United Industrial Corporation Limited. He is a trustee and the secretary of the Gokongwei Brothers Foundation, Inc. He received a Bachelor of Science degree in Finance and a Bachelor of Science degree in Applied Science from the University of Pennsylvania, summa cum laude.

AMBASSADOR MANUEL M. LOPEZ, 75
Director (since April 14, 1986)
Chairman and CEO
(from July 1, 2001 to June 30, 2010)
Chairman (from July 1, 2010 to May 28, 2012)

Mr. Lopez was the Philippine Ambassador to Japan from December 2010 until June 2016. He is concurrently the Chairman and CEO of Lopez Holdings Corporation* and is the Chairman of Bayan Telecommunications Holdings Corporation, Rockwell Land Corporation*, Rockwell Leisure Club, and Sky Vision Corporation. He is also the Vice Chairman of First Philippine Holdings Corporation and Lopez, Inc., President of Eugenio Lopez Foundation, Inc. and a director at ABS-CBN Corporation*, ABS-CBN Holdings Corporation*, Sky Vision Corporation, First Philippine Realty Corporation and Lopez Group Foundation, Inc. Mr. Lopez holds a Bachelor of Science degree in Business Administration and completed the Harvard Program for Management Development.

JOSE MA. K. LIM, 65
Director (since May 29, 2012)

Mr. Lim is the President and CEO of Metro Pacific Investments Corporation*, the leading infrastructure investment firm in the Philippines. Mr. Lim was appointed President and CEO in 2006 and is currently a director in MPIC's subsidiaries and affiliate companies namely, MERALCO Powergen Corporation, Beacon Electric Asset Holdings Inc., Global Business Power Corporation, Maynilad Water Services Inc., Metro Pacific Tollways Corporation, NLEX Corporation, Light Rail Manila Corporation, AF Payments Inc., MetroPac Water Investments Corporation, Easy Trip Services Corporation, Metropac Movers Inc., Medical Doctors Inc., Manila Medical Services Inc., Cardinal Santos Medical Center, Asian Hospital Inc., Davao Doctor's Hospital Riverside Medical Center, Asian Institute of Management (AIM), Ateneo Graduate School of Business, and Asia Society of the Philippines, among others. He also serves as Chairman of Indra Philippines. He was awarded by Finance Asia as the Best CEO for 2016 and Corporate Governance Asia as the Best CEO for Investor Relations for five (5) consecutive years (2012-2016).

(RET.) CHIEF JUSTICE ARTEMIO V. PANGANIBAN, 81
Director (since May 27, 2009)

Independent director Panganiban was a former Chief Justice of the Supreme Court of the Philippines. He was concurrently Chairperson of the Presidential Electoral Tribunal, Judicial and Bar Council and Philippine Judicial Academy. He is currently also an independent director of Petron Corporation*, First Philippine Holdings Corporation*, PLDT, Inc.*, Metro Pacific Investments Corporation*, Robinsons Land Corporation*, GMA Network, Inc.*, GMA Holdings, Inc.*, and Asian Terminals, Inc.*, Metro Pacific Tollways Corp., Non-executive director of Jollibee Foods Corporation* and TeaM Energy Corporation; Senior Adviser of Metropolitan Bank and Trust Company*, Member of the Advisory Council of the Bank of the Philippine Islands* and Adviser of Double Dragon Properties Corporation*. He is likewise a columnist for the Philippine Daily Inquirer and a consultant of the Judicial and Bar Council (JBC), the constitutionally-created entity that vets appointments to the judiciary. He is also Chairman, President, Trustee or Adviser of several foundations, including the Foundation for Liberty and Prosperity, Manila Metropolitan Cathedral-Basilica Foundation, Metrobank Foundation, Tan Yan Kee Foundation as well as Chairman of the Asean Law Association (Philippine Chapter) and Chairman Emeritus of the Philippine Dispute Resolution Center, Inc. (Ret.) Chief Justice Panganiban holds a Bachelor of Laws degree, cum laude, from the Far Eastern University and was awarded the degree of Doctor of Laws (Honoris Causa) by the University of Iloilo, Far Eastern University, University of Cebu, Angeles University and Bulacan State University. He placed sixth in the Philippine Bar Examinations in 1960.

PEDRO E. ROXAS, 61
Independent Director (since May 25, 2010)

Mr. Roxas is the Chairman of Roxas Holdings Inc.* and of Roxas and Company, Inc.* He is concurrently a director and the President of Fundacion Santiago, director of Brightnote Assets Corporation, Chairman of Club Punta Fuego Inc. and Hawaiian-Phil. Co., Trustee and Treasurer at Philippine Business for Social Progress and Roxas Foundation, and an independent director for BDO Private Bank, Cemex Holdings Phil. Inc.*, and PLDT, Inc.*. Mr. Roxas holds a Bachelor of Science degree in Business Administration from the University of Notre Dame in Indiana, USA.

*Publicly-listed company

Corporate Officers and Advisor

IRENEO B. ACUÑA, 51

Vice President
Head, Electric Distribution Development Group

Mr. Acuña heads the Electric Distribution Development Group (EDDG) which is responsible for the development of business opportunities in distribution utility operations for Cavite Ecozone and Pampanga II Electric Cooperative; technical services consultancy for Ibadan Electric Distribution Company in Nigeria; mini-hydropower plants for Pure Meridian Hydropower Corporation (PMHC). Mr. Acuña is concurrently a member of the Board of Directors of Miescor Builders, Inc., Comstech Integration Alliance, Inc., Fieldtech Specialist, Inc., Meridian Atlantic Light Company, Ltd. (Nigeria), PMHC, PMHC Lalawinan, Inc., and PMHC Pulanai, Inc. He graduated with a Bachelor of Science degree in Electrical Engineering from Far Eastern University – Institute of Engineering. He received his Masters in Business Administration from the Asian Institute of Management (with Distinction).

ROBERTO R. ALMAZORA, 57

Senior Vice President
Head, MPower

Mr. Almazora heads the Retail Electricity Supply unit of Meralco. He was a director of Indra Philippines, Inc., Meralco Energy, Inc., Meralco Industrial Engineering Services Corporation, Miescor Builders Inc., Miescor Logistics, Inc.,

ACLARA Meters Philippines, Inc. (formerly General Electric Philippines Meter and Instruments Co., Inc.), Clark Electric Distribution Corporation, and First Private Power Corporation. He served as President of Miescor Builders, Inc. in 2011. He was named Outstanding Alumnus for Management by the Epsilon Chi Fraternity of UP Diliman in 2004, and in 2011 was granted the Professional Degree Award for Electrical Engineering by the University of the Philippines Alumni Engineers where he served as Trustee. He holds a Bachelor of Science degree in Electrical Engineering from the University of the Philippines, Diliman, and completed his Masters in Business Management at the Asian Institute of Management.

RONNIE L. APEROCHO, 49

Senior Vice President
Head, Networks

Mr. Aperocho is a member of the Board of Directors of Aclara Meters Philippines, Inc., (formerly General Electric Philippines Meter and Instruments, Inc.) MRAIL Inc., Republic Surety and Insurance Company Inc., Clark Electric Distribution Corporation, Aurora Managed Power Services, Inc., Radius, MSpectrum, Inc. and Meralco Energy Inc. He is the Chairman of the Board of Directors of Miescor Logistics Inc. and Miescor Builders Inc. He is a member of the Board of Trustees of the Meralco Power Academy, Inc. He holds a Bachelor of Science degree in Electrical Engineering from Mindanao State University and topped the 1991

Electrical Engineering Board Exams. A registered Professional Electrical Engineer (PEE), 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.

GAVIN BARFIELD, 39

Chief Technology Advisor

Mr. Barfield is an expert in the Asian energy industry having been involved in the design and development of both the Singapore National Energy Market and the Philippine Wholesale Electricity Spot Market. He was a key advisor to government agencies in energy market developments and regulatory issues including the introduction of competition and open access. He worked extensively in the design and development of the I.T. systems that support the Singapore Electricity Market.

In addition, he has helped companies across multiple industries in defining and implementing their technology strategy and leading large software development projects. Prior to joining Meralco, Mr. Barfield led Pöyry Energy Consulting in Asia Pacific and PA Consulting's operations in South East Asia. Mr. Barfield holds a Bachelor of Science Degree in Computing and Management, First Class with honors, with Diploma in Professional Studies, from Loughborough University in the United Kingdom.

RUBEN B. BENOSA, 61

First Vice President
Head, Supply Chain & Logistics Management

Mr. Benosa is the Chairman of Meralco Financial Services Corporation. He is a director of Radius Telecoms, Inc., MRAIL, Inc. and Republic Surety and Insurance Co., Inc. He was the Chairman of Customer Frontline Solutions, Inc. Mr. Benosa holds a Bachelor of Science degree in Electrical Engineering from the Mapua Institute of Technology and completed his Masters in Management at the Asian Institute of Management. He was the Mapua Institute of Technology Electrical Engineering Alumni Association Awardee – Public Utility Distribution Practice in 2015.

IVANNA G. DELA PEÑA, 63

First Vice President
Head, Regulatory Management Office

Ms. Dela Peña is a member of the Board of Directors of Clark Electric Distribution Corporation, Radius Telecoms, Inc., and Medical Ambassadors Phils., Inc. She is a director of Share an Opportunity from January 2017 up to present, a position she also served from 2009 to 2014. Ms. Dela Peña holds a Bachelor of Science degree in Statistics and a Masters in Business Administration from the University of the Philippines. She attended the Public Utility Research Center – World Bank Training Course on Utility Regulation and Strategy at the University of Florida and the General Management of Electric Utilities training program at the International Management Development Center in Texas, USA.

ERNIE G. IMPERIAL, 49

Vice President
Head, Corporate Information and Technology

Mr. Imperial is the Vice-Chairman of the First Pacific CIO Council. Prior to joining Meralco, he served in various capacities in top financial/banking institutions. He was Senior Vice-President heading Hubs Central for Australia and New Zealand (ANZ) Bank and was Vice President for Deutsche Bank handling several regional roles covering program and change management, business process management, solutions delivery, and production management. He graduated from De La Salle University with a Bachelor of Science degree in Computer Science and took up postgraduate studies at the Ateneo Graduate School of Business.

WILLIAM S. PAMINTUAN, 56

First Vice President
Deputy General Counsel,
Assistant Corporate Secretary,
Compliance Officer and Head, Legal and Corporate Governance Office
Chief Data Privacy Officer

Atty. Pamintuan is the Corporate Secretary of MERALCO PowerGen Corporation, Atimonan One Energy, Inc., Calamba Aero Power Corporation, Kalilayan Power, Inc., MPG Mauban LP Corporation, MPG Asia Ltd., Redondo Peninsula Energy, Inc., St. Raphael Power Generation Corporation, First Pacific Leadership Academy, Inc., MRAIL, Inc., and Meralco Industrial Engineering Services Corporation.

He is a trustee of Meralco Power Academy, Meralco Pension Fund, and Shareholders' Association of the Philippines, Inc. He also serves as director of Atimonan Land Ventures Development Corporation, MPG Holdings Phils., Inc., Radius Telecoms, Inc., MSpectrum, Inc., Pure Meridian Hydropower Corporation, Comstech Integration Alliance, Inc., Meridian Atlantic Light Company Ltd., Republic Surety and Insurance Company, Incorporated, PMHC-Pulanai Inc., PMHC-Lalawinan Inc. and Aurora Managed Power Services, Inc. He is currently the Officer-in-Charge and Acting President of Meralco Energy, Inc. He was formerly corporate secretary and Senior Vice President of Digital Telecommunications Phils., Inc. and Digital Mobile Phils., Inc.; and General Manager of Digitel Crossing, Inc. He is the incumbent Assistant Corporate Secretary of Cebu Pacific, Inc. He is a member of the UP Vanguard, Inc. Management Association of the Philippines and Integrated Bar of the Philippines. Atty. Pamintuan holds a Bachelor of Arts degree in Political Science and a Bachelor of Laws degree from the University of the Philippines.



ALFREDO S. PANLILIO, 54

Senior Vice President
Head, Customer Retail Services and Corporate Communications

Mr. Panlilio is a Board Member of CIS Bayad Center, Inc., Corporate Information Solutions, Inc., Customer Frontline Solutions, Inc., Meralco Energy, Inc., MRAIL Inc., Miescor, Comstech Integration Alliance, Inc., MSpectrum, Inc., Mabuhay Satellite Corporation, and Powersource First Bulacan Solar, Inc.; independent director of CEMEX Holdings Philippines, Inc.; Chairman of Radius Telecoms, Inc., e-Meralco Ventures Inc., Paragon Vertical Corporation, Pure Meridian Hydropower Corporation, PMHC Lalawinan, Inc., and PMHC Pulanai, Inc.; Vice Chairman of Aclara Meters Philippines, Inc. (formerly General Electric Philippines Meter and Instrument Co., Inc.); Associate Board Member of Semiconductor and Electronics Industries in the Philippines, Inc. (SEIPI); Trustee of One Meralco Foundation, Inc., Meralco Power Academy, Kapampangan Development Foundation, and Philpop Musicfest Foundation, Inc.; President of Samahang Basketbol ng Pilipinas, Inc. (SBP) and MVP Sports Foundation, and Treasurer, National Golf Association of the Philippines. He is also the Philippine Basketball Association (PBA) Governor for the Meralco Bolts and a member of the Management Association of the Philippines (MAP). He has 30 years of experience in the field of telecommunications and information systems. Prior to joining Meralco, he was the President and CEO of PLDT Global based in Hong Kong. Mr. Panlilio was the 2013 CEO Excel Awardee of the International Association of Business Communicators (IABC) Philippines; was one of seven Finalists in the Rising Star (Individual) category of

the PLATTS Global Energy Awards 2015 held in New York City; and has received multiple local and international awards for customer management and business communication excellence. Mr. Panlilio holds a Bachelor of Science degree in Business Administration (Computer Information Systems) from the California State University – San Francisco State University and obtained his Masters in Business Administration at J. L. Kellogg School of Management of Northwestern University/The Hong Kong University of Science and Technology.

RAYMOND B. RAVELO, 40

Vice President
Head, Strategy and Business Development Office

Mr. Ravelo is a member of the Board of Directors of Radius Telecoms, Inc. where he served as President and CEO from 2011 to 2016. He is also a director on the Boards of MSpectrum, Inc. and Powersource First Bulacan Solar, Inc. Before joining Meralco, he was with McKinsey & 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 (including Telecommunications, Consumer Packaged Goods, and Pharmaceuticals). 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.

RAMON B. SEGISMUNDO, 60

Senior Vice President
Head, Human Resources and Corporate Services

Mr. Segismundo is the President and Trustee of Meralco Power Academy, Inc., a Member of the International Advisory Council of the Singapore Management University, an Institute of Corporate Directors (ICD) Fellow and elected President of People Management Association of the Philippines (PMAP) for 2017. He is the Chairman of Customer Frontline Solutions, Inc. and is a Board Trustee of One Meralco Foundation, Inc., Meralco Pension Fund, and the UP Engineering Research and Development Foundation, Inc. He is a member of the Board of Directors of Meralco Industrial Engineering Services Corporation, CIS Bayad Center, Inc., MRAIL, Inc., and Aclara Meters Philippines, Inc. (formerly General Electric Philippines Meter and Instruments Co. Inc.). He served as the 2013-2014 Chairman of the Board of the Philippine Basketball Association and was a PBA Governor representing Meralco Bolts from 2010-2014. He has over 30 years of experience as Asia Pacific/ international human resources executive and business consultant in Singapore, United Kingdom, United States and the Philippines for major global companies such as GlaxoSmithKline, Arthur Andersen/SyCip Gorres Velayo & Co., Wyeth Pharmaceuticals, SmithKline Beecham and Sterling Winthrop. Since returning to the Philippines in 2010, he has helped Meralco achieve People Management Association of the Philippines (PMAP) Employer of the Year (2012-2013), Asia CEO Top Employer (2012), Singapore-based Asian Human Capital Awards (2013) honors, the People Program of the Year Award by PMAP (2015), and the Top Company (for Millennials and Active Job Seekers) by Jobstreet.com (2017). Mr. Segismundo was also awarded as the 2014 People Manager of the Year by the PMAP, the

UP Alumni Engineers Professional Degree Award for Industrial Engineering for 2011, and the Distinguished Alumnus Award for 2015 by the U.P. Virata School of Business. Mr. Segismundo holds a Bachelor of Science degree in Industrial Engineering and completed his Masters in Business Administration. While in the U.S., he was a member of the Society of Human Resources Management and acquired Senior Professional in HR (SPHR) and Global Professional in HR (GPHR) Certifications.

ROGELIO L. SINGSON, 69

Senior Vice President

Mr. Singson is the President and Chief Executive Officer of MERALCO PowerGen Corporation. He is also the President of Atimonan One Energy, Inc. Prior to joining MGen, Mr. Singson served as the President and Chief Executive Officer of Light Rail Manila Corporation. Mr. Singson completed a full six-year term (July 2010 to June 2016) as Secretary of the Department of Public Works and Highways (DPWH) where he led the Good Governance and Anti-Corruption Program, and the implementation of major infrastructure projects nationwide. Before he was appointed DPWH Secretary in 2010, Mr. Singson was President and Chief Executive Officer of Maynilad Water Services for three years and led the successful turnaround of one of the two major water concessionaires in Metro Manila. Among his previous positions in the private and public sectors were as Senior Vice President for Project Development of Citadel Holdings, Inc., and as Chairman and President of Bases Conversion and Development Authority from 1998 to 2002. In June 2016, Mr. Singson was conferred the Order of Lakandula with the rank of Grand Cross (Bayani). During his stint in government he received

other significant awards and recognitions, including the Outstanding Exemplar in Government Service Award from Bulong Pulungan; Lifetime Distinguished Achievement Award from the UP Alumni Association; and the Outstanding Manilan Award for Public Service. He was also one of the recipients of the Outstanding Filipino Awards for Government/Public Service and was named the Most Distinguished Alumnus by the UP Alumni Engineers in November 2011. He holds a Bachelor of Science degree in Industrial Engineering from the University of the Philippines, Diliman.

BETTY C. SIY-YAP, 56

Senior Vice President, Chief Finance Officer,
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. (formerly General Electric Philippines Meter and Instruments Company, Inc.), Radius Telecoms, Inc., Republic Surety and Insurance Company, 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 serves as Alternate Governor of the Philippine Basketball Association for the Meralco Bolts. 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 Masters in Business Administration from J.L. Kellogg School of Management at Northwestern University/ The Hong Kong University of Science and Technology.

SIMEON KEN. R. FERRER, 61

Corporate Secretary

Atty. Ferrer is the Corporate Secretary of Century Peak Metals Holdings Corporation and Commonwealth Foods, Inc., both public companies. He is also a board member of various non-public companies. He is a Senior Partner of SyCip Salazar Hernandez & Gatmaitan, the largest law firm in the Philippines, where he heads the Corporate Services Department and the Hiring Committee. He is a member of the Integrated Bar of the Philippines and the Philippine Bar Association, and a Fellow at the Institute of Corporate Directors. 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. He holds a Master of Laws degree from the University of Michigan as a DeWitt Fellow.

Subsidiaries



CLARK ELECTRIC DISTRIBUTION CORPORATION (CEDC)
CEDC is 65% owned by Meralco. It is a registered private distribution utility with a franchise granted by Clark Development Corporation (CDC) to distribute power exclusively within the Clark Special Economic Zone (CSEZ) and the sub-zone, pursuant to Presidential Decree No. 66 (1972), as amended, and a Joint Venture Agreement executed with CDC.

Two major projects were completed in 2017, including the uprating of a power transformer at IE-5 Substation, and the development of Roxas 50 MVA, 69 kV – 13.8 kV Substation. CEDC has 100 MVA capacity for 230 kV / 69 kV Delivery Point Substation and 178.5 MVA aggregate capacity for 69 kV / 13.8 kV Substation.

In October 2017, the Energy Regulatory Commission (ERC) recognized the authority of CEDC to operate as a Local Retail Electricity Supplier (RES).



COMSTECH INTEGRATION ALLIANCE, INC. (Comstech)
Meralco holds a 60% stake in Comstech. Comstech entered into a Technical Services Agreement with Meralco in 2014 for the management and operation of Pampanga II Electric Cooperative, Inc. (PELCO II). It has an Investment Management Contract (IMC) with PELCO II. Comstech also created MeridianX, Inc. which was granted a license to operate as a RES by the ERC.



CORPORATE INFORMATION SOLUTIONS, INC. (CIS)
CIS, a wholly-owned subsidiary of Meralco, owns 95% of CIS Bayad Center, Inc. (Bayad Center). Bayad Center is the biggest and widest multi-channel payment platform in the Philippines today, maintaining its position as the leading bills payment service provider with over 12,000 payment locations nationwide. It has launched new payment touchpoints – the TouchPay machine, the Bayad Center Retail Machine, the Bayad Center Online and Mobile app - all catering to the different payment needs of every Filipino.

Bayad Center continues to expand its influence globally as Densan System Co. Ltd. (DSK), a Japanese integrated solutions conglomerate providing business solutions in payment and e-commerce, and extend its reach globally.

In 2017, Bayad Center was recognized with the Most Outstanding Filipino Franchise Award – Service Category in the Philippine Franchise Excellence Awards organized by the Department of Trade and Industry and the Philippine Franchise Association. Since it has been recognized for the third consecutive year, Bayad Center is now in the roster of Hall of Fame awardees in the service category.



LIGHTHOUSE OVERSEAS INSURANCE LIMITED (LOIL)
LOIL, a wholly-owned subsidiary of Meralco and captive insurer, 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. Together with Republic Surety and Insurance Company, Inc. (RSIC), a non-life insurance affiliate of Meralco, LOIL plays a major role in Meralco's business risk management model. LOIL serves as the vehicle to reinsure the distribution utility's major catastrophic risk exposures.



MERALCO ENERGY, INC. (MServ)
MServ is a wholly-owned subsidiary of Meralco. It is an electro-mechanical contractor engaged in end-to-end energy solutions, providing both strategic loadside outsourcing and energy efficiency services. It offers expert advice on power concerns, ensuring that businesses have the right-sized facilities to optimize energy consumption costs. It also provides low voltage/loadside distribution and energy efficiency services, including lighting efficiency programs, heating and power quality, and power factor audits. MServ handles warehouse operations and maintenance for Meralco, and is trusted by other companies in different industries such as manufacturing and in other sectors such as the academe and government agencies.



MERALCO FINANCIAL SERVICES CORPORATION (Finserve)
Finserve is a wholly-owned subsidiary of Meralco. Finserve owns and manages a row of commercial spaces. It is also a minority equity partner in AF Payments, Inc., which is engaged in the issuance and distribution of the contactless payment cards and attendant non-rail businesses.



MERALCO INDUSTRIAL ENGINEERING SERVICES CORPORATION (MIESCOR)
MIESCOR is 99% owned by Meralco. It provides a wide array of services encompassing engineering, procurement, construction, testing and commissioning, building and facilities management, together with its subsidiaries, Miescor Builders, Inc. (MBI) and Miescor Logistics, Inc. (MLI). The Philippine Contractor Accreditation Board (PCAB) classifies MIESCOR as "AAA" in general engineering, building, and specialty electrical and mechanical contractor. It has ISO 9001: 2015, ISO 14001:2004 and OSHAS 18001:2007 certifications.

Its roster of projects for the national grid, power, and distribution utilities, including the Cebu-Negros-Panay transmission backbone, the Magdugo 230/138 KV substation and switchyard for the Therma Visayas, Inc.'s 300 MW coal power plant, and the Manolo Fortich 138 KV switchyard and transmission line for the Hedcor 43 MW hydropower plant. It is considering working on the Visayas-Mindanao interconnection, a priority project of the national government.

MBI also holds PCAB license category "AAA" with main specialty in electrical works and expertise in general engineering and building, civil and mechanical works.



MERALCO POWERGEN CORPORATION (MGen)
MGen is a wholly-owned subsidiary of Meralco. It aims to build a diverse power generation portfolio of up to 3,000 MW in the next five (5) years by building new power projects and partnering with experienced industry players. MGen was established with the vision of providing the country with large-scale reliable energy at the least possible emissions by using the most efficient technologies available. The power generation company pioneers the utilization of supercritical and ultra supercritical technologies for its planned coal-fired power projects in Quezon province.

Utilizing state-of-the-art technologies forms part of MGen's efforts to address the country's growing need for power while recognizing the importance of environmental stewardship amid concerns on global warming. It is also pursuing renewable projects that are consistent with organizational vision.



MRAIL, INC. (MRAIL)
MRAIL is a wholly-owned subsidiary of Meralco. It is engaged in rail construction, operation, maintenance, installation, project management, and technical support services. MRAIL has undertaken the following railway projects: LRT Line 1 North Extension Project (Power Supply and Overhead Catenary System Design and Construction), Maintenance of the MRT Line 3 Power Supply during the Sumitomo maintenance regime, acted as concessionaire representatives during the implementation of the Unified Automatic Fare Collection System and was the contractor for the PNR Locomotive Rehabilitation.

MRAIL was recently conferred a certification in the ISO 9001:2015 Quality Management Systems.



MSPECTRUM, INC. (Spectrum)
Spectrum is a wholly-owned subsidiary of Meralco. Incorporated in January 2016, Spectrum signaled Meralco's formal entry into the renewable energy space and other technologies as part of its commitment to sustainability and responsible corporate citizenship. Spectrum's vision is to provide clean, renewable, affordable, and safe energy solutions to Filipinos today and the future. It aims to empower commercial, industrial, and residential customers with optimal and world-class energy solutions through the development of rooftop and utility-scale solar photovoltaic (PV) projects. Spectrum offers a solar PV system that converts sunlight into electricity to power homes and businesses for its customers. For partners, Spectrum offers end-to-end technical capabilities, and is supported by world-class service and product providers.



eMERALCO VENTURES, INC. (e-MVI)
Radius Telecoms, Inc. (Radius) is the operating telecommunications company of e-MVI, a wholly-owned subsidiary of Meralco. Radius delivers services on an end-to-end fiber optic platform in the Mega Manila area, enabling service providers and companies to transmit digital information and business applications over highly reliable, secure, and cost-effective communication superhighways. It provides world-class data connectivity solutions over its dense fiber optic network, with access nodes strategically located within business districts, industrial and IT parks, data centers, and main thoroughfares. Radius is one of only three (3) telecommunications companies in the Philippines certified by the Metro Ethernet Forum (MEF), a consortium certifying carrier ethernet services globally. With more than 4, 000 kilometers of fiber optic cable deployed and a presence in all major telco nodes and data centers, Radius currently serves the requirements of both local and international carriers, internet service providers (ISP), and the biggest names in the banking, Business Process Outsourcing (BPO), manufacturing, and retail companies in the Philippines.



VANTAGE ENERGY SOLUTIONS AND MANAGEMENT, INC. (Vantage Energy)
Vantage Energy is a wholly-owned subsidiary of Meralco with the primary purpose of providing retail electricity services, which involve energy sourcing and trading, wholesale contracting, and aggregating of electricity. On January 10, 2017, the ERC granted Vantage Energy a RES license to operate as a RES.

Manila Electric Company and Subsidiaries

Report of the Audit Committee

For the Year ended December 31, 2017

The Audit Committee was established by the Board of Directors in 1999 to assist the Board in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control, the internal and external audit processes, and compliance with laws and regulations. The Audit Committee performs its duties and responsibilities in accordance with its Charter, following leading practices in corporate governance and in compliance with the Corporate Governance Code for publicly listed companies issued by the Philippine Securities and Exchange Commission.

The Audit Committee of Meralco is composed of six non-executive directors namely Mr. Artemio V. Panganiban as the Chairman, Ms. Anabelle L. Chua, Mr. Lance Y. Gokongwei, Mr. James L. Go, Mr. Joe Ma. K. Lim, and Mr. Pedro E. Roxas. The independent directors are Mr. Panganiban and Mr. Roxas. All members of the Committee have professional qualifications and have adequate background in business, finance, law, management and accounting.

In 2017, the Audit Committee held nine meetings and one site visit. Individual attendance of members at the meetings of the Audit Committee during the year is set out in the Corporate Governance Report of Meralco. After each meeting, the Chairman of the Audit Committee submits a report to the Board of Directors on matters deliberated by the Audit Committee, for their information and approval.

The Audit Committee in the discharge of its functions and duties carried out the following activities:

On Financial Reporting

- Reviewed the unaudited Consolidated Quarterly Financial Statements and the Audited Consolidated Annual Financial Statements of the Company including Management's significant judgments and estimates in respect of the Company's financial statements.
- Reviewed the External Auditor's report on the audit of the 2017 financial statements and discussed areas of audit emphasis.
- Reviewed Management's representation letter to the External Auditors.
- Reviewed in detail and then recommended to the Board of Directors the approval of the Audited Consolidated and Parent Company Financial Statements for the year ended December 31, 2017.

On Internal and External Audit Processes

- 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 of Directors and the Shareholders as the External Auditors of the Company for the ensuing year.
- Reviewed and approved the audit plan, scope of work and proposed fees of SGV for the audit of the 2017 financial statements.
- Review the external auditors' fees in Meralco and selected subsidiaries as endorsed by management.
- Reviewed the management letter issued by the External Auditors after the completion of the audits of the financial statements of the preceding year.

- Held separate executive sessions with the Chief Audit Executive and the External Auditors without the presence of Management.
- Reviewed and approved the Internal Audit Plan for CY2017, the related key performance indicators and the subsequent changes to the Audit Plan as needed.
- Discussed and dissected the results of audits reported by the Chief Audit Executive in her quarterly status reports to the Committee.
- Reviewed and discussed the 2017 Annual Report of performance of Internal Audit.
- Monitored Management's appropriate corrective actions to the audit recommendations of Internal Audit and the external auditors.
- Reviewed Internal Audit's Quality Assurance and Improvement Program (QAIP) and the recent results.
- Reviewed the updated Internal Audit Charter with the recent release of the new International Professional Practice Framework (IPPF) for the practice of internal auditing made effective January 1, 2017 and the recent release by the SEC of the new Code of Corporate Governance for publicly-listed companies.
- Assessed Internal Audit's performance for the preceding year.

On Internal Control and compliance with Laws and Regulations

- Reviewed Management's midyear and annual confirmation statement on the adequacy and effectiveness of the Company's internal control and risk management system, which was based on the annual Risks & Control Self-Assessment validated by Internal Audit.
- Evaluated the effectiveness of the internal control system of the Company based on the representation of management and the reasonable assurance provided by the Internal Auditor on the financial and operating controls of the Company and compliance with laws and regulations. The Committee is satisfied with the overall system and processes in place.

Others

- Required briefing from management of selected low performing subsidiaries, to update the Committee about developments in their strategic directions and performance.
- Performed self-assessments and reviewed the results on the overall effectiveness of the Committee vis-à-vis its Charter.
- Attended briefing on Sustainability Reporting and discussed the related requirements from the company.
- Attended management's briefing on Meralco's Corporate Technology and Transformation and visited the company's Central Telecom Facility and the Green Data Center.
- Reviewed the performance of the Audit Committees of all subsidiaries for CY 2017 as reported by Internal Audit.
- Reviewed and approved the Audit Committee calendar for CY 2018.

March 16, 2018

On behalf of the Audit Committee:


Retired Chief Justice ARTEMIO V. PANGANIBAN
Chairman, Audit Committee

Manila Electric Company and Subsidiaries

Statement of Management's Responsibility for Consolidated Financial Statements

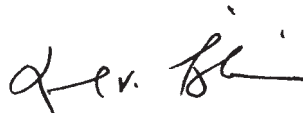
The Management of Manila Electric Company (the Company) is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, as at and for the year ended December 31, 2017, in accordance with the prescribed financial reporting framework 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


OSCAR S. REYES
President and Chief Executive Officer


BETTY C. SIY-YAP
Chief Finance Officer

Manila Electric Company and Subsidiaries

Independent Auditors' Report

The Board of Directors and Stockholders
Manila Electric Company and Subsidiaries

Opinion

We have audited the consolidated financial statements of Manila Electric Company and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, 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, 2017, 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, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2017 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 recognition

The Group's revenues from the sale of electricity represent 97% 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. The Group's financial statements provide the relevant disclosures related to the rate-making regulations and regulatory policies of the Energy Regulatory Commission (ERC). 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; and (c) the reliability of the IT systems involved in processing the billing transactions.

Notes 2, 4, 22, 23, 29 and 31 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 and formulae, as well as actual 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.

Retirement and other long-term employee benefits

The Group has defined benefit retirement and other long-term post-employment benefits plans for all regular employees. We consider this as a key audit matter because the valuation of the benefits obligation involves a significant level of management judgment. The valuation also requires an actuary whose calculations involve the use of certain assumptions, such as prospective salary increase, discount rate, mortality rates, and employee turnover rates that could have a material impact on the calculation of the benefits expense and liability.

Note 25 to the consolidated financial statements provides the relevant disclosures related to this matter.

Audit response

We obtained an understanding of the Group's defined benefit retirement and other long-term post-employment benefits plans as well as the processes included in estimating the amounts of the related liability and expense. We also involved an internal specialist to assist us with our review of the scope, bases of assumptions, methodology and results of the work by the Group's actuary, whose professional qualifications and objectivity were also evaluated. We compared the key inputs used, such as the attrition rates, discount rate, and future salary increase rate against the Group's internal data and external references. We also inquired about the basis of the salary rate increase and compared it against the Group's forecast. Moreover, we reviewed the required disclosures in the consolidated financial statements.

Provisions and contingencies

The Group is involved in certain proceedings for which the Group has recognized provisions for probable costs and/or expenses, which may be incurred, and/or has disclosed relevant information about such contingencies. This matter is important to our audit because the assessment of the potential outcome or liability involves significant management judgment and estimation.

Notes 18, 21 and 28 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. In addition, we evaluated the input data supporting the assumptions used, such as tariffs, tax rates, historical experience, regulatory rulings and other developments, against the Group's internal and external data and performed recalculations and inspection of relevant supporting documents. We also reviewed the disclosures on provisions and contingencies in the Group's consolidated financial statements.

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, 2017, 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, 2017 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.

Other Information

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 Martin C. Guantes.

SYCIP GORRES VELAYO & CO.


Martin C. Guantes

Partner

CPA Certificate No. 88494

SEC Accreditation No. 0325-AR-3 (Group A),
August 25, 2015, valid until August 24, 2018

Tax Identification No. 152-884-272

BIR Accreditation No. 08-001998-52-2018,
February 26, 2018, valid until February 25, 2021

PTR No. 6621267, January 9, 2018, Makati City

February 26, 2018

Consolidated Statements of Financial Position

		December 31	
	Note	2017	2016
		(Amounts in millions)	
ASSETS			
Noncurrent Assets			
Utility plant and others	7, 10 and 15	₱133,874	₱128,814
Investments in associates and interests in joint ventures	8 and 22	11,446	10,924
Investment properties	9 and 15	1,509	1,513
Deferred tax assets - net	27	16,146	13,019
Other noncurrent assets	2, 7, 10, 14, 25, 26, 28 and 29	41,948	53,759
Total Noncurrent Assets		204,923	208,029
Current Assets			
Cash and cash equivalents	11, 24 and 26	45,937	46,656
Trade and other receivables	10, 12 and 26	26,288	25,341
Inventories	13 and 24	3,330	2,792
Other current assets	10, 14, 22 and 26	22,877	13,219
Total Current Assets		98,432	88,008
Total Assets		₱303,355	₱296,037
EQUITY AND LIABILITIES			
Equity Attributable to Equity Holders of the Parent			
Common stock	15	₱11,273	₱11,273
Additional paid-in capital		4,111	4,111
Equity reserve	3	(126)	(328)
Employee stock purchase plan	15	1,049	1,049
Unrealized fair value losses on available-for-sale (AFS) financial assets	10	(160)	(271)
Remeasurement adjustments on retirement and other post-employment liabilities	25	2,329	3,384
Share in remeasurement adjustments on associates' retirement liabilities	8	(10)	(12)
Cumulative translation adjustments of subsidiaries and associates	8	1,175	1,085
Treasury shares	15	(11)	(11)
Retained earnings	15	53,980	54,137
Equity Attributable to Equity Holders of the Parent		73,610	74,417
Non-controlling Interests		822	729
Total Equity		74,432	75,146
Noncurrent Liabilities			
Interest-bearing long-term financial liabilities - net of current portion	16, 24 and 26	24,786	26,999
Customers' deposits - net of current portion	17, 21 and 26	24,000	23,501
Long-term employee benefits	25	4,559	3,119
Provisions	18, 21 and 28	18,456	19,170
Refundable service extension costs - net of current portion	21 and 26	6,012	4,927
Deferred tax liabilities - net	27	52	36
Other noncurrent liabilities	2, 5, 7, 23 and 28	45,219	38,537
Total Noncurrent Liabilities		123,084	116,289
Current Liabilities			
Notes payable	20, 24 and 26	13,586	11,475
Trade payables and other current liabilities	15, 16, 17, 18, 21, 22, 23, 26 and 28	83,950	83,920
Customers' refund	2, 19 and 26	4,603	4,988
Income tax payable		1,816	2,346
Current portion of interest-bearing long-term financial liabilities	16, 24 and 26	1,884	1,873
Total Current Liabilities		105,839	104,602
Total Liabilities		228,923	220,891
Total Liabilities and Equity		₱303,355	₱296,037

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Income

		Years Ended December 31		
	Note	2017	2016	2015
(Amounts in millions, except per share data)				
REVENUES				
Sale of electricity	22, 23, 29 and 31	₱275,172	₱249,206	₱249,773
Sale of other services	9 and 22	7,384	7,975	8,626
		282,556	257,181	258,399
COSTS AND EXPENSES				
Purchased power	23 and 29	214,558	189,853	192,117
Salaries, wages and employee benefits	24 and 25	12,595	12,841	12,420
Provision for probable losses and expenses from claims	18, 23 and 28	8,533	9,373	11,628
Depreciation and amortization	7, 9 and 10	7,520	7,312	6,910
Contracted services		5,933	5,618	4,668
Taxes, fees and permits		848	854	595
Provision for doubtful accounts		552	171	502
Other expenses	22 and 24	5,639	5,451	6,151
		256,178	231,473	234,991
OTHER INCOME (EXPENSES)				
Interest and other financial income	11 and 24	2,188	2,080	1,538
	7, 16, 17, 20 and 24	(1,530)	(1,343)	(1,216)
Interest and other financial charges		(1,530)	(1,343)	(1,216)
Foreign exchange gains		29	896	367
Equity in net earnings (losses) of associates and joint ventures	8	221	(1,677)	(27)
Others	2, 22 and 29	576	1,029	806
		1,484	985	1,468
INCOME BEFORE INCOME TAX		27,862	26,693	24,876
PROVISION FOR (BENEFIT FROM) INCOME TAX				
	27			
Current		10,031	10,099	9,732
Deferred		(2,668)	(2,746)	(4,045)
		7,363	7,353	5,687
NET INCOME		₱20,499	₱19,340	₱19,189
Attributable To				
Equity holders of the Parent	30	₱20,384	₱19,176	₱19,098
Non-controlling interests		115	164	91
		₱20,499	₱19,340	₱19,189
Earnings Per Share Attributable to Equity Holders of the Parent				
	30			
Basic		₱18.09	₱17.01	₱16.94
Diluted		18.09	17.01	16.94

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

		Years Ended December 31		
	Note	2017	2016	2015
		(Amounts in millions)		
NET INCOME		₱20,499	₱19,340	₱19,189
OTHER COMPREHENSIVE INCOME				
Items that will be reclassified to profit or loss in subsequent years:				
Unrealized fair value gain (loss) on available-for-sale financial assets	10	123	(414)	(11)
Income tax effect		(12)	41	1
		111	(373)	(10)
Cumulative translation adjustments of subsidiaries and associates	8	90	1,157	(427)
Items that will not be reclassified to profit or loss in subsequent years:				
Remeasurement adjustments on retirement and other post-employment liabilities	25	(1,504)	3,499	(524)
Income tax effect		455	(1,050)	157
		(1,049)	2,449	(367)
Share in remeasurement adjustments on associates' retirement liabilities		2	–	(1)
OTHER COMPREHENSIVE INCOME (LOSS), NET OF INCOME TAX		(846)	3,233	(805)
TOTAL COMPREHENSIVE INCOME, NET OF INCOME TAX		₱19,653	₱22,573	₱18,384
Total Comprehensive Income Attributable To				
Equity holders of the Parent		₱19,532	₱22,409	₱18,293
Non-controlling interests		121	164	91
		₱19,653	₱22,573	₱18,384

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Equity

For the years ended December 31, 2017, 2016 and 2015

	Equity Attributable to Equity Holders of the Parent												
	Common Stock (Note 15)	Subscription Receivable	Additional Paid-in Capital	Equity Reserve (Note 3)	Employee Stock Purchase Plan (Note 15)	Unrealized Fair Value Gains (Losses) on AFS Financial Assets (Note 10)	Remeasurement Adjustments on Retirement and Other Post-employment Liabilities (Note 25)	Share in Remeasurement Adjustments on Associates' Retirement Liabilities (Note 8)	Cumulative Translation Adjustments of Subsidiaries and Associates (Note 8)	Treasury Shares (Note 15)	Appropriated Retained Earnings (Note 15)	Unappropriated Retained Earnings (Note 15)	Equity Attributable to Equity Holders of the Parent
(Amounts in millions)													
At January 1, 2017	₱11,273	₱–	₱4,111	(₱328)	₱1,049	(₱271)	₱3,384	(₱12)	₱1,085	(₱11)	₱–	₱54,137	₱74,417
Net income	–	–	–	–	–	–	–	–	–	–	–	20,384	20,384
Other comprehensive income (loss)	–	–	–	–	–	111	(1,055)	2	90	–	–	–	(852)
Total comprehensive income (loss)	–	–	–	–	–	111	(1,055)	2	90	–	–	20,384	19,532
Additional investment of non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	–
Dividends	–	–	–	–	–	–	–	–	–	–	–	(20,541)	(20,541)
Excess of acquisition cost of controlling interest over carrying value of additional minority interest	–	–	–	202	–	–	–	–	–	–	–	–	202
At December 31, 2017	₱11,273	₱–	₱4,111	(₱126)	₱1,049	(₱160)	₱2,329	(₱10)	₱1,175	(₱11)	₱–	₱53,980	₱73,610
At January 1, 2016	₱11,273	₱–	₱4,111	(₱328)	₱1,049	₱102	₱935	(₱12)	(₱72)	(₱11)	₱11,000	₱52,229	₱80,276
Net income	–	–	–	–	–	–	–	–	–	–	–	19,176	19,176
Other comprehensive income (loss)	–	–	–	–	–	(373)	2,449	–	1,157	–	–	–	3,233
Total comprehensive income (loss)	–	–	–	–	–	(373)	2,449	–	1,157	–	–	19,176	22,409
Dividends	–	–	–	–	–	–	–	–	–	–	–	(28,268)	(28,268)
Reversal of appropriation	–	–	–	–	–	–	–	–	–	–	(11,000)	11,000	–
At December 31, 2016	₱11,273	₱–	₱4,111	(₱328)	₱1,049	(₱271)	₱3,384	(₱12)	₱1,085	(₱11)	₱–	₱54,137	₱74,417
At January 1, 2015	₱11,273	(₱8)	₱4,111	(₱328)	₱1,049	₱112	₱1,302	(₱20)	₱355	(₱11)	₱11,000	₱50,319	₱79,154
Net income	–	–	–	–	–	–	–	–	–	–	–	19,098	19,098
Other comprehensive income (loss)	–	–	–	–	–	(10)	(367)	(1)	(427)	–	–	–	(805)
Total comprehensive income (loss)	–	–	–	–	–	(10)	(367)	(1)	(427)	–	–	19,098	18,293
Effect of partial disposal of a joint venture	–	–	–	–	–	–	–	9	–	–	–	–	9
Collection of subscriptions receivable	–	8	–	–	–	–	–	–	–	–	–	–	8
Dividends	–	–	–	–	–	–	–	–	–	–	–	(17,188)	(17,188)
At December 31, 2015	₱11,273	₱–	₱4,111	(₱328)	₱1,049	₱102	₱935	(₱12)	(₱72)	(₱11)	₱11,000	₱52,229	₱80,276

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

Years Ended December 31				
	Note	2017	2016	2015
(Amounts in millions)				
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax		₱27,862	₱26,693	₱24,876
Adjustments for:				
Depreciation and amortization	7, 9 and 10	7,520	7,312	6,910
Provision for probable losses and expenses from claims - net	18, 23 and 28	6,959	8,691	11,611
Interest and other financial income	24	(2,188)	(2,080)	(1,538)
Interest and other financial charges	24	1,530	1,343	1,216
Equity in net losses (earnings) of associates and joint ventures	8	(221)	1,677	27
Provision for doubtful accounts	12	663	171	502
Others		205	(477)	(568)
Operating income before working capital changes		42,330	43,330	43,036
Decrease (increase) in:				
Trade and other receivables		(3,864)	(2,212)	5,496
Inventories		(538)	(519)	(59)
Other current assets		(3,847)	(326)	(754)
Increase (decrease) in:				
Trade payables and other current liabilities		(2,012)	1,423	887
Customers' deposits		3,953	3,786	(1,342)
Customers' refund		(385)	(562)	(387)
Long-term employee benefits		2,151	(2,153)	1,496
Cash generated from operations		37,788	42,767	41,683
Income tax paid		(9,403)	(7,416)	(6,690)
Net cash flows provided by operating activities		28,385	35,351	41,683
CASH FLOWS FROM INVESTING ACTIVITIES				
Additions to:				
Available-for-sale financial assets	10	(25,326)	(74,665)	(22,284)
Utility plant and others	7	(11,808)	(10,807)	(10,383)
Held-to-maturity investments	10	(1,515)	(9,819)	(26,421)
Investments in associates and interests in joint ventures	8 and 14	(858)	(1,398)	(80)
Intangible assets	10	(158)	(587)	(707)
Investment properties		-	-	(33)
Proceeds from sale of:				
Available-for-sale financial assets		31,249	65,711	11,485
Held-to-maturity investments		1,466	4,067	5,303
Interest and other financial income received		2,201	831	698
Dividends received from associates		473	491	605
Proceeds from disposal of utility plant and others		210	456	148
Increase (decrease) in minority interest due to acquisition of a subsidiary		(28)	(20)	174
Proceeds from disposal of interest in an associate	8	-	3,151	330
Proceeds from disposal of investment properties		-	-	20
Decrease in other noncurrent assets		(6,464)	(372)	(1,243)
Net cash used in investing activities		(10,558)	(22,961)	(42,388)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from:				
Availment of notes payable	20	4,705	11,907	929
Availment of interest-bearing long-term financial liabilities	16	600	-	-
Disposal of non-controlling interest	3	202	-	-
Collection of subscriptions receivable		-	-	8
Payments of:				
Dividends	15	(19,843)	(28,114)	(16,926)
Interest-bearing long-term financial liabilities		(2,827)	(417)	(400)
Notes payable	20	(2,593)	(1,475)	(286)
Interest and other financial charges		(1,387)	(1,256)	(1,882)
Increase in other noncurrent liabilities		2,597	2,781	633
Net cash used in financing activities		(18,546)	(16,574)	(17,924)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(719)	(4,184)	(18,629)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		46,656	50,840	69,469
CASH AND CASH EQUIVALENTS AT END OF YEAR	11	₱45,937	₱46,656	₱50,840

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

1. Corporate Information

Manila Electric Company ("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 Energy Regulatory Commission ("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. MERALCO's participation in retail electricity supply ("RES") is directly through its local RES unit, MPower and indirectly through its affiliate RES entities. 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. ("Comstech"), on January 10, 2017, February 9, 2017 and February 9, 2017, respectively.

The power segment, primarily power distribution, consists of operations of MERALCO and its subsidiary, Clark Electric Distribution Corporation ("CEDC"). CEDC 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-zone as determined pursuant to Presidential Decree No. 66 and the Joint Venture Agreement executed between CDC and Meralco Industrial Engineering Services Corporation ("MESCOR") dated February 19, 1997.

MERALCO is developing power generation plants through its wholly owned subsidiary, MGen, and is engaged in renewable energy projects through its wholly owned subsidiary, MSpectrum, Inc. ("Spectrum") and a joint-venture company, Pure Meridian Hydropower Corporation ("Pure Meridian"). Through several subsidiaries in the services segment, MERALCO provides engineering, design, construction and consulting services, bill collection services, distribution and energy management services, and communications, information systems and technology services.

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").

MERALCO is owned directly by two (2) major stockholder groups, Metro Pacific Investments Corporation ("Metro Pacific") and JG Summit Holdings, Inc. ("JG Summit"). 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 45.5% as at December 31, 2017 and 41.2% as at December 31, 2016. JG Summit has 29.56% and 27.12% direct ownership interest in MERALCO as at December 31, 2017 and 2016, respectively. First Philippine Holdings Corporation ("First Holdings") and First Philippine Utilities Corporation, also have direct equity ownership in MERALCO. The balance of MERALCO's common shares is held by institutional investors and the public.

The common 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 Board of Directors ("BOD") on February 26, 2018.

2. Rate Regulations

As distribution utilities ("DUs"), MERALCO and CEDC are subject to the rate-making regulations and regulatory policies of the ERC. Billings of MERALCO and CEDC to customers are itemized or "unbundled" into a number of bill components that reflect the various activities and costs incurred in providing electric service. 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 [ii] the "Rules for the Setting of Distribution Wheeling Rates" ("RDWR"), as modified by the ERC on December 1, 2009, which govern the determination of MERALCO's distribution, supply, and metering charges.

The rate-setting mechanism of CEDC is likewise in accordance with the ERC regulations. The following is a discussion of matters related to rate-setting of MERALCO and CEDC:

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*. 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 to meet operational performance and service level requirements responsive to the needs 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. The 4th *RP* for Group A *DUs* began on July 1, 2015 and shall end on June 30, 2019.

Maximum Average Price (“MAP”) for RY 2008 and RY 2009

On May 28, 2009, certain electricity consumer groups filed a Petition with the Court of Appeals, (“*CA*”), questioning the decision and Order of the *ERC* on *MERALCO*’s rate translation application for *RY*2008 and *RY*2009. On January 29, 2010, the *CA* promulgated a decision denying the Petition. Consequently, the consumer groups brought the case to the Supreme Court (“*SC*”). Comments, responses and respective manifestations have been filed by both parties. In a Decision dated October 10, 2016, the *SC* denied the Petition filed by the consumer groups.

MAP for RY 2012

On June 21, 2011, *MERALCO* filed its application for the approval of its *MAP* for *RY*2012 and translation into rate tariffs by customer category. In an order dated October 3, 2011, the *ERC* provisionally approved the *MAP* for *RY*2012 of ₱1.6012 per kilowatt hour (“*kWh*”) and the rate translation per customer class was implemented starting October 2011. Hearings for the final approval of the application have been completed and all parties have submitted their respective memoranda. As at February 26, 2018, the application is pending final approval by the *ERC*.

MAP for RY 2013

On March 30, 2012, *MERALCO* filed its application for the approval of its *MAP* for *RY*2013 and the translation thereof into rate tariffs by customer category. On June 11, 2012, the *ERC* provisionally approved the *MAP* for *RY*2013 of ₱1.6303 per *kWh*, which was reflected in the customer bills starting July 2012. Hearings on this case have been completed. As at February 26, 2018, the application is pending final approval by the *ERC*.

MAP for RY 2014

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. As at February 26, 2018, the application is pending final approval by the *ERC*.

MAP for RY 2015

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. As at February 26, 2018, the application is pending final approval by the *ERC*.

4th RP Reset Application

MERALCO’s 3rd *RP* ended on June 30, 2015 and is currently operating in the 4th *RP*. To initiate the reset process on April 12, 2016, the *ERC* posted on its website the following draft issuance for comments:

- Draft “Rules for Setting Distribution Wheeling Rates for Privately Owned Distribution Utilities Operating under Performance Based Regulation, First Entry Group: Fourth Regulatory Period”;
- Draft “Position Paper: Regulatory Reset for the July 1, 2015 to June 30, 2019 Fourth Regulatory Period for the First Entry Group of Privately Owned Distribution Utilities subject to Performance Based Regulation”; and
- Draft “Commission Resolution on the Issues on the Implementation of *PBR* for Privately Owned *DUs* under the *RDWR*”.

Under *ERC* Resolution No. 25, Series of 2016 dated July 12, 2016, the *ERC* promulgated a Resolution modifying the *RDWR* for privately-owned *DUs* entering the *PBR*. The *ERC* has directed *MERALCO* and Private Electric Power Operators Association (“*PEPOA*”) to publish the Resolution. However, *MERALCO* is seeking clarification from the *ERC* on certain issues in the Resolution, including the need to await the final decision of the *ERC* on the Petition for Rule Making filed by a consumer group to amend the *PBR*.

An initial hearing on the Petition for Rule Making filed by a consumer group was originally set by the *ERC* for January 9, 2017 and all interested parties were to file their comments on the Petition by December 26, 2016.

Subsequently, however, the *ERC* reset the hearing to January 23, 2017 with the deadline for filing of comments set on January 23, 2017. *MERALCO* filed its Comment to the Petition on January 9, 2017. Hearings were conducted on May 15 and June 21, 2017. The *ERC* Order for the date of the next public consultation is pending.

In a Notice dated November 16, 2016, the *ERC* approved the draft “Regulatory Asset Base Roll Forward Handbook for Privately Owned Electricity Distribution Utilities” (“*RAB Handbook*”) for posting in its website. All interested parties had 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 *RAB 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 consumer group’s Petition as referred in the foregoing has been resolved. As at February 26, 2018, the *ERC* has yet to resolve *MERALCO*’s Omnibus Motion.

Interim Average Rate beginning RY 2016

On June 11, 2015, *MERALCO* filed its application for the approval of a 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. *MERALCO* has completed the presentation of its evidence and is set to file its Formal Offer of Evidence (“*FOE*”) after the *ERC* rules on pending motions. As at February 26, 2018, the *ERC*’s ruling on these motions is pending.

MERALCO recognized provisions for any resulting over-recoveries which will eventually be refunded to the customers. The movements in and the balance of the “Other noncurrent liabilities” account in the consolidated statements of financial position substantially represent these provisions, consistent with the limited disclosure as allowed in *PFRS*.

Capital Expenditures (“CAPEX”) for RY 2016

Absent the release by the *ERC* of the final rules to govern the filing of its 4th *RP* reset, *MERALCO* filed on February 9, 2015 an application for approval of authority to implement its *CAPEX* program for *RY*2016 (July 1, 2015 to June 30, 2016) pursuant to Section 20(b) of Commonwealth Act No. 146, as amended, otherwise known as the Public Service Act. 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 ₱15.5 billion out of the total *RY*2016 *CAPEX* of ₱17.7 billion, subject to certain conditions. An intervenor has filed a Motion for Reconsideration (“*MR*”) on the Decision which is pending before the *ERC*. On July 25, 2016, *MERALCO* filed its opposition to the *MR*. As at February 26, 2018, the *ERC* ruling on the *MR* is pending.

CAPEX for RY 2017

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 the Public Service Act. On July 26, 2016, *MERALCO* received the Order dated May 5, 2016, which partially approved *MERALCO*’s *CAPEX* program for *RY*2017 amounting to ₱8.8 billion out of the total *RY*2017 *CAPEX* of ₱15.4 billion, 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. As at February 26, 2018, *MERALCO* is awaiting the final decision of the *ERC*.

CAPEX for RY 2018

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 the Public Service Act. On May 26, 2017, *MERALCO* received the Order dated May 15, 2017, which set the case for initial hearing. Hearings were conducted on June 22 and August 1, 2017, August 25, 2017 and September 22, 2017. A conference was also conducted with the *ERC* technical staff and the intervenor on October 12, 2017. On November 9, 2017, *MERALCO* filed its *FOE*. As at February 26, 2018, the case has been submitted for decision.

CEDC

CEDC 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*. A *RY* for *CEDC* begins on October 1 and ends on September 30. The 3rd *RP* for *CEDC* began on October 1, 2015 and shall end on September 30, 2019. *CEDC* is to undergo the reset process and is awaiting the release by the *ERC* of the final rules to govern the filing of its 3rd *RP* reset application.

3rd RP PBR Reset for CEDC

Pending the release by the *ERC* of the final rules to govern the filing of its 3rd *RP* Reset application and absence of subsequent rate translation process thereto, the approved *MAP* for *RY*2015 was used beginning *RY*2016.

On February 18 and December 29, 2016, *CEDC* filed with the *ERC* its Proposed *CAPEX* Program for *RY*s 2016 and 2017, respectively. *CEDC* applied for an approval to implement the *CAPEX* in order to continue to meet the electricity needs of its current and future customers, improve the flexibility, reliability and stability of its distribution network as well as improve customer service.

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 *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 Order dated March 20, 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* acknowledged receipt of the respective memoranda from parties and 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 an *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 July 11, 2017, the *SC* required the parties to comment on the Motion for Leave to Intervene and Comment-in-Intervention. The intervenors filed their Comments dated September 19, 2017. *MERALCO* filed its Comments on October 18, 2017. On October 27, 2017, *COA* filed its Comments (To the Motion for Leave to Intervene and Admit Attached Comment-in-Intervention). As at February 26, 2018, further action of the *SC* on the matter is pending.

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

On July 13, 2009, the *ERC* issued Resolution No. 16, Series of 2009, adopting the “Rules Governing the Automatic Cost Adjustment and True-up Mechanisms and Corresponding Confirmation Process for Distribution Utilities”. These rules 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, *LFT* and business tax. On October 18, 2010, the *ERC* promulgated *ERC* Resolution No. 21, Series of 2010, amending the *SL* true-up formula contained in Resolution No. 16, Series of 2009, and setting March 31, 2011 (covering adjustments implemented until the billing month of December 2010) and March 31, 2014 (covering adjustments from January 2011 to December 2013) as the new deadlines for *DUs* in Luzon to file their respective applications. Subsequent filings shall be made every three (3) years thereafter. On December 15, 2010, the *ERC* promulgated Resolution No. 23, Series of 2010 to govern the recovery of Senior Citizen Discounts and specified that post-verification shall coincide with the timeframes in Resolution No. 16, Series of 2009, as amended by Resolution No. 21, Series of 2010.

On March 31, 2011, *MERALCO* filed its application with the *ERC* to confirm its under- or over-recoveries accumulated from June 2003 to December 2010 in compliance with Resolution No. 16, Series of 2009, as subsequently amended by Resolution No. 21, Series of 2010. On December 8, 2011, *MERALCO* filed a Manifestation with Omnibus Motion praying, among other things, for the admission of the Supplemental Application, which was admitted by the *ERC* in an Order dated December 12, 2011. The filing includes net generation charge under-recoveries of ₱1,000 million, net transmission charge over-recoveries of ₱111 million, net lifeline subsidy under-recoveries of ₱9 million and net *SL* over-recoveries of ₱425 million, excluding proposed carrying charges. On June 1, 2015, the *ERC* approved with modification *MERALCO's* application for the confirmation of its over- or under-recoveries in its pass-through costs for the period June 2003 to December 2010. The Decision directed *MERALCO* to collect net under-recoveries of ₱909 million, without carrying charges, starting the next billing cycle until such time that the full amount has been collected. As at December 31, 2017, the amount has been fully recovered.

On July 6, 2012, *MERALCO* filed its application with the *ERC* to confirm its under- or over-recoveries for the calendar year 2011. The filing includes net generation charge under-recoveries of ₱1,826 million, net transmission charge under-recoveries of ₱253 million, net lifeline subsidy under-recoveries of ₱39 million and *SL* over-recoveries of ₱445 million, excluding proposed carrying charges. On June 1, 2015, the *ERC* approved with modification *MERALCO's* application for the confirmation of its over- or under-recoveries in its pass-through costs for the period January to December 2011. The Decision directed *MERALCO* to collect net under-recoveries of

₱1,535 million, without carrying charges, starting the next billing cycle until such time that the full amount has been collected. As at December 31, 2017, the amount has been fully recovered.

On March 31, 2014, *MERALCO* filed its application with the *ERC* to confirm its under- or over- recoveries of net generation charge under-recoveries of ₱559 million, transmission charge over-recoveries of ₱639 million, net lifeline subsidy over-recoveries of ₱75 million, *SL* over-recoveries of ₱502 million from January 2012 to October 2013, and net senior citizen discount over-recoveries of ₱0.4 million from February 2011 to October 2013, excluding proposed carrying charges. Under- or over-recoveries from November and December 2013 supply months were excluded in the meantime, in view of the pending *SC* and *ERC* cases involving pass-through costs for these months. As at February 26, 2018, hearings are ongoing.

On January 29, 2016, *MERALCO* filed its application to confirm its 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 26, 2018, the application is pending approval by the *ERC*.

On March 31, 2017, *MERALCO* filed its application with the *ERC* to confirm its net generation charge over-recoveries of ₱4,919 million, net transmission charge over-recoveries of ₱632 million, net lifeline subsidy over-recoveries of ₱131 million, net *SL* over-recoveries of ₱1,243 million, net senior citizen discount over-recoveries of ₱2 million from January 2014 to December 2016 and real property tax (“*RPT*”) payments under-recoveries of ₱1,090 million from June 2014 to December 2016. On May 11, 2017, the *ERC* approved *MERALCO's* application to refund the over-recoveries of pass through charges (generation costs, transmission costs, system loss, life line subsidies and senior citizen discount subsidy) for the period January 2014 to December 2016 amounting to ₱6,927 million. The Order deferred action on *MERALCO's* application for the recovery of *RPT* payments, citing the absence of any rule or guideline providing for the process of confirmation, approval and recovery of *RPT*. The ₱6,927 million refund was included in the June 2017 until August 2017 billings to customers. On September 7, 2017, *MERALCO* filed a Manifestation and Motion informing the *ERC* that the absolute amounts of the remaining over/under recoveries were applied to the September 2017 billing in order to zero out the refund as directed by the *ERC*. The next scheduled hearing is on April 17, 2018.

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 26, 2018, hearings are ongoing.

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 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 26, 2018, the proceedings remain suspended.

Deferred Purchase Price Adjustment (“Deferred PPA”)

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 *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 26, 2018, the *MR* is still pending resolution by the *ERC*.

Application for Recovery of LFT

On March 25, 2011, *MERALCO* filed with the *ERC* its application for recovery of *LFT* paid but not yet billed to customers for the period beginning the first quarter of 1993 up to the second quarter of 2004 for five (5) provinces, namely: Bulacan, Batangas, Cavite, Laguna and Rizal; and 14 cities, namely: San Jose Del Monte, Batangas, San Pablo, Tagaytay, Lucena, Mandaluyong, Marikina, Quezon, Caloocan, Pasay, Las Piñas, Manila, Pasig and Calamba. The *LFT* is recognized as a valid and reasonable *DU* pass-through cost in the *ERC's* unbundling decision.

In a Decision dated February 27, 2012, the *ERC* approved with modifications *MERALCO's* application. The *ERC* approved the recovery of *LFT* amounting to ₱1,571 million plus carrying charges of ₱730 million. As directed by the *ERC*, the recovery was reflected as a separate item in the *MERALCO* billing statement to its customers beginning April 2012. As at December 31, 2017, the *LFT* plus carrying charges have been fully recovered.

On June 13, 2013, *MERALCO* filed an application with the *ERC* for authority to collect *LFT* from customers of the City of Trece Martires, with prayer for provisional authority, beginning the date of effectivity of “*The 2012 Revenue Code of Trece Martires City*” on July 1, 2012. In its Decision dated April 28, 2014, the *ERC* approved said application, with modification, and authorized *MERALCO* to

recover the new *LFT* at the rate of 82.5% of 1%, prospectively, or effective its next billing cycle. With respect to the difference between the previous and the new *LFT* rates from the time said revenue code took effect, the *ERC* stated in its Decision that the same shall be considered in a separate application to be filed by *MERALCO* in accordance with the Tax Recovery Adjustment Charges ("*TRAC*") Formula under *ERC* Resolution No. 16 Series of 2009. On July 24, 2014, *MERALCO* filed a motion seeking the partial reconsideration of the Decision in so far as the filing of a separate application for *LFT* for the prior years is concerned. On October 29, 2014, the *ERC* released its Order dated September 24, 2014 denying *MERALCO*'s motion. In said Order, the *ERC* maintained its position that it shall consider in a separate application the difference between the previous and the new *LFT* rates from the time said revenue code took effect. On February 23, 2015, *MERALCO* paid the full amount of said *LFT* to the City Treasurer of Trece Martires.

On July 3, 2015, *MERALCO* filed the application for authority to recover the difference between the previous and new *LFT* rate for the calendar years 2012 to 2014 in the City of Trece Martires, under the *TRAC* formula with prayer for provisional authority, where it prayed for authority to collect from the customers in the City of Trece Martires the *LFT* amounting to ₱2 million for 2012 to 2014, which it had previously paid to the City of Trece Martires and the corresponding carrying cost. Hearings have been completed. On September 29, 2015, *MERALCO* filed its *FOE* with Manifestation and Compliance and thereby submitted the case for resolution. In a decision dated May 10, 2016, the *ERC* approved the application with modification.

On December 5, 2016, *MERALCO* filed the application for authority to implement the new *LFT* rates in the City of Manila and Quezon City as well as for authority to refund the differential *LFT* for 2014 to 2016 under the *TRAC* formula. Hearings have been completed and *MERALCO* filed its *FOE* on June 2, 2017. However, a consumer filed a motion to intervene after the termination of the proceedings. On June 23, 2017, *MERALCO* filed its opposition thereto. The *ERC* resolution of the motion to intervene is pending.

On October 25, 2017, *MERALCO* filed the application for authority to implement the new *LFT* rates in the City of Biñan as well as for authority to refund the differential *LFT* for 2017 under the *TRAC* formula. The *ERC* has not yet set the case for initial hearing.

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.

See Note 19 – Customers’ Refund.

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, held-to-maturity ("*HTM*") investments and available-for-sale ("*AFS*") financial assets, which are measured at fair value. *AFS* financial assets are included as part of "Other noncurrent assets" account in the consolidated statement of financial position.

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 Philippine Financial Reporting Standards ("*PFRS*").

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 as at December 31, 2017 and 2016.

Subsidiaries	Place of Incorporation	Principal Business Activity	2017	2016		
			Percentage of Ownership			
			Direct	Indirect	Direct	Indirect
Corporate Information Solutions, Inc. ("CIS")	Philippines	e-Transactions	100	—	100	—
CIS Bayad Center, Inc. ("Bayad Center") ¹	Philippines	Bills payment collection	—	95	—	100
Customer Frontline Solutions, Inc. ("CFSI")	Philippines	Telling services	—	100	—	100
Fieldtech Specialist, Inc. ("Fieldtech")	Philippines	Bills payment collection	—	51	—	51
Meralco Energy, Inc. ("MServ")	Philippines	Energy systems management	100	—	100	—
Aurora Managed Power Services, Inc. ("AMPSI")	Philippines	Energy systems management	—	60	—	60
eMeralco Ventures, Inc. ("e-MV")	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	IT and multi-media services	—	100	—	100
MGen	Philippines	Development of power generation plants	100	—	100	—
Calamba Aero Power Corporation ²	Philippines	Power generation	—	100	—	100
Atimonan Land Ventures Development Corporation	Philippines	Real estate	—	100	—	100
Atimonan One Energy, Inc. ("A1E") 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. ²	Philippines	Retail electricity supplier	—	100	—	100
Meralco Financial Services Corporation ("Finserve")	Philippines	Financial services provider	100	—	100	—
Republic Surety and Insurance Company, Inc. ("RSIC") ³	Philippines	Insurance	—	—	100	—
Lighthouse Overseas Insurance Limited ("LOIL")	Bermuda	Insurance	100	—	100	—
MRail, Inc. ("MRail")	Philippines	Engineering, construction and maintenance of mass transit system	100	—	100	—
Meridian Atlantic Light Company Limited ²	Nigeria	Management of power distribution	100	—	100	—
Spectrum	Philippines	Renewable energy	100	—	100	—
MIESCOR	Philippines	Engineering, construction and consulting services	99	—	99	—
Miescor Builders Inc. ("MBI")	Philippines	Electric transmission and distribution operation and maintenance services	—	99	—	99
Miescor Logistics Inc. ("MLI")	Philippines	General services, manpower/maintenance	—	99	—	99
CEDC	Philippines	Power distribution	65	—	65	—
Clarion Energy Management Inc. ("Clarion") ²	Philippines	Retail electricity supplier	—	65	—	65
Comstech	Philippines	Management of power distribution	60	—	60	—
MeridianX Inc. ²	Philippines	Retail electricity supplier	—	60	—	60
Vantage ²	Philippines	Retail electricity supplier	100	—	100	—

¹ In 2017, Densan System Limited Co. (a Japanese technology company) subscribed to 5% equity of Bayad Center. The excess of the net book value over the acquisition cost was recorded as equity reserve in the consolidated balance sheet under equity attributable to equity holders of the parent.

² Has not started commercial operations as at December 31, 2017.

³ In December 2017, *MERALCO*'s ownership interest in *RSIC* was reduced to 49% (see Note 8).

Control is achieved when the *MERALCO Group* is exposed, or has the right, to variable returns from its involvement with the investee. Specifically, the *MERALCO Group* controls an investee if and only if the *MERALCO Group* 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 period 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 in *MIESCOR* and its subsidiaries, *CEDC* and subsidiary, *Comstech*, *AMPSI*, *Fieldtech* and *Bayad Center* not held by *MERALCO* and are 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.

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 years except with respect to the adoption of the following amendments and improvements to existing standards, which were effective beginning January 1, 2017.

Amendment to PFRS 12, Clarification of the Scope of the Standard (Part of Annual Improvements to PFRSs 2014 – 2016 Cycle)

The amendments clarify that the disclosure requirements in *PFRS 12*, other than those relating to summarized financial information, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

Amendments to PAS 7, Statement of Cash Flows, Disclosure Initiative

The amendments to *PAS 7* require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendments, entities are not required to provide comparative information for preceding periods.

Amendments to PAS 12, Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact.

Future Changes in Accounting Policies and Disclosures

The following are the new and revised accounting standards and interpretation that are already issued but will become effective subsequent to December 31, 2017.

Effective beginning on or after January 1, 2018

Amendments to PFRS 2, Share-based Payment, Classification and Measurement of Share-based Payment Transactions

The amendments to *PFRS 2* address three (3) main areas: (i) the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; (ii) the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and (iii) the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three (3) amendments and if other criteria are met. Early application of the amendments is permitted.

Amendments to PFRS 4, Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4

The amendments address concerns arising from implementing *PFRS 9*, the new financial instruments standard before implementing the forthcoming insurance contracts standard. They allow entities to choose between the overlay approach and the deferral approach to deal with the transitional challenges. The overlay approach gives all entities that issue insurance contracts the option to recognize in other comprehensive income ("OCI"), rather than profit or loss, the volatility that could arise when *PFRS 9* is applied before the new insurance contracts standard is issued. On the other hand, the deferral approach gives entities whose activities are predominantly connected with insurance an optional temporary exemption from applying *PFRS 9* until the earlier of application of the forthcoming insurance contracts standard or January 1, 2021.

The overlay approach and the deferral approach will only be available to an entity if it has not previously applied *PFRS 9*.

PFRS 15, Revenue from Contracts with Customers

PFRS 15 establishes a new five (5)-step model that will apply to revenue arising from contracts with customers. Under *PFRS 15*, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in *PFRS 15* provide a more structured approach to measuring and recognizing revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under *PFRSs*. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018.

The *MERALCO Group* reviewed the potential impact of *PFRS 15* in relation to its current recognition and measurement of revenues. It also reviewed the related revenue contracts with its customers. Based on the review performed, *MERALCO Group* has assessed that *PFRS 15* will not have a significant impact on its consolidated financial statements.

PFRS 9, Financial Instruments

PFRS 9 reflects all phases of the financial instruments project and replaces *PAS 39, Financial Instruments: Recognition and Measurement*, and all previous versions of *PFRS 9*. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. *PFRS 9* is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The *MERALCO Group* has reviewed the impact of *PFRS 9*. It has performed calculation of loss rate under the simplified approach on its trade receivables. The *MERALCO Group* has initially calculated the historical losses for trade receivables for various brackets based on historical data and grouped its trade receivables according to *MERALCO Group's* customer class.

The *MERALCO Group* has also assessed the current portfolio of its financial assets and reviewed whether there will be changes in the classification of financial assets based on the new classification and recognition.

Based on the current information, the adoption of *PFRS 9* will have an effect on the classification and measurement of the *MERALCO Group's* financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the *MERALCO Group's* financial liabilities.

Amendments to PAS 28, Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 – 2016 Cycle)

The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss ("FVPL"). They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (i) the investment entity associate or joint venture is initially recognized; (ii) the associate or joint venture becomes an investment entity; and (iii) the investment entity associate or joint venture first becomes a parent. The amendments should be applied retrospectively, with earlier application permitted.

Amendments to PAS 40, Investment Property, Transfers of Investment Property

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight.

Philippine Interpretation IFRIC-22, Foreign Currency Transactions and Advance Consideration

The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The interpretation may be applied on a fully retrospective basis. Entities may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the

reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

Effective Beginning on or after January 1, 2019

Amendments to PFRS 9, Prepayment Features with Negative Compensation

The amendments to *PFRS 9* allow debt instruments with negative compensation prepayment features to be measured at amortized cost or fair value through other comprehensive income. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

PFRS 16, Leases

Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with *PAS 17, Leases*. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under *PAS 17*. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value. Entities may early adopt *PFRS 16* but only if they have also adopted *PFRS 15*. When adopting *PFRS 16*, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs.

The *MERALCO Group* reviewed its lease contracts and other significant contracts which may qualify to be accounted for as finance lease. The *MERALCO Group* has considered whether it has control over the use of the identified assets for a period of time for these contracts.

Based on the assessment of the *MERALCO Group*, the adoption of *PFRS 16* will have no significant impact on the consolidated financial statements.

Amendments to PAS 28, Long-term Interests in Associates and Joint Ventures

The amendments to *PAS 28* clarify that entities should account for long-term interests in an associate or joint venture to which the equity method is not applied using *PFRS 9*. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

Philippine Interpretation IFRIC-23, Uncertainty over Income Tax Treatments

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of *PAS 12* and does not apply to taxes or levies outside the scope of *PAS 12*, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

The *MERALCO Group* is currently assessing the impact of adopting this interpretation.

Deferred Effectivity

Amendments to PFRS 10 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, Business Combinations*. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

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

Significant Accounting Policies

The principal accounting policies adopted in the preparation of the consolidated 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 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 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 retained earnings.

See *Note 15 – 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 consolidated statement of income in the period 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 date 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.

Asset Retirement Obligations

Under the terms of certain lease contracts, the *MERALCO Group* is required to dismantle the installations made in leased sites and restore such sites to their original condition at the end of the term of the lease. The *MERALCO Group* recognizes a liability measured at the present value of the estimated costs of these obligations and capitalizes such costs as part of the balance of the related item of utility plant and others and investment properties. The amount of asset retirement obligations is accreted and such accretion is recognized as interest expense.

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 expected useful life of the underlying asset. Net assets funded by customers do not form part of *MERALCO*’s regulatory asset base until amount are fully refunded.

Net Over-recoveries of Pass-through Charges

Transmission costs and *SL* charge over-recoveries which result from the difference in the power suppliers’ billing and recovery of such pass-through costs from consumers are included in “Other noncurrent liabilities” account in the consolidated statements of financial position.

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 *MERALCO Group*’s share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The consolidated statement of income reflects the *MERALCO Group*’s share of the results of operations of the associate or joint venture. Any change in *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 profit or loss of an associate and a joint venture is shown on the face of the consolidated statement of income outside operating income and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint venture.

The financial statements of the associate or joint venture are prepared for the same reporting period as the *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 equity in net earnings of an associate and 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 retained 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 retained 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 expensed.

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 *PAS 39* 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 period, 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 15 – 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 period 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 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 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 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 period these are incurred.

Fair Value Measurement

The *MERALCO Group* measures financial instruments at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either (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 and others, intangible assets, investment properties, investments in associates and interests in joint ventures, receivable from the Bureau of Internal Revenue ("*BIR*"), and net under-recoveries of pass-through charges), 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 been recognized for the asset in prior periods. Such reversal is recognized in the consolidated statement of income. After such reversal, the depreciation and amortization expense are adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

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 periods.

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 periods.

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 Assets

Initial Recognition

Financial assets are classified as at *FVPL*, loans and receivables, *HTM* investments, *AFS* financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The classification of financial assets is determined at initial recognition and, where allowed and appropriate, re-evaluated at each reporting date.

Financial assets are recognized initially at fair value. Transaction costs are included in the initial measurement of all financial assets, except for financial instruments measured at *FVPL*.

Purchases or sales of financial assets that require delivery of assets within a timeframe established by regulation or convention in the market place (regular way purchase) are recognized on the trade date, which is the date the *MERALCO Group* commits to purchase or sell the asset.

The *MERALCO Group's* financial assets include cash and cash equivalents, trade and non-trade receivables, advance payments to a supplier, advances to an associate, short-term investments, investments in Unit Investment Trust Funds ("*UITFs*"), investments in government securities and quoted and unquoted equity securities.

Subsequent Measurement

The subsequent measurement of financial assets depends on the classification as follows:

Financial Assets at FVPL

Financial assets at *FVPL* include financial assets held-for-trading and financial assets designated upon initial recognition as at *FVPL*. Financial assets are classified as held-for-trading if they are acquired for the purpose of selling in the near term. Derivative assets, including separated embedded derivatives are also classified as held-for-trading unless they are designated as effective hedging instruments.

Financial assets may be designated at initial recognition as at *FVPL* if any of the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on them on a different basis; (ii) the financial assets are part of a group of financial assets, which are managed and their performance are evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial assets contain one (1) or more embedded derivatives that would need to be recorded separately.

Financial assets at *FVPL* are carried in the consolidated statement of financial position at fair value with gains or losses on fair value changes recognized in the consolidated statement of income under "Interest and other financial income" or "Interest and other financial charges" accounts. Interest earned and dividends received from investment at *FVPL* are also recognized in the consolidated statement of income under "Interest and other financial income" account.

Derivatives embedded in host contracts are accounted for as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value. These embedded derivatives are measured at fair value with gains and losses arising from changes in fair value recognized in the consolidated statement of income. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such financial assets are carried at amortized cost using the effective interest method. This method uses an effective interest rate that discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset. Gains or losses are recognized in the consolidated statement of income when the loans and receivables are derecognized or impaired, as well as when these are amortized. Interest earned or incurred is recorded in "Interest and other financial income" or "Interest and other financial charges" accounts, in the consolidated statement of income. Assets in this category are included under current assets except assets with maturities beyond 12 months from reporting date, which are classified as noncurrent assets.

HTM Investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as *HTM* when the *MERALCO Group* has the positive intention and ability to hold these assets to maturity. After initial measurement, *HTM* investments are measured at amortized cost using the effective interest method. Gains or losses are recognized in the consolidated statement of income. Assets in this category are included in the current assets except for maturities beyond 12 months from the reporting date, which are classified as noncurrent assets.

AFS Financial Assets

AFS financial assets are non-derivative financial assets that are designated as *AFS* or are not classified in any of the three (3) foregoing categories. They are purchased and held indefinitely and may be sold in response to liquidity requirements or changes in market conditions. After initial measurement, *AFS* financial assets are measured at fair value with unrealized gains or losses recognized in *OCI* until the investment is derecognized, at which time the cumulative gain or loss recorded in *OCI* is recognized in the consolidated statement of income, or determined to be impaired, at which time the cumulative loss recorded in *OCI* is recognized in the consolidated statement of income. Interest earned from *AFS* debt securities is included under "Interest and other financial income" account in the consolidated statement of income. Dividends earned from *AFS* equity are likewise recognized in the consolidated statement of income under "Interest and other financial income" account when the right to receive payment has been established. These are included under noncurrent assets unless there is an intention to dispose of the investment within 12 months from the reporting date.

Financial Liabilities

Initial Recognition

Financial liabilities are classified as financial liabilities at *FVPL*, other financial liabilities, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The classification of the financial liability is determined at initial recognition.

Financial liabilities are recognized initially at fair value inclusive of directly attributable transaction costs, except for financial liabilities at *FVPL*.

The *MERALCO Group's* financial liabilities include notes payable, interest-bearing long-term financial liabilities, trade payables and other current liabilities [excluding output value added tax ("VAT"), accrued taxes, reinsurance liabilities and deferred lease income], customers' deposits, refundable service extension costs, and customers' refund.

Subsequent Measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

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. Derivative liabilities, including separated embedded liabilities are also classified as held-for-trading unless they are designated as effective hedging instruments. Financial liabilities at *FVPL* are carried in the consolidated statement of financial position at fair value with gains or losses recognized in the consolidated statement of income under "Interest and other financial income" or "Interest and other financial charges" accounts. Interest incurred on financial liabilities designated as at *FVPL* is recognized in the consolidated statement of income under "Interest and other financial charges" account.

Financial liabilities may be designated at initial recognition as at *FVPL*, if any of the following criteria is met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognizing gains or losses on them on a different bases; (ii) the financial liabilities are part of a group of financial liabilities which are managed and their performance are evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liabilities contain one (1) or more embedded derivatives that would need to be recorded separately.

The *MERALCO Group* does not have financial liabilities designated as at *FVPL* as at December 31, 2017 and 2016.

Other Financial Liabilities

After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method.

Gains and losses are recognized in the consolidated statement of income when the liabilities are derecognized as well as when these are amortized. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are integral part of the effective interest rate. The effective interest amortization is included under "Interest and other financial charges" account in the consolidated statement of income.

Derivative Financial Instruments

Initial Recognition and Subsequent Measurement

Derivative instruments, including separated embedded derivatives, are initially recognized at fair value on the date at which a derivative transaction is entered into or separated, and are subsequently re-measured at fair value. Changes in fair value of derivative instruments, other than those accounted for as effective hedges, are recognized immediately in the consolidated statement of income. Changes in fair value of derivative instruments accounted for as effective hedges are recognized in *OCI*. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. The *MERALCO Group* does not have derivatives accounted for under hedge accounting.

An embedded derivative is separated from the hybrid or combined contract if all the following conditions are met: (a) the economic characteristics and risks of the embedded derivative are not clearly and closely related to the economic characteristics and risks of the host contract; (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and (c) the hybrid instrument is not recognized as at *FVPL*.

Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract. An entity determines whether a modification to cash flows is significant by considering the extent to which the expected future cash flows associated with the embedded derivative, the host contract or both have changed.

See *Note 26 – Financial Assets and Financial Liabilities*.

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 set off the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The *MERALCO Group* assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the *MERALCO Group* and all of the counterparties.

Amortized Cost of Financial Instruments

Amortized cost is computed using the effective interest method less any allowance for impairment and principal repayment, plus or minus the cumulative amortization of premium or discount. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of effective interest.

'Day 1' Profit or Loss

Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the *MERALCO Group* recognizes the difference between the transaction price and fair value ('Day 1' profit or loss) in the consolidated statement of income, unless it qualifies for recognition as some other type of asset or liability. In cases where data used are not observable, the difference between the transaction price and model value is only recognized in the consolidated statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the *MERALCO Group* determines the appropriate method of recognizing the 'Day 1' profit or loss amount.

Impairment of Financial Assets

The *MERALCO Group* assesses at each reporting date whether a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one (1) or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial Assets Carried at Amortized Cost

For financial assets carried at amortized cost, the *MERALCO Group* first assesses whether objective evidence of impairment exists individually. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether

significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment based on historical loss experience. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment. *MERALCO* and *CEDC* consider termination or disconnection of service and significant financial difficulties of debtors as objective evidence that a financial asset or group of financial assets is impaired. For both specific and collective assessments, any deposits, collateral and credit enhancement are considered in determining the amount of impairment loss.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan is subject to variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The carrying amount of the asset is reduced either directly or through the use of an allowance account and the amount of the loss is recognized in the consolidated statement of income. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. The financial asset together with associated allowance is written off when there is no realistic prospect of future recovery and all collateral or deposits have been realized or have been transferred to the *MERALCO Group*.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If an asset written off is recovered, the recovery is recognized in the consolidated statement of income. Any reversal of an impairment loss is recognized in the consolidated statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

AFS Financial Assets

In the case of equity instruments classified as *AFS*, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. When a decline in the fair value of an *AFS* financial asset has been recognized in *OCI* and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in *OCI* is reclassified from equity to profit or loss even though the financial asset has not been derecognized. The amount of the cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on the financial asset previously recognized in profit or loss. Impairment losses recognized in profit or loss for investment in equity instruments are not reversed in the consolidated statement of income. Subsequent increases in fair value after impairment are recognized directly in *OCI*.

In the case of debt instruments classified as *AFS*, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of "Interest and other financial income" in the consolidated statement of income. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of income, the impairment loss is reversed in the consolidated statement of income.

Assets Carried at Cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Derecognition of Financial Instruments

Financial Assets

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

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

Where the *MERALCO Group* has transferred its right to receive cash flows from an asset or has entered into a "pass-through" arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, a new asset is recognized to the extent of the *MERALCO Group's* continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the *MERALCO Group* could be required to repay.

Financial Liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the carrying amount of a financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed is recognized in the consolidated statement of income.

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 or 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.

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 "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 period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise 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 period in the net defined benefit liability or asset that arises from the passage of time, which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in the consolidated statement of income.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in *OCI* in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of 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's* contribution to the defined contribution plan as services are rendered by the employee.

Termination Benefits

Termination benefits are employee benefits provided in exchange for the severance from the company 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 they are accrued to the employees. The undiscounted liability for leave expected to be settled wholly before 12 months after the end of the reporting period is recognized for services rendered by employees up to the end of the reporting period.

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 defined benefit 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*.

Retained earnings include net income attributable to the equity holders of the Parent, reduced by dividends declared on common stock. Dividends are recognized as a 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 equity interests in *MIESCOR* and its subsidiaries, *CEDC* and subsidiary, *AMPSI*, *Comstech*, *Fieldtech* and *Bayad Center*, which are not held by *MERALCO*.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits associated with the transaction will flow to the *MERALCO Group* and the revenue can be reliably measured. In addition, collectibility is reasonably assured and the delivery of the goods or rendering of the service has occurred. The *MERALCO Group* assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The *MERALCO Group* concluded that it is acting as principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue 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*, 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* and business taxes (billed and collected on behalf of the national and local governments, respectively) and 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 *CEDC's* revenues. Revenues are adjusted for the estimated over and/or under-recoveries of pass-through charges.

Sale of Services

Revenues from construction contracts are recognized and measured using the percentage-of-completion method of accounting for the physical portion of the contract work, determined based on the actual costs incurred in relation to the total estimated costs of the contract. Revenue from contracts to manage, supervise or coordinate construction activity for others and contracts where materials and services are supplied by project owners are recognized only to the extent of the contracted fees.

Contract costs principally include subcontracted costs related to contract performance. 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; the stage of completion of contract activity; or the amount of profits expected to arise on other contracts, which are not treated as a single construction contract. Changes in contract performance, contract conditions and estimated profitability, including those arising after final contract settlements and after gross margins are recognized in the period in which the changes are determined.

Service and consulting fees are recognized when services are rendered.

Interest Income

Revenue is recognized as interest accrues, using the effective interest method. The effective interest rate is the rate that discounts estimated future cash receipts through the expected life of the financial instrument.

Dividends

Revenue is recognized when the *MERALCO Group's* right to receive the payment is established.

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 "Revenues – Sale of other services" account in the consolidated statement of income.

Expense Recognition

Expenses are decreases in economic benefits during the financial reporting period 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.

Insurance Claim Cost Recognition

Liabilities for unpaid claim costs and claim adjustment expenses relating to insurance contracts are accrued when the insured events occur.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or the arrangement conveys a right to use the asset.

Company as Lessee

Operating lease payments are recognized as expense in the consolidated statement of income on a straight-line basis over the lease term.

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 period in which they 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 of a subsidiary 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 disposal of the 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 period 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 asset is realized or the liability is 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 period attributable to equity holders of the parent by the weighted average number of common shares outstanding during the period.

Diluted earnings per share is calculated by dividing the net income for the period 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. Management's Use of 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 disclosure of contingent assets and liabilities, at the end of the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

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.

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

As a lessee, the *MERALCO Group* has commercial lease arrangements covering certain office spaces, payment offices and substation sites and towers. The *MERALCO Group* has determined, based on the evaluation of the terms and conditions of the arrangements, that it has not acquired any significant risks and rewards of ownership of such properties because the lease arrangements do not transfer to the *MERALCO Group* the ownership over the assets at the end of the lease term and do not provide the *MERALCO Group* a bargain purchase option over the leased assets. Consequently, the lease agreements are accounted for as operating leases.

Arrangement that Contains a Lease

MERALCO's Purchased Power Agreements ("*PPAs*") and Power Supply Agreements ("*PSAs*") with certain power generating companies qualify as leases on the basis that *MERALCO* and these power generating companies have 'take or pay' ("*ToP*") arrangements where payments for purchased power or for contracted capacity are made on the basis of the availability of the power plant and not based solely on actual consumption. In determining the lease classification, it is judged that substantially all the risks and rewards incident to the ownership of the power plants are with these power generating companies. Thus, the *PPAs* and *PSAs* are classified as operating leases. Accordingly, capacity fees, fixed operating and maintenance fees, and transmission line fees that form part of purchased power expense are accounted for similar to a lease.

Components of purchased power cost, which have been accounted for similar to a lease, amounted to ₱50,380 million, ₱49,522 million and ₱45,702 million for the years ended December 31, 2017, 2016 and 2015, respectively. These are recognized as "Purchased Power" in the consolidated statements of income.

See *Note 23 – Purchased Power*.

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 San Buenaventura Power Ltd. Co. ("*SBPL*"). While *MERALCO* owns majority of the voting rights in *SBPL*, it does not have sole control over *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 less than 20% of the Voting Rights Accounted for as an Associate

MERALCO, through *MGen*, has a 14% interest in Global Business Power Corporation ("*GBPC*"). *GBPC* is considered an associate and, thus, *MERALCO's* interest in *GBPC* is accounted for using the equity method as *MERALCO* is deemed to have significant influence in *GBPC* as evidenced by its representation in the *BOD* and Executive Committee and the provision of essential technical information to *GBPC*. This representation guarantees *MGen's* participation in the decision making acts and policy making process of *GBPC*.

MERALCO, through *Finserve*, has 10% interest in AF Payments, Inc. ("*AFPI*"). *AFPI* is considered an associate and, thus, *MERALCO/Finserve's* interest in *AFPI* 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 *AFPI*.

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 28 – 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 and Others, Intangible Assets with Finite Lives and Investment Properties

The *MERALCO Group* 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 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 period 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 ₱6,929 million, ₱6,828 million and ₱6,475 million for the years ended December 31, 2017, 2016 and 2015, respectively. Total carrying values of utility plant and others, net of accumulated depreciation and amortization, amounted to ₱133,874 million and ₱128,814 million as at December 31, 2017 and 2016, respectively.

Total depreciation of investment properties amounted ₱4 million, ₱5 million and ₱7 million for the years ended December 31, 2017, 2016 and 2015, respectively. Total carrying values of investment properties, net of accumulated depreciation, amounted to ₱1,509 million and ₱1,513 million as at December 31, 2017 and 2016, respectively.

Total amortization of intangible assets with finite lives amounted to ₱587 million, ₱479 million and ₱428 million for the years ended December 31, 2017, 2016 and 2015, respectively. Total carrying values of intangible assets with finite lives, net of accumulated amortization, amounted to ₱2,254 million and ₱2,713 million as at December 31, 2017 and 2016, respectively.

See *Note 7 – Utility Plant and Others*, *Note 9 – Investment Properties* and *Note 10 – Other Noncurrent 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 and others, intangible assets with finite lives, investment properties, investments in associates and interests in joint ventures, goodwill 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 and others, intangible assets with finite lives, construction in progress, investment properties, investments in associates and interests in joint ventures, and other noncurrent assets are impaired. Any resulting impairment loss could have material adverse impact on the *MERALCO Group's* consolidated 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 *PFRS*.

Provision for impairment loss on net under-recoveries of pass-through charges amounted to ₱4,436 million and ₱1,371 million as at December 31, 2017 and 2016, respectively.

The carrying values of nonfinancial assets subject to impairment review are as follows:

Account	2017	2016
	<i>(Amounts in millions)</i>	
Utility plant and others	₱133,874	₱128,814
Investments in associates and interest in joint ventures	11,446	10,924
Intangible assets	2,254	2,713
Investment properties	1,509	1,513
Receivable from the <i>BIR</i>	181	181
Goodwill	35	36

See *Note 7 – Utility Plant and Others*, *Note 8 – Investments in Associates and Interests in Joint Ventures*, *Note 9 – Investment Properties* and *Note 10 – Other Noncurrent Assets*.

Goodwill

The *MERALCO Group's* consolidated financial statements and the results of operations reflect acquired businesses after the completion of the respective acquisition. The *MERALCO Group* accounts for the acquisition of businesses using the acquisition method of accounting, which requires extensive use of accounting judgments and estimates to allocate the purchase price to the fair market values of the acquire's identifiable assets and liabilities and contingent liabilities, if any, at the acquisition date. Any excess in the purchase price over the estimated fair market values of the net assets acquired is recorded as goodwill in the consolidated statement of financial

position. Thus, the number of items, which involves judgments made in estimating the fair market value to be assigned to the acquiree’s assets and liabilities, can materially affect the *MERALCO Group’s* financial position.

Realizability of Deferred Tax Assets

The *MERALCO Group* reviews the carrying amounts of deferred tax assets at the end of each reporting period 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 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 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 tax assets:

	2017	2016
	(Amounts in millions)	
Recognized deferred tax assets	₱26,151	₱23,816
Unrecognized deferred tax assets	422	489

See *Note 27 – Income Taxes and Local Franchise Taxes*.

Determination of Fair Values of Financial Assets and Financial Liabilities

Where fair value of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but when this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair values of financial instruments.

See *Note 26 – Financial Assets and Financial Liabilities*.

Estimating Allowance for Doubtful Accounts

If there is objective evidence that an impairment loss has been incurred in the trade and other receivables balance of the *MERALCO Group*, an estimate of the allowance for doubtful accounts related to trade and other receivables that are specifically identified as doubtful of collection is made. The amount of allowance is evaluated by management on the basis of factors that affect the collectability of the accounts. In such case, use of judgment based on the best available facts and circumstances, including but not limited to, the length of the *MERALCO Group’s* relationship with the customer and the customer’s credit status based on third party credit reports and known market factors, to record specific reserves for customers against amounts due in order to reduce the *MERALCO Group’s* receivables to amounts that management expects to collect is applied. These specific reserves are re-evaluated and adjusted as additional information received affect the amounts estimated.

In addition to specific allowance against individually significant receivables, an assessment for collective impairment allowance against credit exposures of the customers, which were grouped based on common credit characteristics, although not specifically identified as requiring a specific allowance, have a greater risk of default than when the receivables were originally granted to customers is done. This collective allowance is based on historical loss experience using various factors, such as historical performance of the customers within the collective group, deterioration in the markets in which the customers operate, and identified structural weaknesses or deterioration in the cash flows of customers.

Total asset impairment provision for trade and other receivables, net of recoveries, recognized in the consolidated statements of income amounted to ₱552 million, ₱171 million and ₱502 million for the years ended December 31, 2017, 2016 and 2015, respectively. Trade and other receivables, net of asset impairment, amounted to ₱26,288 million and ₱25,341 million as at December 31, 2017 and 2016, respectively.

See *Note 12 – 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 no longer usable are written off and charged as expense in the consolidated statement of income.

The carrying values of inventories amounted to ₱3,330 million and ₱2,792 million as at December 31, 2017 and 2016, respectively.

See *Note 13 – 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. The retirement and other post-employment benefits expense amounted to ₱908 million, ₱1,265 million and ₱1,364 million for the years ended December 31, 2017, 2016 and 2015, respectively. The retirement and other post-employment benefit liabilities as at December 31, 2017 and 2016 amounted to ₱2,022 million and ₱1,875 million, respectively. The retirement surplus presented as part of other noncurrent assets amounted to ₱1,860 million as at December 31, 2016.

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 specific country 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 specific country.

See *Note 24 – Expenses and Income* and *Note 25 – Long-term Employee Benefits*.

Insurance Liabilities Arising from Insurance Contracts

RSIC estimates the expected ultimate costs of claims reported and claims incurred but not yet reported as at the reporting date. It takes a significant period of time to establish with certainty the ultimate cost of claims.

The primary technique adopted by *RSIC’s* management in estimating the cost of claims incurred but not yet reported is using the past claims settlement trend to predict the future claims settlement trend. At each reporting date, estimates of prior period claims are reassessed for adequacy and any changes are charged to provisions. Insurance contract liabilities are not discounted for the time value of money.

As at December 31, 2016, gross carrying values of insurance liabilities arising from insurance contracts, included in “Other noncurrent liabilities” account, amounted to ₱269 million.

Provisions

The *MERALCO Group* has various claims, assessments and cases as discussed in *Note 28 – Contingencies and Legal Proceedings*. The *MERALCO Group’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.

The *MERALCO Group*, in consultation with its external 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 ₱8,533 million, ₱9,373 million and ₱11,628 million for the years ended December 31, 2017, 2016 and 2015, respectively.

See *Note 18 – Provisions* and *Note 21 – 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 *CEDC* 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 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 periods.

Revenues and costs from construction contracts of *MIESCOR* are recognized based on the percentage of completion method. This is measured principally on the basis of the estimated completion of a physical proportion of the contract work as determined from the reports of the contractors and project consultants.

6. Segment Information

Each operating segment of the *MERALCO Group* engages in business activities from which revenues are earned and expenses are incurred (including revenue and expenses relating to 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 determine 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 *CEDC* franchise areas in Luzon. Electricity distribution within the *MERALCO* franchise area accounts for approximately 55% of the power requirements of the country. *CEDC's* franchise area covers Clark Special Economic Zone and the sub-zone.

Power generation – The *MERALCO Group's* re-entry into power generation is through investments in operating companies or participation in the development of power generation projects. *MGen*, the power generation arm of the *MERALCO Group*, has a 14% equity interest in *GBPC* effective June 30, 2016. *GBPC* owns a total of 854 MegaWatt ("*MW*") (gross) of coal and diesel-fired power plants.

MGen owns an effective 28% equity in PacificLight Power Pte Ltd. ("*PacificLight Power*") in Jurong Island, Singapore. *PacificLight Power* owns and operates a 2 x 400 *MW*/liquefied natural gas ("*LNG*") power plant which began commercial operations in February 2014.

MGen, through *SBPL*, is constructing a 455 *MW*(net) supercritical coal-fired power plant in Mauban, Quezon. The *PSA* with *MERALCO* was approved by the *ERC* on May 19, 2015.

MGen is developing a 2 x 600 *MW*(net) ultra-supercritical coal-fired power plant in Atimonan, Quezon through *A1E*. *A1E* is in the final stage of selection for an Engineering, Procurement and Construction ("*EPC*") contractor. The expected completion of the first unit is in 2021 and the second 600 *MW* by early 2022. A *PSA* has been executed between *A1E* and *MERALCO* for the full capacity. The *PSA* was filed with the *ERC* for approval.

MGen is also developing (i) a 2 x 300 *MW*(net) Circulating Fluidized Bed ("*CFB*"), coal-fired power plant in the Subic Freeport Zone through Redondo Peninsula Energy, Inc. ("*RP Energy*"), and (ii) a 2 x 350 *MW*(net) sub-critical pulverized coal-fired power plant in Calaca, Batangas through St. Raphael Power Generation Corporation ("*St. Raphael*"), and among others.

MGen also has 49% equity interest in Mariveles Power Generation Corporation ("*Mariveles Power*") which is developing a 4 x 132 *MW* coal-fired power plant in Bataan.

MERALCO also subscribed to a 50% equity interest in *Pure Meridian* which is primarily engaged in the development of various mini-hydroelectric power projects.

See Note 8 – Investments in Associates and Interests in Joint Ventures.

RES – This covers the sourcing and supply of electricity to qualified contestable customers. *MERALCO* serves as a local retail electricity supplier within its franchise area under a separate business unit, *MPower*. Under Retail Competition and Open Access ("*RCOA*"), qualified contestable customers who opt to switch to contestability and elects to be among contestable customers may source their electricity supply from any retail electricity supplier, including *MPower*.

The *ERC* granted the following subsidiaries distinct *RES* licenses to operate as retail electricity suppliers within Luzon and Visayas: *Vantage*, a wholly owned subsidiary of *MERALCO*, *Solvre*, a wholly owned subsidiary of *MGen*, *MeridianX*, a wholly owned subsidiary of *Comstech*, on January 10, 2017, February 9, 2017 and February 9, 2017, respectively. *Clarion*, a wholly owned subsidiary of *CEDC*, has submitted the requirements for its *RES* licensing to *ERC*. As at February 26, 2018, the approval of its *RES* licensing is pending with the *ERC*.

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, telecoms services, rail-related operations and maintenance services, insurance and re-insurance, e-business development, power distribution management, and energy systems management and harnessing renewable energy. These services are provided by *MIESCOR*, *MBI* and *MLI* (collectively known as "*MIESCOR Group*"), *CLIS*, *Bayad Center*, *CFSI* and *Fieldtech* (collectively referred to as "*CLIS Group*"), *e-MVI*, *Paragon* and *Radius* (collectively referred to as "*e-MVI Group*"), *Comstech*, *MRail*, *RSIC*, *LOIL*, *Finserve*, *MServ* and *Spectrum*.

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

Consolidated core *EBITDA* is measured as *CCNI* excluding depreciation and amortization, interest and other financial charges, interest and other financial income, equity in net earnings or losses of associates and joint ventures 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 done on 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. The *MERALCO Group* has no revenues from transactions with a single external customer accounting for 10% or more of its revenues from external customers.

Note	Power			Other Services			Inter-segment Transactions			Total	
	2017	2016	2015	2017	2016	2015	2017	2016	2015	2017	2015
	(Amounts in Millions)										
Revenues	₱275,172	₱249,206	₱249,773	₱9,547	₱9,866	₱10,422	(₱2,163)	(₱1,891)	(₱1,796)	₱282,556	₱257,181
Segment results	₱32,599	₱32,495	₱29,304	₱1,904	₱2,450	₱2,187	₱–	₱–	₱–	₱34,503	₱34,945
Depreciation and amortization	(7,135)	(6,948)	(6,607)	(385)	(364)	(303)	–	–	–	(7,520)	(7,312)
Interest and other financial income	24 2,153	2,027	1,506	35	53	32	–	–	–	2,188	2,080
Equity in net earnings (losses) of associates and joint ventures	8 293	(1,567)	(27)	(72)	(110)	–	–	–	–	221	(1,677)
Interest and other financial charges	24 (1,450)	(1,293)	(1,187)	(80)	(50)	(29)	–	–	–	(1,530)	(1,343)
Provision for income tax - net	(6,812)	(6,749)	(5,146)	(551)	(604)	(541)	–	–	–	(7,363)	(7,353)
Net income attributable to non-controlling interests	–	–	–	–	–	–	(115)	(164)	(91)	(115)	(91)
Net income attributable to equity holders of the Parent	₱19,648	₱17,965	₱17,843	₱851	₱1,375	₱1,346	(₱115)	(₱164)	(₱91)	₱20,384	₱19,176

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:

	2017	2016	2015
	(Amounts in millions)		
<i>EBITDA</i>	₱34,474	₱34,049	₱31,124
Add (Deduct):			
Depreciation and amortization	(7,520)	(7,312)	(6,910)
Interest and other financial income	2,188	2,080	1,538
Interest and other financial charges	(1,530)	(1,343)	(1,216)
Equity in net earnings (losses) of associates and joint ventures	221	(1,677)	(27)
Foreign exchange gains	29	896	367
Income before income tax	27,862	26,693	24,876
Provision for income tax	(7,363)	(7,353)	(5,687)
Net income	₱20,499	₱19,340	₱19,189

The following table shows the reconciliation of the *CCNI* to net income:

	2017	2016	2015
	<i>(Amounts in millions)</i>		
<i>CCNI</i>	₱20,213	₱19,583	₱18,887
Add (Deduct) non-core items, net of tax:			
Foreign exchange gains	27	718	337
Non-core income (expenses)	144	(1,125)	(126)
Net income for the year attributable to equity holders of the Parent	20,384	19,176	19,098
Net income for the year attributable to non-controlling interests	115	164	91
Net income	₱20,499	₱19,340	₱19,189

7. Utility Plant and Others

The movements in utility plant and others are as follows:

2017									
<i>(Amounts in millions)</i>									
Note	Subtransmission and Distribution	Land	Buildings and Improvements	Communication Equipment	Office Furniture, Fixtures and Other Equipment	Transportation Equipment	Others	Construction in Progress	Total
<i>Cost:</i>									
Balance at beginning of year	₱160,528	₱15,363	₱6,279	₱2,726	₱3,242	₱3,425	₱4,188	₱10,861	₱206,612
Additions	287	5	79	90	153	306	199	10,850	11,969
Disposals/retirements	(236)	(7)	—	(200)	(149)	(195)	(19)	—	(806)
Deconsolidation of a subsidiary	—	—	(10)	—	(4)	(6)	(15)	—	(35)
Transfers from construction in progress	7,264	—	135	85	—	—	253	(7,737)	—
Reclassifications	10	—	18	25	1	—	(14)	—	30
Balance at end of year	167,843	15,361	6,501	2,726	3,243	3,530	4,592	13,974	217,770
<i>Less accumulated depreciation and amortization:</i>									
Balance at beginning of year	67,164	—	2,593	1,301	2,306	2,212	2,222	—	77,798
Depreciation and amortization	5,680	—	191	203	301	276	278	—	6,929
Deconsolidation of a subsidiary	—	—	(9)	—	(4)	(3)	(13)	—	(29)
Disposals/retirements	(218)	—	(29)	(193)	(102)	(252)	(8)	—	(802)
Reclassifications	10	—	(1)	(79)	(4)	—	84	—	—
Balance at end of year	72,626	—	2,745	1,232	2,497	2,233	2,563	—	83,896
Net book value	₱95,217	₱15,361	₱3,756	₱1,494	₱746	₱1,297	₱2,029	₱13,974	₱133,874

2016									
<i>(Amounts in millions)</i>									
Note	Subtransmission and Distribution	Land	Buildings and Improvements	Communication Equipment	Office Furniture, Fixtures and Other Equipment	Transportation Equipment	Others	Construction in Progress	Total
<i>Cost:</i>									
Balance at beginning of year	₱155,590	₱15,280	₱6,213	₱2,482	₱3,057	₱3,306	₱3,713	₱7,808	₱197,449
Additions	693	83	31	165	187	173	484	9,181	10,997
Disposals/retirements	(1,662)	—	(3)	—	(14)	(54)	(77)	—	(1,810)
Transfers from construction in progress	5,939	—	45	77	15	—	52	(6,128)	—
Reclassifications	10	(32)	—	(7)	2	(3)	—	16	(24)
Balance at end of year	160,528	15,363	6,279	2,726	3,242	3,425	4,188	10,861	206,612
<i>Less accumulated depreciation and amortization:</i>									
Balance at beginning of year	62,982	—	2,428	1,094	2,035	1,983	2,014	—	72,536
Depreciation and amortization	5,629	—	169	210	286	258	276	—	6,828
Disposals/retirements	(1,444)	—	(3)	—	(12)	(29)	(74)	—	(1,562)
Reclassifications	10	(3)	—	(1)	(3)	—	6	—	(4)
Balance at end of year	67,164	—	2,593	1,301	2,306	2,212	2,222	—	77,798
Net book value	₱93,364	₱15,363	₱3,686	₱1,425	₱936	₱1,213	₱1,966	₱10,861	₱128,814

As at December 31, 2017 and 2016, the net book values of customer-funded assets included in “Utility plant and others” account amounted to ₱2,922 million and ₱2,657 million, respectively. The corresponding liabilities to customers in the same amounts as at December 31, 2017 and 2016 are included in “Other noncurrent liabilities” account in the consolidated statements of financial position.

Construction in progress pertains to both electric capital projects (“*ECBs*”) and non-*ECBs*. *ECBs* 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 ₱161 million, ₱190 million and ₱180 million for the years ended December, 2017, 2016 and 2015, respectively.

The average annual interest rates used for capitalization in 2017, 2016 and 2015 ranged from 4.45% to 4.7%, 4.4% to 4.5% and 4.4% to 4.6%, respectively.

8. Investments in Associates and Interests in Joint Ventures

This account consists of the following as at December 31, 2017 and 2016:

			2017	2016
	Place of Incorporation	Principal Activity	Percentage of Ownership	
Associates				
<i>RP Energy</i>	Philippines	Power generation	47	47
FPM Power Holdings Limited (“ <i>FPM Power</i> ”)	British Virgin Islands	Investment and holding company	40	40
Bauang Private Power Corporation (“ <i>BPPC</i> ”)	Philippines	Power generation	38	38
Aclara Meters Philippines, Inc. (“ <i>Aclara Meters</i> ”), formerly General Electric Philippines Meter and Instrument Company, Inc.		Sale of metering products and services	35	35
Indra Philippines, Inc. (“ <i>Indra Philippines</i> ”)	Philippines	Management and <i>IT</i> consultancy	24	24
<i>GBPC</i>	Philippines	Power generation	14	14
<i>AFPI</i>	Philippines	Electronic payment clearing and settlement system operator	10	10
Joint Ventures				
<i>SBPL</i>	Philippines	Power generation	51	51
		Maintenance of mass transit system	50	51
MRail-DESCO Joint Venture (“ <i>MDJV</i> ”)	Philippines	Power generation	50	50
<i>St. Raphael</i>	Philippines	Power generation	50	50
Rockwell Business Center Joint Venture (“ <i>RBC JV</i> ”)	Philippines	Real estate	30	30
<i>Pure Meridian</i>	Philippines	Renewable energy	49	49
<i>Mariveles Power</i>	Philippines	Power generation	49	49
Powersource First Bulacan Solar, Inc. (“ <i>First Bulacan</i> ”)	Philippines	Renewable energy	40	—
<i>RSIC</i>	Philippines	Insurance	49	—

The movements in investments in associates and interests in joint ventures account are as follows:

	2017	2016
	<i>(Amounts in millions)</i>	
Acquisition costs:		
Balance at beginning of year	₱13,620	₱15,214
Additions	857	1,398
Disposal	—	(2,992)
Balance at end of year	14,477	13,620
Accumulated equity in net losses:		
Balance at beginning of year	(3,748)	(1,513)
Equity in net earnings (losses)	221	(1,677)
Dividends	(473)	(491)
Disposal	(171)	(67)
Balance at end of year	(4,171)	(3,748)
Share in remeasurement adjustments on retirement liabilities:		
Balance at beginning of year	(12)	(12)
Actuarial gain	2	—
Balance at end of year	(10)	(12)
Share in cumulative translation adjustments:		
Balance at beginning of year	1,064	(86)
Translation adjustments	86	1,150
Balance at end of year	1,150	1,064
	₱11,446	₱10,924

The carrying values of investments in associates and interests in joint ventures follow:

	2017	2016
	<i>(Amounts in millions)</i>	
<i>GBPC</i>	₱5,197	₱5,210
<i>FPM Power</i>	1,863	1,911
<i>RP Energy</i>	1,373	934
<i>RBC JV</i>	1,066	1,098
<i>Mariveles Power</i>	954	959
<i>Indra Philippines</i>	278	238
<i>RSIC</i>	236	–
<i>SBPL</i>	159	213
<i>Pure Meridian</i>	117	25
<i>Aclara Meters</i>	71	54
<i>First Bulacan</i>	51	–
<i>St. Raphael</i>	48	58
<i>MDJV</i>	22	28
<i>BPPC</i>	11	11
<i>AFPI</i>	–	185
	₱11,446	₱10,924

GBPC

On June 30, 2016, *MGen* and *JG Summit* executed a deed of absolute assignment of shares whereby *MGen* sold and assigned 153,921,676 shares representing 8% of its equity interest in *GBPC* to *JG Summit* for ₱3,151 million, resulting in reduction of *MGen's* equity interest from 22% to 14%.

GBPC owns an aggregate of 854 *MW*(gross) of coal and diesel-fired power plants in operation in the Visayas which include Panay Energy Development Corporation's (" *PEDC*") 150 *MW CFB* coal-fired facility in Panay Island which started commercial operations in November 2016. A *PSA* for the 70 *MW* plant capacity has been provisionally approved by the *ERC* on January 17, 2017.

In June 2017, *GBPC* acquired a 50% equity interest in Alsons Thermal Energy Corporation (" *ATEC*"). *ATEC* holds 75% equity interest in a 105 *MW*(net) *CFB* plant in Maasim, Sarangani that started commercial operations in 2016. Another 105 *MW CFB* unit is targeted to be completed by 2019.

FPM Power

FPM Power is 40%-owned by *MERALCO* through *MPG Asia* (a 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.

In December 2016, *FPM Power* recognized impairment charge on its investment in *PacificLight Power*. The impairment charge of ₱1.2 billion covers solely goodwill related to the acquisition and is included in the equity in net losses of associates in the 2016 consolidated statement of income.

RP Energy

On July 22, 2011, *MGen* signed a Shareholders' Agreement with Therma Power, Inc. (" *TPP*") and Taiwan Cogeneration International Corporation – Philippine Branch (" *TCIC*") for the construction and operation of a 2 x 300 *MW CFB*, coal-fired power plant to be located in the Subic Bay Freeport Zone. The development and operations shall be undertaken by *RP Energy*, the joint venture entity.

On February 3, 2015, *RP Energy* received the *SC's* decision denying the Writ of *Kalikasan* case previously filed by certain opposing parties against its planned power plant due to insufficiency of evidence. The *SC* upheld the validity of the Environment Compliance Certificate (" *ECC*") and its first two (2) amendments, as well as the Lease and Development Agreement (" *LDA*") between *RP Energy* and Subic Bay Metropolitan Authority (" *SBMA*"). On February 23, 2016, the *LDA* and transmission line Right-of-Way (" *RoW*") lease agreement with *SBMA* were signed.

The development of the 2 x 300 *MW* project shall be implemented in two (2) phases. On October 13, 2016, the *EPC* for the first 300 *MW* was signed.

In April 2016, *RP Energy* signed separate *PSAs* with *MERALCO* and Aboitiz Energy Solutions, Inc. (" *Aboitiz Energy*"). *RP Energy* is awaiting the approval of its *PSA* with *MERALCO* by the *ERC*.

RP Energy's project has been issued a Certificate of Registration in June 2016 by the Board of Investments (" *BOI*") granting the project certain investment promotion incentives.

On December 22, 2016, *RP Energy* signed a loan agreement with three (3) local banks for the ₱31.5 billion project financing. The approval of the *PSA* between *RP Energy* and *Aboitiz Energy* by the *ERC* is a condition precedent to the first loan drawdown.

Site preparation of the first 300 *MW* unit has been completed, with expected commercial operations in the second half of 2021. The second phase shall follow within 12 months, subject to progress of *NGCP's RoW* acquisition for the new transmission line that will connect the second phase to the grid.

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*.

Mariveles Power

On June 16, 2016, *MERALCO* and *Mariveles Power* executed a joint venture agreement to develop, construct, finance, own, operate and maintain a 4 x 132 *MW* coal-fired power plant and associated facilities in Mariveles, Bataan. The project is awaiting issuance of an *ECC* by the *DENR*.

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.

SBPL

On August 29, 2013, *MGen* signed a Joint Development Agreement with New Growth B.V., a 100% subsidiary of Electricity Generating Public Company Limited of Thailand (" *EGCO*") for the development of a new 455 *MW*(net) supercritical coal-fired power plant in Mauban, Quezon. *MGen's* equity in the joint venture company, *SBPL*, is 51%, with the option to assign or transfer 2% thereof to a separate entity. On November 11, 2014, the *DENR* granted *SBPL* an *ECC* covering the 455 *MW*(net) supercritical coal-fired power plant.

SBPL's EPC was executed with the Consortium of Daelim Industrial Co. Ltd. and Mitsubishi Corporation following a competitive selection process (" *CSP*") on October 8, 2014. The construction period is set at 42 months from the commencement date of December 8, 2015.

On May 29, 2014, *MERALCO* signed a long-term *PSA* with *SBPL*. The *PSA* was approved by the *ERC* in May 2015.

On October 8, 2015, *SBPL* entered into an Omnibus Agreement and related agreements with certain financial institutions providing for a term loan facility in an amount of up to ₱42.15 billion for the financing of the project. The initial drawdown was made on December 1, 2015. On December 11, 2015, *SBPL* entered into an Operation and Maintenance Agreement with Pearl Energy Philippines Operating, Inc., a wholly owned subsidiary of *QPPL*, for the operations and maintenance of the power plant.

The expected commercial operations of *SBPL* is June 2019.

AFPI

MERALCO, through *Finserve*, has a 10% equity interest in *AFPI*. *AFPI* was incorporated in February 2014 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 shall also supply and issue fare media and store value cards or reloadable cards for use in transport and non-transport facilities and operate and maintain the related hardware and software.

In 2017, due to the lower than expected penetration rate into the micropayments business, *MERALCO* recognized impairment charge of ₱171 million on the carrying amount of its investment in *AFPI*. The recoverable amount of the investment in *AFPI* was measured using the estimate of the value in use of the investment. The valuation analysis involved discounting estimates of free cash flows by the discount rate of 11.9%. The 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 concession term.

RSIC

In accordance with the Agreement of Shareholders and Subscription of Shares among *MERALCO*, Pioneer Insurance & Surety Corporation (" *Pioneer Insurance*") and *RSIC*, *RSIC* issued new common shares to *Pioneer Insurance* and *MERALCO*, resulting in a dilution of *MERALCO's* ownership interest in *RSIC* to 49%. Under the Agreement, *MERALCO* has the right to sell to *Pioneer Insurance*, and *Pioneer Insurance* has the obligation to buy, *MERALCO's* 49% stake in *RSIC* which is exercisable by *MERALCO* at any time during the period from January 1, 2023 to December 31, 2023.

Pure Meridian

On January 7, 2016, *MERALCO* and Repower Energy Development Corporation (" *REDC*") entered into a joint venture through, *Pure Meridian*, which shall undertake the development of various mini-hydroelectric power projects.

Aclara Meters

Aclara Meters was established in 1979 together with General Electric Company of U.S.A., to serve the Philippine market for American National Standard Institute ("ANSI")-type Watt-hour meters. In August 2017, Aclara Technologies LLC ("Aclara LLC"), an affiliate of Sun Capital Partners Inc., acquired General Electric Company of U.S.A.'s 65% equity in Aclara Meters. In December 2017, Hubbel Incorporated, an international manufacturer of electrical and electronic products, entered into a definitive agreement to acquire Aclara LLC.

St. Raphael

On April 27, 2016, MGen and Semirara Mining and Power Corporation entered a joint venture agreement to develop a 2 x 350 MW sub-critical pulverized coal-fired power plant in Calaca, Batangas. The development and operations shall be undertaken by St. Raphael, the joint venture entity. A PSA was signed by St. Raphael and MERALCO in April 2016 for the 400 MW of the plant's capacity. The PSA is pending approval by the ERC. Development activities for the project are ongoing and target commercial operations of the power plant is in 2021.

First Bulacan

On January 23, 2017, Spectrum entered into a shareholders' agreement with Sunseap International Pte Ltd. and Powersource Philippines Development Corporation for the development of solar energy projects. The development and operations of the projects will be undertaken by First Bulacan.

MDJV

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"). Two (2) units were completed and turned over on January 10, 2017 and one (1) unit on April 19, 2017. As at December 31, 2017, the Joint Venture Agreement is on its two-year warranty period that will end in April 2019.

BPPC

BPPC was incorporated and registered with the SEC on February 3, 1993 to engage in the power generation business.

In accordance with the Build-Operate-Transfer ("BOT") Agreement signed in 1993, First Private Power Corporation ("FPPC"), then parent company, constructed the 215 MW Bauang Power Plant ("Bauang Plant"), and operated the same under a 15-year Cooperation Period up to July 25, 2010.

The Bauang Plant has since been turned over to the National Power Corporation ("NPC") without any compensation and free of any liens. In 2010, the SEC approved the merger of FPPC and BPPC, with BPPC as the surviving entity. BPPC management continues to evaluate its investment options in power generation and allied industries.

The condensed statements of financial position of material associates follow:

	2017		
	GBPC	FPM Power	RP Energy
	(Amounts in millions)		
Current assets	₱26,002	₱6,821	₱758
Noncurrent assets	58,063	45,718	2,073
Current liabilities	(11,661)	(20,361)	(10)
Noncurrent liabilities	(38,043)	(28,519)	(6)
Non-controlling interests	(5,033)	999	—
Net assets	₱29,328	₱4,658	₱2,815

	2016		
	GBPC	FPM Power	RP Energy
	(Amounts in millions)		
Current assets	₱23,680	₱7,192	₱373
Noncurrent assets	69,208	49,273	1,538
Current liabilities	(15,370)	(20,309)	(25)
Noncurrent liabilities	(35,520)	(29,616)	(5)
Non-controlling interests	(12,580)	(1,762)	—
Net assets	₱29,418	₱4,778	₱1,881

The condensed statements of comprehensive income of material associates are as follows:

	2017			2016			2015		
	GBPC	FPM Power	RP Energy	GBPC	FPM Power	RP Energy	GBPC	FPM Power	RP Energy
	(Amounts in millions)								
Revenues	₱23,780	₱28,494	₱8	₱17,637	₱28,654	₱5	₱18,888	₱30,219	₱2
Costs and expenses	(20,399)	(29,745)	(50)	(13,472)	(34,880)	(42)	(15,065)	(32,732)	(31)
Net income (loss)	3,381	(1,251)	(42)	4,165	(6,226)	(37)	3,823	(2,513)	(29)
				(1,372)					
Non-controlling interests	(977)	877	—		1,188	—	(1,266)	845	—
Net income (loss) attributable to equity holders of the parent	2,404	(374)	(42)	2,793	(5,038)	(37)	2,557	(1,668)	(29)
Other comprehensive income (loss)	—	213	—	—	2,874	—	—	(1,085)	—
Total comprehensive income (loss)	₱2,404	(₱161)	(₱42)	₱2,793	(₱2,164)	(₱37)	₱2,557	(₱2,753)	(₱29)
Dividends received	₱350	₱—	₱—	₱308	₱—	₱—	₱572	₱—	₱—

The reconciliation of the net assets of the foregoing material associates to the carrying amounts of investments in these associates recognized in the consolidated statements of financial position is as follows:

	2017		
	GBPC	FPM Power	RP Energy
	(Amounts in millions, except % of ownership)		
Net assets of associates	₱29,328	₱4,658	₱2,815
Proportionate ownership in associates (%)	14	40	47
	4,106	1,863	1,323
Goodwill	1,091	—	50
	₱5,197	₱1,863	₱1,373

	2016		
	GBPC	FPM Power	RP Energy
	(Amounts in millions, except % of ownership)		
Net assets of associates	₱29,418	₱4,778	₱1,881
Proportionate ownership in associates (%)	14	40	47
	4,119	1,911	884
Goodwill	1,091	—	50
	₱5,210	₱1,911	₱934

The following is the aggregate information of associates that are considered as not individually material:

	2017	2016	2015
	(Amounts in millions)		
Share in net income (loss)	(₱1)	(₱84)	₱1
Share in other comprehensive income	2	—	1
Share in total comprehensive income (loss)	₱1	(₱84)	₱2
Dividends received	₱10	₱9	₱11

Joint Ventures

The condensed statements of financial position of material joint ventures follow:

	2017		
	RBC JV	SBPL	Mariveles Power
	(Amounts in millions)		
Current assets	₱837	₱433	₱17
Noncurrent assets	3,144	29,313	1,952
Current liabilities	(427)	(331)	(22)
Noncurrent liabilities	—	(29,103)	—
Net assets	₱3,554	₱312	₱1,947

	2016		
	RBC JV	SBPL	Mariveles Power
	(Amounts in millions)		
Current assets	₱734	₱527	₱123
Noncurrent assets	3,301	16,141	1,834
Current liabilities	(374)	(300)	—
Noncurrent liabilities	—	(15,950)	—
Net assets	₱3,661	₱418	₱1,957

The foregoing condensed statements of financial position include the following:

2017			
	<i>RBC JV</i>	<i>SBPL</i>	<i>Mariveles Power</i>
<i>(Amounts in millions)</i>			
Cash and cash equivalents	₱653	₱339	₱17
Current financial liabilities (excluding trade payables)	(26)	(302)	–
2016			
	<i>RBC JV</i>	<i>SBPL</i>	<i>Mariveles Power</i>
<i>(Amounts in millions)</i>			
Cash and cash equivalents	₱553	₱391	₱19
Current financial liabilities (excluding trade payables)	(27)	(298)	–

The condensed statements of comprehensive income of material joint ventures are as follows:

2017			2016			2015		
	<i>RBC JV</i>	<i>Mariveles SBPL Power</i>		<i>RBC JV</i>	<i>Mariveles SBPL Power</i>		<i>RBC JV</i>	<i>Mariveles SBPL Power</i>
<i>(Amounts in millions)</i>								
Revenues	₱689	₱–	₱–	₱670	₱–	₱–	₱516	₱–
Costs and expenses	(331)	(154)	(10)	(316)	(92)	(12)	(302)	(56)
Other income (expenses)	135	1	–	100	117	–	133	12
Provision for income tax - net	(116)	49	–	(112)	(118)	–	(60)	–
Net income (loss)	₱377	(₱104)	(₱10)	₱342	(₱93)	(₱12)	₱287	(₱44)
Dividends received	₱113	₱–	₱–	₱174	₱–	₱–	₱23	₱–

The foregoing condensed statements of comprehensive income include the following:

2017			2016			2015		
	<i>RBC JV</i>	<i>Mariveles SBPL Power</i>		<i>RBC JV</i>	<i>Mariveles SBPL Power</i>		<i>RBC JV</i>	<i>Mariveles SBPL Power</i>
<i>(Amounts in millions)</i>								
Depreciation	₱206	₱3	₱–	₱200	₱4	₱–	₱199	₱–
Interest income	(9)	(1)	–	(11)	(2)	–	(9)	(1)

The reconciliation of the net assets of the foregoing material joint ventures to the carrying amounts of investments in these associates recognized in the consolidated statements of financial position is as follows:

2017			
	<i>RBC JV</i>	<i>SBPL</i>	<i>Mariveles Power</i>
<i>(Amounts in millions, except % of ownership)</i>			
Net assets of associates	₱3,554	₱312	₱1,947
Proportionate ownership in associates (%)	30	51	49
	₱1,066	₱159	₱954
2016			
	<i>RBC JV</i>	<i>SBPL</i>	<i>Mariveles Power</i>
<i>(Amounts in millions, except % of ownership)</i>			
Net assets of associates	₱3,661	₱418	₱1,957
Proportionate ownership in associates (%)	30	51	49
	₱1,098	₱213	₱959

The following is the condensed financial information of joint ventures which are considered as not material:

	2017	2016	2015
<i>(Amounts in millions)</i>			
Share in net income (loss)	(₱18)	(₱54)	₱16
Share in other comprehensive loss	–	–	(2)
Share in total comprehensive income (loss)	(₱18)	(₱54)	₱14

9. Investment Properties

The movements in investment properties are as follows:

2017			
	<i>Land</i>	<i>Buildings and Improvements</i>	<i>Total</i>
<i>(Amounts in millions)</i>			
Cost	₱1,427	₱204	₱1,631
Less accumulated depreciation:			
Balance at beginning of year	–	118	118
Depreciation	–	4	4
Balance at end of year	–	122	122
	₱1,427	₱82	₱1,509
2016			
	<i>Land</i>	<i>Buildings and Improvements</i>	<i>Total</i>
<i>(Amounts in millions)</i>			
Cost:			
Balance at beginning of year	₱1,427	₱224	₱1,651
Disposals and others	–	(20)	(20)
Balance at end of year	1,427	204	1,631
Less accumulated depreciation:			
Balance at beginning of year	–	113	113
Depreciation	–	5	5
Balance at end of year	–	118	118
	₱1,427	₱86	₱1,513

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 as at December 31, 2017 and 2016 are as follows:

	<i>Amount (in millions)</i>
Land	₱1,863
Buildings and improvements	150

Land pertains primarily to properties where the *BPO* buildings and “Strip” mall are located and to 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 ₱40 to ₱96,000. 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. 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. Other Noncurrent Assets

This account consists of:

	Note	2017	2016
		(Amounts in millions)	
Financial assets:			
HTM investments	14 and 26	₱27,180	₱34,997
AFS financial assets	26	4,360	10,186
Advance payments to a supplier and others	26 and 29	3,563	1,277
Nonfinancial assets:			
Intangible assets	7	2,254	2,713
Deferred input VAT		1,565	1,733
Receivable from BIR	28	181	181
Goodwill		35	36
Retirement surplus	25	—	1,860
Deferred reinsurance premium		—	168
Net under-recoveries of pass-through charges and others	2	2,810	608
		₱41,948	₱53,759

HTM Investments

The details of HTM investments are as follows:

	2017			2016		
	Current Portion (see Note 14)	Noncurrent Portion	Total	Current Portion (see Note 14)	Noncurrent Portion	Total
	(Amounts in millions)					
Government securities	₱9,001	₱26,245	₱35,246	₱1,350	₱33,914	₱35,264
Private debt securities	—	935	935	—	1,083	1,083
	₱9,001	₱27,180	₱36,181	₱1,350	₱34,997	₱36,347

This account represents investments in government securities issued by the Republic of Philippines and private debt securities issued by Philippine listed corporations.

AFS Financial Assets

The details of AFS financial assets are as follows:

	2017	2016
	(Amounts in millions)	
Investments in government securities	₱3,233	₱5,470
Investments in UITFs	203	3,825
Investments in shares of stock and club shares:		
Quoted	883	852
Unquoted	41	39
	₱4,360	₱10,186

The rollforward of unrealized gains (losses) on quoted AFS financial assets, net of tax, included in the consolidated statements of financial position follows:

	2017	2016
	(Amounts in millions)	
Balance at beginning of year	(₱271)	₱102
Unrealized gains (losses) on change in fair value	111	(373)
Balance at end of year	(₱160)	(₱271)

Intangible Assets

The movements of intangible assets are as follows:

	2017			
	Note	Software	Franchise	Land and Leasehold Rights
		(Amounts in millions)		
Cost:				
Balance at beginning of year		₱4,755	₱49	₱431
Additions		158	—	—
Disposals/retirement		(10)	—	—
Reclassifications	7	(30)	—	—
Balance at end of year		4,873	49	431
Less accumulated amortization:				
Balance at beginning of year		2,264	—	258
Amortization		569	—	18
Disposals/retirement		(10)	—	—
Balance at end of year		2,823	—	276
		₱2,050	₱49	₱155

	2016			
	Note	Software	Franchise	Land and Leasehold Rights
		(Amounts in millions)		
Cost:				
Balance at beginning of year		₱4,144	₱49	₱431
Additions		587	—	—
Reclassifications	7	24	—	—
Balance at end of year		4,755	49	431
Less accumulated amortization:				
Balance at beginning of year		1,799	—	240
Amortization		461	—	18
Reclassifications		4	—	—
Balance at end of year		2,264	—	258
		₱2,491	₱49	₱173

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.

Net Under-Recoveries of Pass-through Charges

This account represents generation and other pass-through costs incurred by MERALCO and CEDC as DUs and which are still to be billed, covered by the approved recovery mechanism of the ERC. The balance also includes other net under-recoveries of generation and pass-through charges of current and prior periods, which are the subject of various applications for recovery and approval by the ERC.

Provision for impairment loss on net under-recoveries of pass-through charges amounted to ₱4,436 million and ₱1,371 million as at December 31, 2017 and 2016, respectively.

See Note 12 - Trade and Other Receivables.

11. Cash and Cash Equivalents

This account consists of:

	2017	2016
	(Amounts in millions)	
Cash on hand and in banks	₱6,178	₱5,746
Cash equivalents	39,759	40,910
	₱45,937	₱46,656

Cash in banks earns interest at prevailing bank deposit rates. Cash equivalents are temporary cash investments, which are made for varying periods up to three (3) months depending on MERALCO Group's immediate cash requirements, and earn interest at the prevailing short-term investment rates.

12. Trade and Other Receivables

This account consists of:

	Note	2017	2016
		(Amounts in millions)	
Trade:			
Electricity	22 and 26	₱23,505	₱22,502
Service contracts		4,196	3,659
Cost and estimated earnings in excess of billings on uncompleted contracts		759	605
Insurance receivable		–	104
Current portion of net under-recoveries of pass-through charges	2 and 10	–	50
Nontrade	22 and 26	1,366	1,635
		29,826	28,555
Less allowance for doubtful accounts		3,538	3,214
		₱26,288	₱25,341

Movements in allowance for doubtful accounts for trade and other receivables are as follows:

	2017			
	Balance at Beginning of Year	Provisions (Reversals)	Write-offs	Balance at End of Year
	(Amounts in millions)			
Trade - electricity	₱2,991	₱651	(₱335)	₱3,307
Other trade receivables	219	12	(2)	229
Nontrade receivables	4	(2)	–	2
	₱3,214	₱661	(₱337)	₱3,538

	2016			
	Balance at Beginning of Year	Provisions	Write-offs	Balance at End of Year
	(Amounts in millions)			
Trade - electricity	₱3,459	₱264	(₱732)	₱2,991
Other trade receivables	203	16	–	219
Nontrade receivables	3	1	–	4
	₱3,665	₱281	(₱732)	₱3,214

	2017				2016			
	Trade - Electricity	Other Trade Receivables	Nontrade Receivables	Total	Trade - Electricity	Other Trade Receivables	Nontrade Receivables	Total
	(Amounts in millions)							
Individually impaired	₱2,708	₱229	₱2	₱2,939	₱1,201	₱219	₱4	₱1,424
Collectively impaired	599	–	–	599	1,790	–	–	1,790
	₱3,307	₱229	₱2	₱3,538	₱2,991	₱219	₱4	₱3,214

Trade Receivables – Electricity

Trade receivables of *MERALCO* and *CEDC* include charges for pass-through costs. Pass-through costs of *MERALCO* consist of generation, transmission and *SL* charges, which represent 55%, 10% and 4%, respectively, of the total billed amount in 2017 and 51%, 11% and 4%, respectively, of the total billed amount in 2016. Billed receivables are due 10 days after bill date. *MERALCO*'s and *CEDC*'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.

In 2017, billed and unbilled electricity receivables are presented as trade electricity under “trade and other receivables” account. The presentation in prior year was change to conform with current year’s presentation.

See *Note 26 – Financial Assets and Financial Liabilities*.

Trade Receivables – Service Contracts

Service contracts receivable arise from contracts entered into by the *MIESCOR Group*, *e-MVI Group*, *CIS Group*, *MRail*, *MServ*, *Comstech* and *Spectrum* for construction, engineering, related manpower, consulting, light rail maintenance, data transport, bills collection, tellering and e-business development, energy management services, 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 10 – Other Noncurrent Assets*.

13. Inventories

	2017	2016
	(Amounts in millions)	
Materials and supplies:		
At cost	₱3,529	₱2,985
At net realizable value (“ <i>NRV</i> ”)	3,330	2,792
Materials and supplies at <i>NRV</i>	₱3,330	₱2,792

14. Other Current Assets

	Note	2017	2016
		(Amounts in millions)	
Financial assets:			
<i>HTM</i> investments	10 and 26	₱9,001	₱1,350
Advances to an associate	22 and 26	5,703	5,644
Short-term investments		2,532	–
Current portion of advance payments to a supplier		178	–
Nonfinancial assets:			
Prepayments		2,507	2,418
Prepaid tax		1,287	1,342
Pass-through <i>VAT</i> - net		846	1,833
Input <i>VAT</i>		665	551
Others		158	81
		₱22,877	₱13,219

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.

Short-term investments are temporary cash placements which are made for varying years beyond three (3) months but not exceeding 12 months, and earn interest at the prevailing short-term placement investment rates.

15. Equity

Common Stock

	2017	2016
	(In millions, except par value)	
Authorized – ₱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 in the *PSE* on January 8, 1992. There are 43,449 and 44,110 shareholders of *MERALCO*'s common shares as at December 31, 2017 and 2016, respectively.

Unappropriated Retained Earnings

The unappropriated retained earnings include accumulated earnings of subsidiaries, associates and joint ventures, and the balance of *MERALCO*'s revaluation increment in utility plant and others and investment properties carried at deemed cost and deferred tax assets and unrealized foreign exchange gains totaling to ₱43,793 million and ₱41,698 million as at December 31, 2017 and 2016, 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 in 2017, 2016 and 2015:

Declaration Date	Record Date	Payment Date	Dividend Per Share	Amount
				<i>(In millions)</i>
August 3, 2017	August 30, 2017	September 22, 2017	₱8.93	₱10,059
February 27, 2017	March 27, 2017	April 21, 2017	9.30	10,482
July 25, 2016	August 24, 2016	September 19, 2016	13.48	15,193
April 25, 2016	May 25, 2016	June 17, 2016	1.68	1,894
February 26, 2016	March 23, 2016	April 15, 2016	9.92	11,181
July 27, 2015	August 26, 2015	September 18, 2015	6.76	7,619
February 23, 2015	March 23, 2015	April 15, 2015	8.49	9,569

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*.

Appropriated Retained Earnings

On February 22, 2010, retained earnings of ₱6,000 million were appropriated specifically for the *MERALCO Group's* business expansion into power generation. The amount appropriated was increased by ₱5,000 million for the development of new projects and investments in power generation. The additional appropriation was approved on March 22, 2013 by the *BOD*.

On July 25, 2016, the *BOD* approved the reversal of the appropriated retained earnings of ₱11,000 million.

See *Note 8 – Investments in Associates and Interests in Joint Ventures*.

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.

16. Interest-bearing Long-term Financial Liabilities

This account consists of the following:

	2017	2016
	<i>(Amounts in millions)</i>	
Long-term portion of interest-bearing financial liabilities – long-term debt	₱24,786	₱26,999
Current portion of interest-bearing financial liabilities:		
Long-term debt	388	371
Redeemable preferred stock	1,496	1,502
	1,884	1,873
	₱26,670	₱28,872

All of the redeemable preferred shares have been called as at June 30, 2011, consistent with the terms of the Preferred Shares Subscription Agreement. The accrued interests amounted to ₱250 million as at December 31, 2017 and 2016. Interest is no longer accrued when the preferred shares are called for redemption.

The details of interest-bearing long-term financial liabilities are as follows:

Description	2017	2016
	<i>(Amounts in millions)</i>	
<i>Fixed Rate Loans</i>		
₱11.5 Billion 7-year Bonds	₱11,500	₱11,500
₱7.0 Billion 12-year Bonds	7,000	7,000
₱7.2 Billion Note Facility Agreement	6,120	6,480
₱600 Million Term Loan Facilities	600	–
₱130 Million Term Loan Facility	82	106
<i>Floating Rate Loan</i>		
₱2.5 Billion Term Loan Facility	–	2,437
Total long-term debt	25,302	27,523
Less unamortized debt issuance costs	128	153
	25,174	27,370
<i>Redeemable Preferred Stock</i>	1,496	1,502
	26,670	28,872
Less current portion	1,884	1,873
Long-term portion of interest-bearing financial liabilities	₱24,786	₱26,999

All of *MERALCO's* interest-bearing long-term financial liabilities as at December 31, 2017 and 2016 are denominated in Philippine peso. The scheduled maturities of *MERALCO's* outstanding long-term debt at nominal values as at December 31, 2017 are as follows:

	Amount
	<i>(In millions)</i>
Less than one (1) year	₱414
One (1) year up to two (2) years	413
More than two (2) years up to three (3) years	11,913
More than three (3) years up to four (4) years	402
More than four (4) years up to five (5) years	390
More than five (5) years	11,770
	₱25,302

₱18.5 Billion Fixed Rate Puttable Bonds

On September 23, 2013, the *BOD* of *MERALCO* authorized the offer, sale and issuance by way of public offering in the Philippines, 7- and 12-year corporate bonds, puttable in five (5) and 10 years, respectively, with an aggregate principal amount of up to ₱15 billion and with an overallotment option of up to ₱5.0 billion. The 12-year corporate bonds also include 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 put and call options are clearly and closely related to the host instruments, and thus, were not recognized separately.

On December 12, 2013, the ₱11.5 billion fixed rate puttable bonds due in 2020 and ₱7.0 billion fixed rate puttable bonds due in 2025, were listed on the Philippine Dealing and Exchange Corporation.

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

₱7.2 Billion Note Facility Agreement

In February 2014, *MERALCO* entered into a ₱7,200 million, 10-year Fixed Rate Note Facility Agreement due in February 2024. The principal is payable in nominal annual amortizations with a balloon payment upon final maturity.

₱600 Million Term Loan Facilities

In 2017, *MServ* obtained a total of ₱600 million, 10-year fixed rate term loans. The principal amount is payable over 10 years until January 2027.

₱130 Million Term Loan Facility

On June 27, 2014, *MIESCOR* obtained a ₱130 million, 7-year fixed rate term loan. The principal is payable over six (6) years with final maturity in June 2021.

₱2.5 Billion Term Loan Facility

The ₱2,500 million, 7-year Floating Rate Term Loan Facility, was drawn in January 2011 from a local bank. Interest rate is repriced every six (6) months based on 6-month *PDST-F* plus a spread. The principal is payable in nominal annual amortizations with a balloon payment on final maturity in January 2018. In July 2017, the loan was pre-terminated.

The annual interest rates for the interest-bearing financial liabilities are as follows:

	2017	2016
Fixed Rate Loans	4.38% to 5.50%	4.38% to 5.50%
Floating Rate Loan	2.29% to 2.70%	2.29% to 2.71%

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, 2017 and 2016, *MERALCO* is in compliance with all of the covenants of the loan agreements.

Unamortized Debt Issuance Costs

The following presents the changes to the unamortized debt issuance costs:

	Note	2017	2016
		(Amounts in millions)	
Balance at beginning of year		₱153	₱177
Amortization charged to interest and other financial charges	24	(25)	(24)
Balance at end of year		₱128	₱153

Redeemable Preferred Stock

The movements in the number of shares of the redeemable preferred stock, which have all been called, are as follows:

	2017	2016
Balance at beginning of year	150,157,797	152,231,414
Redemptions	(542,783)	(2,073,617)
Balance at end of year	149,615,014	150,157,797

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.

17. Customers' Deposits

This account consists of:

	2017			2016		
	Current Portion (see Note 21)	Noncurrent Portion	Total	Current Portion (see Note 21)	Noncurrent Portion	Total
	(Amounts in millions)					
Bill deposits	₱2,555	₱24,000	₱26,555	₱2,594	₱23,501	₱26,095
Meter deposits	424	–	424	416	–	416
	₱2,979	₱24,000	₱26,979	₱3,010	₱23,501	₱26,511

Bill Deposits

Bill deposits serve to guarantee payment of bills by a customer.

As provided for under the *Magna Carta* and *DSOAR*, all captive customers are required to pay a deposit to the *DU*, equivalent to the estimated monthly bill calculated based on applied load, which shall be recognized as bill deposit of the captive customer. Such deposit shall be adjusted after one (1) year 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.

On February 22, 2010, the amended *DSOAR*, which became effective on April 1, 2010, was promulgated by the *ERC*. Under the amended *DSOAR*, 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*. Interest rate for bill deposits is 0.250% per annum starting January 1, 2014.

As provided for under *ERC* Resolution No. 1, *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.

The following are the movements of the bill deposits account:

	Note	2017	2016
		(Amounts in millions)	
Balance at beginning of year		₱26,095	₱26,054
Additions		4,477	4,453
Refunds		(4,017)	(4,412)
Balance at end of year		26,555	26,095
Less portion maturing within one year	21	2,555	2,594
Noncurrent portion of bill deposits and related interests		₱24,000	₱23,501

Meter Deposits

Meter deposits were intended to guarantee the cost of meters installed.

The *Magna Carta* for residential customers (effective June 17, 2004) and *DSOAR* (effective January 18, 2006) for non-residential customers exempt all customer groups from payment of meter deposits beginning July 2004 for residential customers and April 2006 for non-residential customers.

The *ERC* released 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. Under the *Rules*, a customer has the option of receiving his refund in cash, credit to future monthly billings, or as an offset to other due and demandable claims of the *DU* against him.

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.

On August 8, 2008, in compliance with the *Rules*, *MERALCO* submitted to the *ERC* an accounting of the total meter deposit principal amount for refund. The actual refund of meter deposits commenced on November 3, 2008.

As at December 31, 2017 and 2016, total meter deposits refunded by *MERALCO* amounted to ₱2,639 million (inclusive of interest amounting to ₱1,362 million).

18. Provisions

Provisions consist of amounts recognized for probable losses and expenses relating to claims against the *MERALCO Group*, among others. The movements follow:

	Note	2017	2016
		(Amounts in millions)	
Balance at beginning of year		₱38,224	₱37,402
Additions (reversals) for the year - net		(2,539)	1,504
Settlements		(1,574)	(682)
Balance at end of year		34,111	38,224
Less current portion	21	15,655	19,054
Noncurrent portion of provisions		₱18,456	₱19,170

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 28 – *Contingencies and Legal Proceedings*, consistent with the limited disclosure as allowed in *PFRS*.

19. 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 claimants.

In June 2003, the *ERC*, in the implementation of the *SC* decision, ordered *MERALCO* to refund to its customers an equivalent ₱0.17 per *kWh* for billings made from February 1994 to April 2003.

On February 1, 2011, *MERALCO* filed a motion with the *ERC* to: (i) allow it to continue with the implementation of the refund to eligible accounts or customers under Phases I to IV, for another five (5) years from the end of Phase IV-B, or from the end of December 2010 to the end of December 2015; and (ii) adopt its proposed procedures for the implementation of the *SC* refund during the extended period. The *ERC* approved *MERALCO's* motion in its Order dated February 7, 2011.

On December 18, 2015, *MERALCO* filed a Motion seeking the *ERC's* approval to continue refunding to eligible accounts or customers under Phases I to IV, for three (3) years from January 1, 2016 or until December 31, 2018.

20. Notes Payable

Notes payable represent unsecured interest-bearing working capital loans obtained from local banks. Annual interest rates range from 2.8% to 4.25% and 2.5% to 4.25% as at December 31, 2017 and 2016, respectively.

Interest expense on notes payable amounted to ₱348 million, ₱171 million and ₱26 million for the years ended December 31, 2017, 2016 and 2015, respectively.

See Note 24 – *Expenses and Income*.

21. Trade Payables and Other Current Liabilities

This account consists of the following:

	Note	2017	2016
		(Amounts in millions)	
Trade accounts payable	22 and 23	₱32,574	₱31,319
Provisions	18 and 28	15,655	19,054
Output VAT - net		8,019	7,081
Accrued expenses:			
Employee benefits		2,032	1,940
Taxes		1,097	1,553
Interest	16	137	115
Others		1,198	989
Current portions of:			
Bill deposits and related interests	17	2,555	2,594
Meter deposits and related interests	17	424	416
Deferred income		1,004	1,005
Refundable service extension costs		2,261	2,502
Dividends payable on:			
Common stock	15	938	604
Redeemable preferred stock	17	250	250
Payable to customers		8,136	8,279
Universal charges payable		2,800	2,365
FIT-All	31	925	631
Reinsurance liability		—	131
Regulatory fees payable		182	181
Other current liabilities		3,763	2,911
		₱83,950	₱83,920

Trade Accounts Payable

Trade accounts payable mainly represent obligations to power generating companies, National Grid Corporation of the Philippines ("NGCP") and Philippine Electricity Market Corporation ("PEMCO"), for cost of power purchased and transmission charge. In addition, this account includes liabilities due to local and foreign suppliers for purchases of goods and services, which include transformers, poles, materials and supplies, and contracted services.

Trade payables are non-interest-bearing and are generally settled within 15 to 60 days from the receipt of invoice. Other payables are non-interest-bearing and due within one (1) year from incurrence.

See Note 22 – Related Party Transactions and Note 29 – 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, 2017 and 2016, the noncurrent portion of refundable service extension costs of ₱6,012 million and ₱4,927 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 the stranded debts, stranded contract costs of NPC and stranded contract costs of eligible contracts of distribution. 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.

22. 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 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 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 all customers within the franchise area.

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 wireless services. Such services are covered by standard service contracts between the telecommunications carriers and each legal entity within the *MERALCO Group*.

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.

PSAs with Joint Ventures and Associates

As discussed in Note 29, *MERALCO* signed long-term *PSAs* with the following related parties: *SBPL*, *RP Energy*, *St. Raphael*, *Mariveles Power* and *PEDC*.

Following is a summary of related party transactions for the years ended December 31, 2017, 2016 and 2015 and the outstanding balances as at December 31, 2017 and 2016:

Category	Amount of Transactions			Outstanding Receivable (Liability)		Terms	Conditions
	2017	2016	2015	2017	2016		
(Amounts in millions)							
Sale of electricity:							
<i>JG Summit Group</i>	₱2,776	₱2,839	₱3,404	₱239	₱179	10-day; noninterest-bearing	Unsecured, no impairment
<i>PLDT Group</i>	958	1,240	1,438	39	49	10-day; noninterest-bearing	Unsecured, no impairment
<i>Metro Pacific Group</i>	486	444	157	6	12	10-day; noninterest-bearing	Unsecured, no impairment
Purchases of IT services - <i>Indra Philippines</i>	1,058	678	786	(154)	(1)	30-day; noninterest-bearing	Unsecured
Purchases of meters and devices – <i>Aclara Meters</i>	454	254	399	(51)	(13)	30-day; noninterest-bearing	Unsecured
Revenue from pole attachment - <i>PLDT</i>	391	281	285	160	25	Advance payment	Unsecured, no impairment
Purchases of wireline and wireless services - <i>PLDT Group</i>	90	82	72	(21)	(9)	30-day; noninterest-bearing	Unsecured
Purchases of power:							
Panay Power Corportation ("PPC")	211	285	143	(10)	(61)	30-day; noninterest-bearing	Unsecured
Toledo Power Corporation ("TPC")	357	163	100	(46)	(37)	30-day; noninterest-bearing	Unsecured
<i>PEDC</i>	1,766	–	–	(378)	–	30-day; noninterest-bearing	Unsecured

Advances to FPM Power

FPM Power has a non-interest-bearing loan from *MPG Asia* amounting to US\$114 million and US\$110 million as at December 31, 2017 and 2016, respectively, which is due and demandable. The loan remains outstanding as at December 31, 2017.

See Note 14 – Other Current Assets.

Transaction with MERALCO Retirement Benefits Fund ("Fund")

MERALCO's 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, 2017 and 2016, the fair value of the total assets being managed by the Fund amounted to ₱37.2 billion and ₱36.5 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:

	2017	2016	2015
	<i>(Amounts in millions)</i>		
Short-term employee benefits	₱754	₱667	₱635
Long-term employee incentives and retirement benefits	288	285	300
Total compensation to key management personnel	₱1,042	₱952	₱935

Each of the directors is entitled to a per diem of ₱120,000 for every *BOD* meeting attended. Each member of the Audit, Risk Management, Remuneration and Leadership Development, Finance, Governance and Nomination Committees is entitled to a fee of ₱20,000 for every committee meeting attended.

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. The increase in compensation shall be through 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.

As at December 31, 2017, 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.

23. Purchased Power

The details of purchased power are as follows:

	2017	2016	2015
	<i>(Amounts in millions)</i>		
Generation costs	₱178,913	₱153,751	₱157,904
Transmission costs	35,645	36,102	34,213
	₱214,558	₱189,853	₱192,117

Purchased power costs for the captive customers are pass-through costs and are revenue-neutral to *MERALCO* and *CEDC*, as *DUs*.

Generation costs include line rentals, market fees and must-run unit charges billed by *PEMC*.

Purchased power includes, among others, capacity fees, fixed operating and maintenance fees, and transmission line fees that are accounted for similar to a lease under Philippine Interpretation *IFRIC 4, "Determining whether an arrangement contains a lease"*. The total amounts billed by the suppliers presented as part of "Purchased power" account in the consolidated statements of income amounted to ₱50,380 million, ₱49,522 million and ₱45,702 million in 2017, 2016 and 2015, respectively. These also include the actual *SL* incurred which is within the *SL* cap of 8.5%. *MERALCO*'s actual 12-month moving average *SL* rates are 5.91%, 6.35% and 6.47% in 2017, 2016 and 2015, respectively.

The details of purchased power follow:

	2017	2016	2015
	<i>(Amounts in millions)</i>		
First Gas Power Corporation (" <i>FGPC</i> ") and FGP Corp. (" <i>FGP</i> ")	₱46,492	₱39,472	₱49,111
<i>NGCP</i>	35,482	35,870	34,005
South Premiere Power Corporation (" <i>SPPC</i> ")	29,606	28,416	29,572
<i>PEMC/WESM</i>	24,286	17,637	13,078
<i>QPPL</i>	14,640	13,817	13,605
San Miguel Energy Corporation (" <i>SMEC</i> ")	14,563	13,063	12,987
Masinloc Power Partners Co. Ltd. (" <i>MPPCL</i> ")	13,913	12,628	11,462
Sem-Calaca Power Corporation (" <i>Sem-Calaca</i> ")	11,391	10,020	10,097
Therma Luzon, Inc. (" <i>TLI</i> ")	11,168	10,076	9,393
Southwest Luzon Power Generation Corporation	3,228	2,214	–
Therma Mobile, Inc. (" <i>TMO</i> ")	3,112	2,892	3,231
Phinma Energy Corporation (" <i>Phinma Energy</i> ")	2,511	2,268	2,152
<i>PEDC</i>	1,766	–	–
1590 Energy Corporation	1,135	849	1,370
Others	1,265	631	2,054
	₱214,558	₱189,853	₱192,117

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, 2017 and 2016, the total transmission costs and *SL* charge over-recoveries included in "Other noncurrent liabilities" account in the consolidated statements of financial position amounted to ₱614 million and ₱6,592 million, respectively.

24. Expenses and Income

Salaries, Wages and Employee Benefits

	Note	2017	2016	2015
		<i>(Amounts in millions)</i>		
Salaries, wages and related employee benefits		₱11,687	₱11,576	₱11,056
Retirement benefits	25	798	1,157	1,237
Other long-term post-employment benefits	25	110	108	127
		₱12,595	₱12,841	₱12,420

Other Expenses

	Note	2017	2016	2015
		<i>(Amounts in millions)</i>		
Materials used	13	₱2,015	₱2,332	₱2,783
Rent and utilities		862	732	852
Transportation and travel		418	371	476
Advertising		374	346	306
Insurance		348	350	295
Communication	22	145	135	134
Others		1,477	1,185	1,305
		₱5,639	₱5,451	₱6,151

Interest and Other Financial Charges

	Note	2017	2016	2015
		<i>(Amounts in millions)</i>		
Interest expense on interest-bearing long-term financial liabilities, net of interest capitalized	7 and 16	₱1,057	₱1,046	₱1,050
Interest expense on notes payable	20	348	171	26
Interest expense on bill deposits	17	65	65	83
Amortization of debt issuance costs	16	25	24	23
Others		35	37	34
		₱1,530	₱1,343	₱1,216

Interest and Other Financial Income

	Note	2017	2016	2015
			<i>(Amounts in millions)</i>	
Interest income from <i>HTM</i> and <i>AFS</i> investments		₱1,300	₱1,238	₱389
Interest income on cash in banks and cash equivalents	11	789	654	898
Carrying costs on <i>ERC</i> -approved under-recoveries		—	—	198
Others		99	188	53
		₱2,188	₱2,080	₱1,538

25. Long-term Employee Benefits

Liabilities for long-term employee benefits consist of the following:

	2017	2016
	<i>(Amounts in millions)</i>	
Long-term incentives	₱2,537	₱1,244
Retirement benefits liability	432	307
Other long-term post-employment benefits	1,590	1,568
	₱4,559	₱3,119

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)

	2017	2016	2015
	<i>(Amounts in millions)</i>		
Current service costs	₱873	₱1,085	₱1,216
Net interest costs (income)	(101)	70	14
Past service costs	—	(16)	—
Net retirement benefits expense	₱772	₱1,139	₱1,230

Retirement Benefits Liability (Asset)

	2017	2016
	<i>(Amounts in millions)</i>	
Defined benefit obligation	₱37,676	₱34,957
Fair value of plan assets	(37,244)	(36,510)
Retirement benefits liability (asset)	₱432	(₱1,553)

Retirement benefit asset (liability) are presented in the consolidated statements of financial position as follows:

	Note	2017	2016
		<i>(Amounts in millions)</i>	
Retirement surplus under other noncurrent assets	10	₱—	(₱1,860)
Retirement fund deficit		432	307
Retirement benefits liability (asset)		₱432	(₱1,553)

Changes in the net retirement benefits asset and liability are as follows:

	2017	2016
	<i>(Amounts in millions)</i>	
Retirement benefits liability (asset) at beginning of year	(₱1,553)	₱2,021
Net retirement benefits expense	772	1,139
Contributions by employer	(324)	(1,283)
Amounts recognized in <i>OCI</i>	1,537	(3,430)
Retirement benefits liability (asset) at end of year	₱432	(₱1,553)

Changes in the present value of the defined benefits obligation are as follows:

	2017	2016
	<i>(Amounts in millions)</i>	
Defined benefit obligation at beginning of year	₱34,957	₱38,220
Interest costs	1,828	1,843
Current service costs	873	1,085
Benefits paid	(2,159)	(1,936)
Actuarial losses (gains) due to:		
Changes in financial assumptions	1,128	(2,372)
Experience adjustments	1,049	(1,867)
Past service costs	—	(16)
Defined benefit obligation at end of year	₱37,676	₱34,957

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

	2017	2016
	<i>(Amounts in millions)</i>	
Fair value of plan assets at beginning of year	₱36,510	₱36,199
Benefits paid	(2,159)	(1,936)
Interest income	1,929	1,773
Return on plan assets, excluding amount included in net interest on the net defined benefit obligation and interest income	640	(809)
Contributions by employer	324	1,283
Fair value of plan assets at end of year	₱37,244	₱36,510

The Board of Trustees (“*BoT*”) which manages the *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) three (3) 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 *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 *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 *Fund* to service its short-term and long-term obligations.

The net carrying amount and fair value of the assets of the *Fund* as at December 31, 2017 and 2016 amounted to ₱37,244 million and ₱36,510 million, respectively. The major categories of plan assets are as follows:

	2017	2016
	<i>(Amount in millions)</i>	
Cash and cash equivalents	₱1,715	₱1,922
Investments quoted in active markets:		
Quoted equity investments		
Holding firms	3,607	3,161
Telecommunication	937	676
Property	934	611
Banks	924	532
Electricity, energy, power and water	893	1,048
Food, beverages and tobacco	653	650
Retail	367	161
Mining	232	137
Construction, infrastructure and allied services	223	103
Transportation services	212	87
Others	1,517	902
Quoted debt investments		
“AAA” rated securities	14,085	15,294
Government securities	8,517	8,754
Unquoted investments		
Receivables	1,473	1,517
Others	1	1
Property	954	954
Fair value of plan assets	₱37,244	₱36,510

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)

	2017	2016	2015
	(Amounts in millions)		
Interest costs	₱85	₱80	₱84
Current service costs	25	28	39
Actuarial loss	—	—	4
	₱110	₱108	₱127

Other Long-term Post-employment Benefits Liability

Changes in the present value of other long-term post-employment benefits liability are as follows:

	2017	2016
	(Amounts in millions)	
Balance at beginning of year	₱1,568	₱1,599
Interest costs	85	80
Current service costs	25	28
Benefits paid	(55)	(70)
Actuarial gains due to change in assumptions	(33)	(69)
Balance at end of year	₱1,590	₱1,568

Actuarial Assumptions

The principal assumptions used as at December 31, 2017 and 2016 in determining retirement benefits and other long-term post-employment benefits obligations are shown below:

	2017	2016
Annual discount rate	5%	5.43%
Future range of annual salary increases	6%	6%

Sensitivity Analysis

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 period would have increased (decreased) as a result of a change in the respective assumptions by:

	% Change	Effect on Present Value of Defined Benefit Obligation	
		2017	2016
		(Amounts in millions)	
Annual discount rate	+1.0%	(₱2,661)	(₱4,838)
	-1.0%	2,658	4,543
Future range of annual salary increases	+1.0%	1,666	4,333
	-1.0%	(1,665)	(4,549)

Funding

MERALCO contributes to the Fund from time to time such amounts of money required under accepted actuarial principles to maintain the Fund in a sound condition, subject to the provisions of the Plan.

The amount of the annual contributions to the Fund is determined through an annual valuation report performed by an independent actuary.

The following is the maturity profile of the undiscounted benefit obligation as at December 31, 2017:

	Amounts in millions
Less than one (1) year	₱1,841
One (1) year up to five (5) years	8,242
More than five (5) years up to 10 years	14,715
More than 10 years up to 15 years	19,271
More than 15 years up to 20 years	19,221
More than 20 years	56,428

Risk

The Fund is exposed to the following risks:

Credit Risk

The Fund's exposure to credit risk arises from its financial assets which comprise of cash and cash equivalents, investments and rentals receivable. 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 Fund.

Share Price Risk

The Fund's exposure to share price risk arises from the shares of stock it holds and are traded at the PSE. The price share 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 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 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 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 ₱26 million, ₱18 million and ₱7 million for the years ended December 31, 2017, 2016 and 2015, respectively.

Consolidated Retirement Benefits Cost (included in "Salaries, wages and employee benefits" account in the consolidated statements of income)

	2017	2016	2015
	(Amounts in millions)		
Expense recognized for defined benefit plans	₱772	₱1,139	₱1,230
Expense recognized for defined contribution plan	26	18	7
Retirement benefits expense	₱798	₱1,157	₱1,237

Long-term Incentive Plan ("LTIP")

MERALCO's LTIP covers qualified employees and is based on the 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.

26. 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, advances to an associate, AFS financial assets and HTM investments. 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 as at December 31, 2017 and 2016:

	Loans and Receivables	HTM Investments	Fair Value through Profit or Loss	Held-for- trading	AFS Financial Assets	Liabilities Carried at Amortized Cost	Total Financial Assets and Liabilities
<i>(Amounts in millions)</i>							
Assets as at December 31, 2017							
Noncurrent							
Other noncurrent assets	₱3,563	₱27,180	₱—	₱—	₱4,360	₱—	₱35,103
Current							
Cash and cash equivalents	45,937	—	—	—	—	—	45,937
Trade and other receivables	26,288	—	—	—	—	—	26,288
Other current assets	8,413	9,001	—	—	—	—	17,414
Total assets	₱84,201	₱36,181	₱—	₱—	₱4,360	₱—	₱124,742
Liabilities as at December 31, 2017							
Noncurrent							
Interest-bearing long-term financial liabilities - net of current portion	₱—	₱—	₱—	₱—	₱—	₱24,786	₱24,786
Customers' deposits - net of current portion	—	—	—	—	—	24,000	24,000
Refundable service extension costs - net of current portion	—	—	—	—	—	6,012	6,012
Current							
Notes payable	—	—	—	—	—	13,586	13,586
Trade payables and other current liabilities	—	—	—	—	—	50,665	50,665
Customers' refund	—	—	—	—	—	4,603	4,603
Current portion of interest-bearing long-term financial liabilities	—	—	—	—	—	1,884	1,884
Total liabilities	₱—	₱—	₱—	₱—	₱—	₱125,536	₱125,536

	Loans and Receivables	HTM Investments	Fair Value through Profit or Loss	Held-for- trading	AFS Financial Assets	Liabilities Carried at Amortized Cost	Total Financial Assets and Liabilities
<i>(Amounts in millions)</i>							
Assets as at December 31, 2016							
Noncurrent							
Other noncurrent assets	₱1,277	₱34,997	₱—	₱—	₱10,186	₱—	₱46,460
Current							
Cash and cash equivalents	46,656	—	—	—	—	—	46,656
Trade and other receivables	25,291	—	—	—	—	—	25,291
Other current assets	5,644	1,350	—	—	—	—	6,994
Total assets	₱78,868	₱36,347	₱—	₱—	₱10,186	₱—	₱125,401
Liabilities as at December 31, 2016							
Noncurrent							
Interest-bearing long-term financial liabilities - net of current portion	₱—	₱—	₱—	₱—	₱—	₱26,999	₱26,999
Customers' deposits - net of current portion	—	—	—	—	—	23,501	23,501
Refundable service extension costs - net of current portion	—	—	—	—	—	4,927	4,927
Current							
Notes payable	—	—	—	—	—	11,475	11,475
Trade payables and other current liabilities	—	—	—	—	—	49,146	49,146
Customers' refund	—	—	—	—	—	4,988	4,988
Current portion of interest-bearing long-term financial liabilities	—	—	—	—	—	1,873	1,873
Total liabilities	₱—	₱—	₱—	₱—	₱—	₱122,909	₱122,909

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 the *MERALCO Group's* financial instruments as at December 31, 2017 and 2016.

	2017		2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<i>(Amounts in millions)</i>				
Financial assets				
Loans and receivables -				
Advance payments to a supplier and others	₱3,741	₱3,451	₱1,277	₱1,083
AFS financial assets	4,360	4,360	10,186	10,186
HTM investments	36,181	35,172	36,347	35,663
	₱44,282	₱42,983	₱47,810	₱46,932

	2017		2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<i>(Amounts in millions)</i>				
Financial liabilities				
Financial liabilities carried at amortized cost -				
Interest-bearing-long-term financial liabilities	₱26,670	₱27,806	₱28,872	₱30,129

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 Investment, Advances to an Associate, 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 4.74% as at December 31, 2017 and 2016.

AFS Financial Assets

The fair values were determined by reference to market bid quotes as at reporting date. The unquoted equity securities were carried at cost since there are no available market price for such securities.

HTM Investments

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 0.11% to 4.09% as at December 31, 2017 and 0.47% to 4.16% as at December 31, 2016.

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:

	2017				2016			
	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 and others	₱–	₱3,451	₱–	₱3,451	₱–	₱1,083	₱–	₱1,083
AFS financial assets	4,321	39	–	4,360	10,147	39	–	10,186
HTM investments	35,172	–	–	35,172	35,521	142	–	35,663
	₱39,493	₱3,490	₱–	₱42,983	₱45,668	₱1,264	₱–	₱46,932
Financial liabilities								
Interest-bearing long-term financial liabilities	₱–	₱27,806	₱–	₱27,806	₱–	₱30,129	₱–	₱30,129

For the years ended December 31, 2017 and 2016, 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 primarily to the long-term interest-bearing financial liabilities.

The *MERALCO Group'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 rate of interest as at December 31, 2017 and approximately 91% of the borrowings bear fixed rate of interest as at December 31, 2016.

The following table sets out the maturity profile of the financial instruments that are exposed to interest rate risk (exclusive of debt issuance costs) as at December 31, 2016:

	Amount
	<i>(In millions)</i>
Less than one (1) year	₱12
One (1) year up to two (2) years	2,425
	₱2,437

Floating interest rate of bank loans is repriced at intervals of less than one (1) year. The other financial liabilities of the *MERALCO Group* that are not included in the foregoing have fixed interest rate and are therefore not subject to interest rate risk.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the *MERALCO Group's* income before income tax for the year ended December 31, 2016. *MERALCO Group* has no floating rate loan as at December 31, 2017. There is no other impact on the *MERALCO Group's* equity other than those already affecting the consolidated statement of income.

	2016	
	Increase (Decrease) in Basis Points	Effect on Income before Income Tax
	<i>(Amounts in millions)</i>	
Floating rate loans from various banks	+100 (100)	(₱24) 24

Interest expense of floating rate loans for the year is computed by taking into account actual principal movements, based on management's best estimate of a +/-100 basis points change in interest rates. There has been no change in the methods and assumptions used by management in the above analysis.

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 period. 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 portion of the *MERALCO Group's* capital 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 as well as *U.S.* dollar-denominated revenues.

The following table shows the consolidated foreign currency-denominated financial assets and financial liabilities as at December 31, 2017 and 2016, translated to Philippine peso at ₱49.93 and ₱49.72 to US\$1, respectively.

	2017		2016	
	U.S. Dollar	Peso Equivalent	U.S. Dollar	Peso Equivalent
	<i>(Amounts in millions)</i>			
Financial assets:				
Cash and cash equivalents	\$268	₱13,373	\$289	₱14,382
Trade and other receivables	2	104	2	113
AFS financial assets	5	250	5	249
Advances to an associate	114	5,668	110	5,469
Advance payments to suppliers	55	2,762	52	2,605
	444	22,157	458	22,818
Financial liabilities				
Trade payables and other liabilities	(4)	(182)	(7)	(357)
	\$440	₱21,975	\$451	₱22,461

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 for the years ended December 31, 2017 and 2016 (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.

	2017		2016	
	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>
U.S. dollar-denominated financial assets	+5	₱1,099	+5	₱1,121
and financial liabilities	–5	(1,099)	–5	(1,121)

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 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 *CEDC* to price risk is minimal. The cost of fuel is part of *MERALCO's* and *CEDC's* generation costs that are recoverable through the generation charge in the billings to customers.

Credit Risk

Credit risk is the risk that the *MERALCO Group* is exposed to, as a result of its customers, clients or counterparties failing to discharge their contracted obligations. 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.

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.

The *MERALCO* subsidiaries 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.

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.

Credit risk on other financial assets, which include cash and cash equivalents and trade and other receivables, arises from the potential default of the counterparty.

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 as at December 31, 2017 and 2016. The maximum exposure is equivalent to the nominal amount of the accounts.

	Gross Maximum Exposure	
	2017	2016
	(Amounts in millions)	
Cash and cash equivalents:		
Cash in banks	₱6,118	₱5,627
Cash equivalents	39,759	40,910
Trade and other receivables:		
Electricity	20,198	19,511
Service contracts	3,973	3,446
Insurance receivable	—	104
Cost and estimated earnings in excess of billings on uncompleted contracts	753	599
Nontrade receivables	1,364	1,631
Other current assets:		
Advances to an associate	5,703	5,644
HTM investments	9,001	1,350
Short-term investments	2,532	—
Current portion of advance payments to a supplier	178	—
Other noncurrent assets:		
HTM investments	27,180	34,997
AFS financial assets	4,360	10,186
Advance payment to a supplier and others	3,563	1,277
	₱124,682	₱125,282

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:

	2017					
	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	₱45,877	₱—	₱—	₱—	₱—	₱45,877
Trade and other receivables:						
Electricity	4,817	2,089	9,438	3,854	3,307	23,505
Service contracts	1,443	—	186	2,344	223	4,196
Insurance receivable	—	—	—	—	—	—
Cost and estimated earnings in excess of billings on uncompleted contracts	—	—	453	300	6	759
Nontrade receivables	895	26	173	270	2	1,366
Other current assets:						
Advances to an associate	5,703	—	—	—	—	5,703
HTM investments	9,001	—	—	—	—	9,001
Short-term investments	2,532	—	—	—	—	2,532
Current portion of advance payments to a supplier	178	—	—	—	—	178
(Forward)						

	2017					
	Neither Past Due nor Impaired			Past Due but not Impaired	Impaired Financial Assets	Total
	High Grade	Standard Grade	Sub-standard Grade			
	(Amounts in millions)					
Other noncurrent assets:						
HTM investments	₱27,180	₱—	₱—	₱—	₱—	₱27,180
AFS financial assets	4,360	—	—	—	—	4,360
Advance payment to a supplier and others	3,563	—	—	—	—	3,563
	₱105,549	₱2,115	₱10,250	₱6,768	₱3,538	₱128,220
	2016					
	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	₱46,537	₱—	₱—	₱—	₱—	₱46,537
Trade and other receivables:						
Electricity	6,758	1,844	8,285	2,624	2,991	22,502
Service contracts	1,005	—	163	2,278	213	3,659
Insurance receivable	1	—	68	35	—	104
Cost and estimated earnings in excess of billings on uncompleted contracts	—	—	373	226	6	605
Nontrade receivables	945	8	294	384	4	1,635
Other current assets:						
Advances to an associate	5,644	—	—	—	—	5,644
HTM investments	1,350	—	—	—	—	1,350
Other noncurrent assets:						
HTM investments	34,997	—	—	—	—	34,997
AFS financial assets	10,186	—	—	—	—	10,186
Advance payments to a supplier	1,277	—	—	—	—	1,277
	₱108,700	₱1,852	₱9,183	₱5,547	₱3,214	₱128,496

Credit ratings are determined as follows:

- High Grade

High grade financial assets include cash in banks, cash equivalents, advances to associates, *HTM*, *AFS* and advance payments to a supplier to counterparties with 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.

The following table shows the aging analysis of financial assets as at December 31, 2017 and 2016:

2017						
	Neither Past Due nor Impaired	Past Due But Not Impaired			Impaired Financial Assets	Total
		31-60 Days	61-90 Days	Over 90 Days		
<i>(Amounts in millions)</i>						
Cash and cash equivalents:						
Cash equivalents	₱6,118	₱-	₱-	₱-	₱-	₱6,118
Cash in banks	39,759	-	-	-	-	39,759
Trade and other receivables:						
Trade:						
Electricity	16,344	753	251	2,850	3,307	23,505
Service contracts	1,629	183	28	2,133	223	4,196
Insurance receivable	-	-	-	-	-	-
Cost and estimated earnings in excess of billings on uncompleted contracts	453	67	47	186	6	759
Nontrade receivables	1,094	36	60	174	2	1,366
Other current assets:						
Advances to an associate	5,703	-	-	-	-	5,703
HTM investments	9,001	-	-	-	-	9,001
Short-term investments	2,532	-	-	-	-	2,532
Current portion of advance payments to a supplier	178	-	-	-	-	178
Other noncurrent assets:						
HTM investments	27,180	-	-	-	-	27,180
AFS financial assets	4,360	-	-	-	-	4,360
Advance payments to a supplier and others	3,563	-	-	-	-	3,563
	₱117,914	₱1,039	₱386	₱5,343	₱3,538	₱128,220
2016						
	Neither Past Due nor Impaired	Past Due But Not Impaired			Impaired Financial Assets	Total
		31-60 Days	61-90 Days	Over 90 Days		
<i>(Amounts in millions)</i>						
Cash and cash equivalents:						
Cash equivalents	₱5,627	₱-	₱-	₱-	₱-	₱5,627
Cash in banks	40,910	-	-	-	-	40,910
Trade and other receivables:						
Trade:						
Electricity	16,887	690	244	1,690	2,991	22,502
Service contracts	1,168	146	22	2,110	213	3,659
Insurance receivable	69	2	2	31	-	104
Cost and estimated earnings in excess of billings on uncompleted contracts	373	43	30	153	6	605
Nontrade receivables	1,247	57	76	251	4	1,635
Other current assets:						
Advances to an associate	5,644	-	-	-	-	5,644
HTM investments	1,350	-	-	-	-	1,350
Other noncurrent assets:						
HTM investments	34,997	-	-	-	-	34,997
AFS financial assets	10,186	-	-	-	-	10,186
Advance payments to a supplier	1,277	-	-	-	-	1,277
	₱119,735	₱938	₱374	₱4,235	₱3,214	₱128,496

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 AFS 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 based on contractual undiscounted payments plus future interest:

2017					
	Less than 3 Months	Over 3-12 Months	Over 1-5 Years	More than 5 Years	Total
<i>(Amounts in millions)</i>					
Notes payable	₱1,080	₱12,867	₱-	₱-	₱13,947
Trade payables and other current liabilities	45,425	-	-	-	45,425
Customers' refund	4,603	-	-	-	4,603
Interest-bearing long-term financial liabilities:					
Fixed rate borrowings	324	1,202	16,423	13,032	30,981
Redeemable preferred stock	1,496	-	-	-	1,496
Customers' deposits	1,094	1,885	5,089	18,911	26,979
Refundable service extension costs	84	2,177	4,646	1,366	8,273
Total undiscounted financial liabilities	₱54,106	₱18,131	₱26,158	₱33,309	₱131,704
2016					
	Less than 3 Months	Over 3-12 Months	Over 1-5 Years	More than 5 Years	Total
<i>(Amounts in millions)</i>					
Notes payable	₱11,618	₱-	₱-	₱-	₱11,618
Trade payables and other current liabilities	43,634	-	-	-	43,634
Customers' refund	4,988	-	-	-	4,988
Interest-bearing long-term financial liabilities:					
Floating rate borrowings	27	39	2,452	-	2,518
Fixed rate borrowings	283	1,202	16,789	13,408	31,682
Redeemable preferred stock	1,502	-	-	-	1,502
Customers' deposits	350	2,660	4,993	18,508	26,511
Refundable service extension costs	424	2,078	4,161	766	7,429
Total undiscounted financial liabilities	₱62,826	₱5,979	₱28,395	₱32,682	₱129,882

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 ₱2,261 million and ₱2,594 million will be refunded within a year. This is shown as part of "Trade payables and other current liabilities" account in the consolidated statements of financial position as at December 31, 2017 and 2016, respectively.

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.

	2017	2016
<i>(Amounts in millions, except debt to equity ratio)</i>		
Long-term debt	₱25,174	₱27,370
Redeemable preferred stock	1,496	1,502
Notes payable	13,586	11,475
Debt (a)	₱40,256	₱40,347
Equity attributable to the holders of the parent (b)	₱73,610	₱74,417
Debt to equity ratio(a)/(b)	0.55	0.54

27. Income Taxes and Local Franchise Taxes

Income Taxes

The components of net deferred tax assets and liabilities as at December 31, 2017 and 2016 are as follows:

	Note	2017	2016
		(Amounts in millions)	
Deferred tax assets:			
Provisions for various claims	18 and 21	₱23,021	₱21,027
Accrued employee benefits	25	1,235	846
Unfunded retirement benefits cost and unamortized past service cost	25	1,056	932
Allowance for doubtful accounts	12	615	898
Allowance for excess of cost over net realizable value of inventories	13	58	58
Others		166	55
		26,151	23,816
Deferred tax liabilities:			
Revaluation increment in utility plant and others	15	6,994	7,160
Actuarial gains	25	1,035	1,482
Capitalized interest		733	763
Capitalized duties and taxes deducted in advance		631	617
Depreciation method differential		434	666
Others		230	145
		10,057	10,833
		₱16,094	₱12,983

The deferred tax assets and liabilities are presented in the consolidated statements of financial position as follows:

	2017	2016
	(Amounts in millions)	
Deferred tax assets - net	₱16,146	₱13,019
Deferred tax liabilities - net	(52)	(36)
	₱16,094	₱12,983

Provision for (benefit from) income tax consists of:

	2017	2016	2015
	(Amounts in millions)		
Current	₱10,031	₱10,099	₱9,732
Deferred	(2,668)	(2,746)	(4,045)
	₱7,363	₱7,353	₱5,687

The deferred tax assets charged directly to *OCI* amounted to ₱440 million, (₱1,090 million) and ₱158 million for the years ended December 31, 2017, 2016 and 2015, respectively.

A reconciliation between the provision for income tax computed at statutory income tax rate of 30% for the years ended December 31, 2017, 2016 and 2015, and provision for income tax as shown in the consolidated statements of income is as follows:

	2017	2016	2015
	(Amounts in millions)		
Income tax computed at statutory tax rate	₱8,359	₱8,008	₱7,463
Income tax effects of:			
Interest income subjected to lower final tax rate	(652)	(602)	(387)
Nondeductible interest expense	269	248	160
Nontaxable income	(10)	(234)	(88)
Equity in net earnings (losses) of associates and joint ventures	(66)	503	8
Others	(537)	(570)	(1,469)
	₱7,363	₱7,353	₱5,687

On December 18, 2009, the *BIR* issued Revenue Regulations ("RR") No. 16-2008, which implemented the provisions of *RA* No. 9504 on Optional Standard Deductions ("*OSD*"). Such regulation allows both individual and corporate taxpayers to use *OSD* in computing their taxable income. For corporations, they may elect to adopt standard deduction in an amount not exceeding 40% of gross income in lieu of the allowed itemized deductions. In 2017, 2016 and 2015, *MERALCO* elected to adopt the *OSD* in lieu of itemized deductions beginning with its first quarter income tax return. *MERALCO* expects to continue using the *OSD* method in computing its taxable income for the taxable year ending December 31, 2018.

Thus, certain deferred tax assets and liabilities expected to be recovered or settled in taxable year 2018, for which the related income and expense are not considered in determining gross income for income tax purposes, are not recognized. This is because the manner by which *MERALCO* expects to recover or settle the underlying assets and liabilities would not result to any future tax consequence under the *OSD* method.

Meanwhile, certain deferred tax assets and liabilities expected to be recovered or settled in taxable year 2018, for which the related income and expense are considered in determining gross income for income tax purposes, are recognized only to the extent of their future tax consequence under *OSD* method. Hence, the tax base of these deferred income tax assets and liabilities is reduced by the 40% allowable deduction provided for under the *OSD* method resulting into an adjusted tax rate of 18% from 30%.

Accordingly, *MERALCO*'s net deferred tax assets as at December 31, 2017, which were not recognized due to the expected use of the *OSD* method in the taxable year 2018 are as follows:

	(In millions)
Deferred tax assets:	
Provisions for various claims	₱287
Allowance for doubtful accounts	375
Others	55
	717
Deferred tax liabilities:	
Depreciation method differential	66
Revaluation increment in utility plant and others	57
Capitalized interest	27
Capitalized duties and taxes deducted in advance	24
Others	10
	184
	₱533

The temporary difference for which deferred tax assets have not been recognized pertains to the tax effect of net operating loss carryover ("*NOLCO*") amounting to ₱1,406 million and ₱1,629 million as at December 31, 2017 and 2016, respectively. These are not recognized because the Company does not expect to utilize such deferred tax assets against sufficient taxable profit.

NOLCO totaling to ₱1,406 million may be claimed as deduction against taxable income as follows:

Date Incurred	Expiry Date	Amount
		(In millions)
December 31, 2015	December 31, 2018	₱322
December 31, 2016	December 31, 2019	465
December 31, 2017	December 31, 2020	619
		₱1,406

NOLCO amounting to ₱500 million, ₱402 million and ₱193 million expired in 2017, 2016 and 2015, respectively.

LFT

Consistent with the decisions of the *ERC*, *LFT* is a recoverable charge of the *DU* in 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 *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.

28. 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, 2017 and 2016, the amount of unissued *TCCs* amounting to ₱181 million, is presented as part of "Other noncurrent assets" account in the consolidated statements of financial position.

See *Note 10 – 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 was 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 26, 2018, 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

Several Local Government Units ("*LGU*s") assessed *MERALCO* for deficiency *RPT* on certain assets of *MERALCO*. The assets include electric transformers, distribution wires, insulators, and poles, collectively referred to as *TWIP*. Of these *LGU*s, one (1) has secured a favorable decision from the *CA*. Such decision was appealed by *MERALCO* to the *SC* for the benefit of *MERALCO* customers. On October 22, 2015, *MERALCO* received a copy of the *SC* decision promulgated on August 5, 2015 declaring, among others, that the transformers, electric posts, transmission lines, insulators, and electric meters of *MERALCO* are not exempted from *RPT* under the *LGC*. *MERALCO* did not appeal the *SC* Decision. The cases of the other *LGU*s are pending with their respective administrative bodies or government offices.

In 2016, *MERALCO* began the process of settlement with the affected *LGU*s. *MERALCO* has filed for the recovery of the resulting *RPT* payments to certain *LGU*s from customers in the relevant areas with the *ERC* and will file for similar recovery for succeeding payments.

On January 30, 2017, *PEPOA* filed a Petition for rule-making proposing that *RPT* be allowed as a pass-through cost in the light of the *SC* Decision. In an Order dated June 7, 2017, the case was set for hearings on August 7, 9 and 11, 2017. *MERALCO* filed its intervention and submitted its comments. As at February 26, 2018, the Petition is pending before the *ERC*.

See *Note 18 – 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 *MERALCO* to enter into a long-term power supply contract with the *NPC*.

Accordingly, on November 21, 1994, *MERALCO* entered into a 10-year Contract for Sale of Electricity ("*CSE*") with *NPC* to commence on January 1, 1995. The *CSE* and 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 *BOD*s 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 *ERC*.

Subsequently, the Office of the Solicitor General ("*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 *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 an *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 *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. As at February 26, 2018, *MERALCO* is awaiting further action of the *SC* on the matter.

Sucat-Araneta-Balintawak Transmission Line

The Sucat-Araneta-Balintawak transmission line is a two-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 ("*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 dismissed 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 *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 26, 2018, *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 *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 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.

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* ₱73.9 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*, 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 Motions for Reconsideration 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 some of its monthly remittances to *PSALM*. *PSALM* and *NPC* filed their comments *Ad Cautelam* and Comment and Opposition *Ad Cautelam*, respectively, on *MERALCO*'s Manifestation and Motion. On November 4, 2013, *MERALCO* filed its reply. As at February 26, 2018, *MERALCO*'s Manifestation and 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 Temporary Restraining Order 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 *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 26, 2018, *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: (i) 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 (ii) 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 26, 2018, the Joint Motion to Dismiss is pending resolution by the *ERC*.

PSALM versus PEMC and MERALCO

Due to the significant increases in *WESM* prices during the 3rd and 4th months of the *WESM* operations, *MERALCO* raised its concerns with the *PEMC* with request for the latter to investigate whether *WESM* rules were breached or if anti-competitive behavior had occurred.

While resolutions were initially issued by the *PEMC* directing adjustments of *WESM* settlement amounts, a series of exchanges and appeals with the *ERC* ensued. *ERC* released an order directing that the *WESM* settlement price for the 3rd and 4th billing months be set at *NPC-TOU* rates, prompting *PSALM* to file a Motion for Partial Reconsideration, which was denied by the *ERC* in an Order dated October 20, 2008. *PSALM* filed a Petition for Review before the *CA*, which was dismissed on August 28, 2009, prompting *PSALM* to file an *MR*, which was likewise denied by the *CA* on November 6, 2009. In December 2009, *PSALM* filed a Petition for Review on Certiorari with the *SC*. *MERALCO* has filed its comments on the Petition and its Memorandum. As at February 26, 2018, *PSALM*'s Petition for Review is pending resolution by the *SC*.

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* is of the position that there is no basis for the imposition of the premium charges. The hearings on this case have been completed. As at February 26, 2018, the petition is pending resolution by the *ERC*.

SC TRO on MERALCO's December 2013 Billing Rate Increase

On December 9, 2013, the *ERC* granted 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 the *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 *EPRA*, 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* last December 23, 2013. The *TRO* was similarly applied to the generating companies, specifically *MPPCL*, *SMEC*, *SPPC*, *FGPC*, and the *NGCP*, and the *PEMC* (the administrator of *WESM* and market operator)

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 Investigation 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 Energy, PanAsia Energy, Inc. ("*PanAsia*"), and *SMEC*, have filed motions for reconsideration questioning the Order dated March 3, 2014. *MERALCO* has filed a consolidated comment to these motions for reconsideration. In an Order dated October 15, 2014, the *ERC* denied the motions for reconsideration. The generating companies have appealed the Orders with the *CA* where the petitions are pending. *MERALCO* has filed a motion to intervene and a comment in intervention in the petition filed by *SMEC* and shall file similar pleadings in the cases filed by the other generators.

In view of the pendency of the various submissions before the *ERC* and mindful of the complexities in the implementation of *ERC*'s Order dated March 3, 2014, the *ERC* directed *PEMC* to provide the market participants an additional period of 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 the named generating companies, *NGCP* and *PEMC* not to collect from *MERALCO*. As at February 26, 2018, the *SC* has yet to resolve the various petitions filed against *MERALCO*, *ERC* and *DOE*.

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 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 Manifestation and Motion dated January 19, 2018, the *OSG* stated that it agreed that original and primary jurisdiction is with the Philippine Competition Commission over competition-related cases in the energy sector but argued that the Philippine Competition Act only applies prospectively. In a Resolution dated February 7, 2018, the *CA* directed the *IU* to file its Comment on the *OSG*'s Manifestation and Motion. While *MERALCO* was not directed to file a Comment, *MERALCO* filed its Comment Ad Cautelam on the Manifestation and Motion dated January 19, 2018 on February 26, 2018.

SPPC vs. PSALM

SPPC and *PSALM* are parties to an Independent Power Producer Administration ("*IPPA*") Agreement covering the Ilijan Power Plant. On the other hand, *MERALCO* and *SPPC* have a *PSA* covering the sale of electricity from the Ilijan Power Plant to *MERALCO*. In a letter dated September 8, 2015, *SPPC* informed *MERALCO* that due to an ongoing dispute with *PSALM* arising from difference in interpretation of the provisions of the *IPPA* Agreement, the latter terminated said Agreement. *SPPC* filed a complaint at *RTC-Mandaluyong* to nullify the termination notice for lack of factual and legal basis. On said date, the executive judge of *RTC-Mandaluyong* issued a 72-hour *TRO*. In an Order dated September 11, 2015, the *RTC-Mandaluyong* extended the *TRO* by an additional 17 days. In an Order dated September 28, 2015, the *RTC-Mandaluyong* granted the prayer for preliminary injunction. *PSALM* has filed motions for reconsideration to question the Orders.

MERALCO filed a Motion for Leave to Intervene with Motion to Admit Attached Complaint-in-Intervention. In an Order dated October 19, 2015, the *RTC-Mandaluyong* allowed *MERALCO*'s intervention in the proceedings and admitted its Complaint-in-Intervention. *PSALM* filed an *MR* dated November 6, 2015 of the Order admitting *MERALCO*'s intervention. *RTC-Mandaluyong* issued an Order dated June 27, 2016 denying the motions for reconsideration. *PSALM* has elevated these orders to the *CA* through a Petition for Certiorari. In an Order dated May 25, 2017, the *CA* denied *PSALM*'s prayer for the issuance of a *TRO* and/or writ of preliminary injunction. In a Decision dated December 19, 2017, the *CA* dismissed the Petition and affirmed the orders of the *RTC*.

In the meantime, in an Order dated December 18, 2017, the presiding judge at *RTC-Mandaluyong* inhibited himself from the case. In an Order dated January 11, 2018, the new presiding judge set the preliminary conference and pre-trial on March 1, 2018.

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 a 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. As at February 26, 2018, *MERALCO* is awaiting further action of the Office of the Ombudsman on the matter.

Others

Liabilities for certain local taxes amounting to ₱2,810 million and ₱2,972 million as at December 31, 2017 and 2016, 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 the *MERALCO Group*'s financial position and results of operations.

29. Significant Contracts and Commitments

Contracts for the CSE and PSAs with Privatized Plants and IPPAs

MERALCO entered into separate *PSAs* with *SPPC*, *Sem-Calaca* and *MPPCL* on December 12, 20 and 21, 2011, respectively. Also, separate *PSAs* with *TLI* and *SMEC* were executed on February 29 and June 26, 2012, respectively. These *PSAs* are for a period of seven (7) years, extendable for three (3) years upon agreement of the parties. Thereafter, applications for approval of the *PSAs* were filed with the *ERC*.

MPower likewise signed separate *PSAs* with *SPPC*, *MPPCL*, *Sem-Calaca*, and *TLI* on December 12, 2011, March 16, 2012, June 25, 2012, October 10, 2012 and October 19, 2012, respectively.

In separate Decisions dated December 17, 2012, the *ERC* approved with modifications the *PSAs* of *MERALCO* with *SPPC*, *Sem-Calaca*, *MPPCL*, *TLI* and *SMEC*.

MRs were filed regarding the *ERC* decisions on the *PSAs* with *SPPC*, *Sem-Calaca* and *SMEC*. *MERALCO* is awaiting the decision of the *ERC* on the *SPPC* and *Sem-Calaca MRs*. In an Order dated December 16, 2013, the *ERC* denied the Motion for Partial Reconsideration on the *PSA* with *SMEC*. Both *MERALCO* and *SMEC* have filed separation motions with respect to such order and now await *ERC* resolution thereof.

MERALCO entered into separate Supplemental Agreements with *MPPCL* and *TLI* on April 8 and 27, 2016, respectively, for the extension of the term of these *PSAs* for an additional period of three (3) years up to December 25, 2022. Thereafter, relevant Manifestations with Motion for Approval of the Supplemental Agreements were filed with 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)
2018	2,425	₱31,663
2019	2,430	28,100
2020	1,035	19,030
2021	525	9,300
2022-2036	525	144,850
2037-2039	455	26,875

FGPC and *FGP*

In compliance with the *DOE's* program to create a market for Camago-Malampaya gas field and enable its development, *MERALCO* has committed to contract 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 electrical 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* with *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. Under the terms of the amended *PPA*, *MERALCO* committed to purchase a specified volume of electric power and energy from *QPPL*, subject to certain terms and conditions. The *PPA* is for a period of 25 years from the start of commercial operations up to July 12, 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* advances to *QPPL* US\$2.85 million per annum for 10 years beginning 2008 to assist *QPPL* with respect to 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 for that specific year. 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 *ERC*.

See *Note 10 – 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)
2018	14,717	₱23,502
2019	14,898	23,495
2020	14,898	24,040
2021 to 2025	74,488	118,938
2026 to 2027	21,797	37,431

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*. As at February 26, 2018, the case is submitted for 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 16, 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 16, 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 another 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*. As at February 26, 2018, *MERALCO* is awaiting the *ERC's* decision on its Manifestation with Motion.

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 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. As at February 26, 2018, the contract term has expired and the decision remains pending with 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 the 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*.

SBPL

On May 30, 2014, *MERALCO* signed a long-term *PSA* for a 455 *MW* net capacity and electrical output with *SBPL*. *SBPL* is constructing a supercritical coal-fired power plant in Mauban, Quezon.

On June 2, 2014, *MERALCO* filed an application with the *ERC* for approval of its *PSA* with *SBPL*. On May 19, 2015, *MERALCO* received the *ERC* Decision approving with modification the *PSA* between *MERALCO* and *SBPL*.

Bacman Geothermal, Inc. ("BGI")

On November 25, 2014, *MERALCO* signed a *PSA* with *BGI* for the purchase of up to 50 *MW* capacity and energy from the latter's power plant. The *PSA* expires on December 25, 2019, extendible by an additional two (2) years upon mutual agreement of the parties. On March 4, 2015, the Joint Application for approval of said *PSA* was filed with the *ERC*. As at February 26, 2018, the case is submitted for decision.

RP Energy

On April 20, 2016, *MERALCO* signed a 20-year *PSA* with *RP Energy* for the purchase of 225 *MW* capacity and energy from the first 300 *MW* unit of 2 x 300 *MW* coal-fired power plant that *RP Energy* intends to construct, own, operate, manage and maintain in Subic, Zambales, within the Subic Bay Freeport Zone. On April 29, 2016, the Joint Application for approval of the said *PSA* was filed with the *ERC*. After hearings and filing by *MERALCO* and *RP Energy* of their respective *FOE*, several consumers filed their petitions to intervene. On July 19, 2017, *MERALCO* filed its consolidated opposition to these petitions. On August 30, 2017, the *ERC* issued an order denying the requests for intervenor status but treating them instead as oppositors. Oppositors filed their respective motions for reconsideration which the *ERC* likewise denied in an order dated November 17, 2017. On January 5, 2018, the *ERC* conducted a hearing for the purpose of giving intervenor National Association of Electricity Consumer for Reforms, Inc. ("*NASECORE*") a chance to present its evidence. However, due to its unjustified and continued absence, *NASECORE* was deemed to have waived its right to present its evidence. Thus, the *ERC* deemed the case submitted for decision. However, despite the case having been submitted for decision, the *ERC* Hearing Officer allowed an oppositor to submit his written comment/opposition to the continuation of the proceedings. On January 15, 2018, a written comment/opposition was filed by oppositor and on January 19, 2018, *MERALCO* filed its opposition to the said comment/opposition. As at February 26, 2018, the *ERC* action on the said opposition is pending.

A1E

On April 26, 2016, *MERALCO* signed a 20-year *PSA* with *A1E* for the purchase of 1,200 *MW* of electrical output from the 2 x 600 *MW* supercritical coal-fired power generating facility that *A1E* intends to construct, own, operate, manage and maintain in Atimonan, Quezon. On April 29, 2016, the Joint Application for approval of said *PSA* was filed with the *ERC*. After completion of the hearings and filing by *MERALCO* and *A1E* of their respective *FOE* on March 8, 2017, several consumers filed their petitions to intervene. On July 19, 2017, *MERALCO* filed its consolidated opposition to these petitions. On August 30, 2017, the *ERC* issued an order denying the requests for intervenor status but treating them instead as oppositors. Oppositors filed their respective motions for reconsideration, which the *ERC* likewise denied in an order dated November 17, 2017. The case has been submitted for decision.

St. Raphael

On April 26, 2016, *MERALCO* signed a 20-year *PSA* with *St. Raphael* for the purchase of up to 400 *MW* of electrical output from the 2 x 350 *MW* coal-fired power generating facility that *St. Raphael* intends to construct, own, operate, manage and maintain in Calaca, Batangas. On April 29, 2016, the Joint Application for approval of said *PSA* was filed with the *ERC*. After hearings and filing by *MERALCO* and *St. Raphael* of their respective *FOE*, several consumers filed their petitions to intervene. On July 19, 2017, *MERALCO* filed its consolidated opposition to these petitions. On August 30, 2017, the *ERC* issued an order denying the requests for intervenor status but treating them instead as oppositors. Oppositors filed their respective motions for reconsideration, which the *ERC* likewise denied in an order dated November 17, 2017. On January 10, 2018, the *ERC* conducted a hearing for the purpose of giving intervenor *NASECORE* a chance to present its evidence. However, due to its unjustified and continued absence, *NASECORE* was deemed to have waived its right to present its evidence. Thus, the *ERC* deemed the case submitted for decision.

Central Luzon Premiere Power Corp. ("Central Luzon Power")

On April 26, 2016, *MERALCO* signed a 20-year *PSA* with *Central Luzon Power* for the purchase of up to 528 *MW* of electrical output from the 4 x 150 *MW* circulating fluidized bed coal-fired power generating facility that *Central Luzon Power* intends to construct, own and operate in Pagbilao, Quezon. On April 29, 2016, the Joint Application for approval of said *PSA* was filed with the *ERC*. In its Order dated January 25, 2017, the *ERC* held the processing of the application in abeyance. On March 2, 2017, *MERALCO* received *Central Luzon Power's MR* of the said *ERC* Order. Meanwhile, several consumers filed their petitions to intervene. On July 25, 2017, *MERALCO* received a copy of a Motion filed by several consumers with the *ERC* on July 14, 2017 seeking the dismissal of the case, to which *MERALCO* filed an Opposition. As at February 26, 2018, further *ERC* action is pending.

Mariveles Power

On April 26, 2016, *MERALCO* signed a 20-year *PSA* with *Mariveles Power* for the purchase of up to 528 *MW* of electrical output from the 4 x 150 *MW* circulating fluidized bed coal-fired power generating facility that *Mariveles Power* intends to construct, own and operate in Mariveles, Bataan. On April 29, 2016, the Joint Application for approval of said *PSA* was filed with the *ERC*. In its Order dated August 9, 2016, the *ERC* held the processing of the application in abeyance. On September 30, 2016, *Mariveles Power* filed a *MR* of the said *ERC* Order. Meanwhile, several consumers filed their petitions to intervene. On July 25, 2017, *MERALCO* received a copy of a Motion filed by several consumers with the *ERC* on July 14, 2017 seeking the dismissal of the case, to which *MERALCO* filed an Opposition. As at February 26, 2018, further *ERC* action is pending.

PEDC

On April 26, 2016, *MERALCO* signed a 20-year *PSA* with *PEDC* for the purchase of up to 70 *MW* of electrical output from the 1 x 150 *MW* coal-fired power generating facility that *PEDC* owns and operates in Brgy. Ingore, La Paz, Iloilo. In its letter dated November 23, 2016, the *ERC* informed *MERALCO* that *ERC* has provisionally approved the *PSA* between *MERALCO* and *PEDC* in its order dated July 11, 2016. On January 10, 2017, *MERALCO* and *PEDC* filed their Joint Motion to Admit *FOE* with Joint Urgent Motion for Early Resolution of the Application, seeking to, among other things, already source 70 *MW* from *PEDC* beginning January 28, 2017 in order to temper the anticipated additional burden that the *SPEX*-Malampaya Outage may bring to end-users. On January 17, 2017, *MERALCO* received a letter dated November 23, 2016, informing *MERALCO* that *ERC* provisionally approved the *PSA*.

Meanwhile, several consumers filed their petitions to intervene. On July 19, 2017, *MERALCO* filed its consolidated opposition to these petitions. On August 30, 2017, the *ERC* issued an order denying the requests for intervenor status but treating them instead as oppositors. Oppositors filed their respective motions for reconsideration, which the *ERC* likewise denied in an order dated November 17, 2017. On January 15, 2018, the *ERC* conducted a hearing for the purpose of giving intervenor *NASECORE* a chance to present its evidence. However, due to its unjustified and continued absence, *NASECORE* was deemed to have waived its right to present its evidence. Thus, the *ERC* deemed the case submitted for decision. On January 19, 2018, *MERALCO* received a motion filed by an oppositor before the *CA* seeking additional time to file a Petition for Review. On January 26, 2018, *MERALCO* received the Petition for Review. As at February 26, 2018, the *CA* has yet to act on the Petition.

Global Luzon Energy Development Corporation ("GLEDC")

On April 27, 2016, *MERALCO* signed a 20-year *PSA* with *GLEDC* for the purchase of 600 *MW* of electrical output from the 2 x 335 *MW* coal-fired power generating facility that *GLEDC* intends to construct, own, operate, manage and maintain in Luna, La Union. On April 29, 2016, the Joint Application for approval of said *PSA* was filed with the *ERC*. In its Order dated August 9, 2016, the *ERC* held the processing of the application in abeyance. On October 21, 2016, *MERALCO* received *GLEDC's MR* of the said Order. Meanwhile, several consumers filed their petitions to intervene. On July 25, 2017, *MERALCO* received a Motion seeking the dismissal of the case, to which *MERALCO* filed an Opposition. As at February 26, 2018, the case is still awaiting further action from the *ERC*.

First Bulacan

On September 16, 2016, *MERALCO* signed a 20-year *PSA* with *First Bulacan* for the purchase of 50 *MW* of electrical output from its solar plant in San Miguel, Bulacan. On February 23, 2017, after conduct of a *CSP* wherein *First Bulacan* was declared as the winning power supplier, the Application for approval of the *PSA* with *First Bulacan* was filed. Hearings have been completed and *MERALCO* filed its *FOE* on July 12, 2017. In a letter dated December 29, 2017, *ERC* informed *MERALCO* and *First Bulacan* that *ERC* resolved to grant Interim Relief for approval of the *PSA*. However, such Interim Relief is not contemplated under *PSA* and the parties have yet to implement the *PSA*.

Solar Philippines Tanauan Corporation ("Solar Philippines Tanauan")

On September 16, 2016, *MERALCO* signed a 20-year *PSA* with *Solar Philippines Tanauan* for the purchase of 50 *MW* of electrical 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. Hearings have been completed and *MERALCO* filed its *FOE* on July 12, 2017. In a letter dated December 29, 2017, *ERC* informed *MERALCO* and *Solar Philippines Tanauan* that *ERC* resolved to grant Interim Relief for approval of the *PSA*. However, such Interim Relief is not contemplated under the *PSA* and the parties have yet to implement the *PSA*.

Solar Philippines Tarlac Corporation ("Solar Philippines Tarlac")

On October 6, 2017, after being declared the winner power supplier in a *CSP*, *MERALCO* signed a 20-year *PSA* with *Solar Philippines Tarlac* for the purchase of up to 85 *MW* of electrical output from its solar plant in Tarlac. The application for approval of the *PSA* with *Solar Philippines Tarlac* was filed on October 19, 2017. On November 8, 2017, *MERALCO* received a consumer group's Petition seeking to intervene in the case. On December 29, 2017, the *ERC* issued an order dated December 11, 2017 setting the case for hearing on February 1, 2018. As at February 26, 2018, hearings are ongoing.

Interim Power Supply Agreements ("IPSAs")

On January 19, 2016, after the conduct of a price challenge in compliance with *ERC* Resolution No. 13, Series of 2015, *MERALCO* signed an *IPSA* with 1590 Energy Corporation. The *IPSA* is for the 170 *MW* (firm from February 26 to July 25, 2016; non-firm from July 26, 2016 to February 25, 2017) output from the Bauang power plant – a 215 *MW* bunker oil-fired diesel engine power plant in Bauang, La Union. The term of the *IPSA* is until February 25, 2017, and shall be automatically extended for an additional period of one (1) year up to two (2) times, unless terminated by either party prior to the expiration of its term. The *IPSA* was filed for approval by the *ERC* on February 10, 2016 and shall become effective upon the approval by the *ERC*. In an Order dated April 5, 2016, the *ERC* provisionally approved the *IPSA*. Pursuant to provisions of the *IPSA*, in a letter dated November 10, 2017, *MERALCO* informed 1590 Energy Corporation that it is no longer interested in renewing the *IPSA*, thus, the *IPSA* will only be until February 25, 2018.

On January 21, 2016, after the conduct of a price challenge in compliance with *ERC* Resolution No. 13, Series of 2015, *MERALCO* signed two (2) separate *IPSAs* with the following wholly owned subsidiaries of *GBPC*, namely; (i) *TPC* for the 28 *MW* (firm) output from its 40 *MW* diesel-fired power plant in Carmen, Toledo City; and (ii) *PPC* for the 45 *MW* (firm) output from its 72 *MW* diesel-fired power plant in La Paz, Iloilo City. The term of the *IPSAs* is until February 25, 2017, and shall be automatically extended for an additional period

of one (1) year up to four (4) times, unless terminated by either party prior to the expiration of its term. On February 10, 2016, both *IPSA*s were filed for approval of the *ERC*. In an Order dated April 5, 2016, *ERC* provisionally approved these *IPSA*s.

On January 26, 2017, considering the imminent Malampaya shutdown from January 28 until February 16, 2017, *MERALCO* agreed to extend the *IPSA*s with *TPC* and *PPC* until February 25, 2018, provided that beginning January 28, 2017, (i) supply from *TPC* and *PPC* will be through replacement energy at a price lower than the contract price and (ii) supply from *PPC* will be on a firm basis until August 25, 2017, and on a non-firm basis from August 26, 2017 until end of the term thereof. All other terms and conditions under the *IPSA*s, as may be approved by the *ERC*, remain the same. Pursuant to provisions of the *IPSA*, in a letter dated November 10, 2017, *MERALCO* informed *TPC* and *PPC* that it is no longer interested in renewing their respective *IPSA*s, thus, the *IPSA*s will only be until February 25, 2018.

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 26, 2018, the case has been submitted for resolution of the *ERC*.

Interconnection Agreement with Alternergy Wind One Philippine Holdings Corporation ("Alternergy")

On March 1, 2012, *MERALCO* signed an Interconnection Agreement with *Alternergy* for the latter's 90 *MW* wind farm renewable energy plant in Piilla, Rizal, which shall interconnect at *MERALCO*'s Malaya-Teresa 115 *kV* line. *Alternergy* is an embedded generator. *Alternergy* shall construct at its own cost, operate and maintain the 115 *kV* line connecting its generating facility to *MERALCO*'s system. On September 3, 2014, *MERALCO* signed a supplement to the Interconnection Agreement with *Alternergy* to temporarily connect the latter's facilities to *MERALCO*'s Malaya-Caliraya 115 *kV* line until December 31, 2015 and thereafter, proceed to the ultimate connection at the Malaya-Teresa 115 *kV* line. In its letter to *MERALCO* dated October 30, 2015, *Alternergy* expressed its intention to extend its use of the 115 *kV* line until the completion of the construction of the Phase 2 Line or until December 31, 2016. In the letter agreement dated December 2, 2015, *MERALCO* and *Alternergy* formalized their agreement with respect to the extended use of said line.

Interconnection Agreement with Maibarara Geothermal, Inc. ("MGI")

On December 6, 2012, *MERALCO* signed an Interconnection Agreement with *MGI* for the latter's 20 *MW* (with maximum capacity of 40 *MW*) Geothermal Facility plant in Sto. Tomas, Batangas, which shall interconnect at *MERALCO*'s FPIP - Los Baños 115 *kV* line. *MGI* is an embedded generator. *MGI* shall construct at its own cost, operate and maintain the 115 *kV* line connecting its generating facility to *MERALCO*'s system. In its Decision dated September 30, 2013, the *ERC* approved *MGI*'s application for authority to develop, own and operate dedicated point-to-point facilities to connect to the distribution system of *MERALCO*.

Interconnection Agreement with ATN Philippines Solar Energy Group, Inc. ("ATN")

On December 8, 2014, *MERALCO* signed an Interconnection Agreement with *ATN* for the latter's 25.2 *MW* solar generating facility in Rodriguez, Rizal, to be connected to *MERALCO*'s Novaliches 44 *YJ*, Diliman 435 *VU* and Parang 412 *YL* circuits. *ATN* is an embedded generator. *ATN* shall construct at its own cost, operate dedicated point-to-point lines and facilities that will connect its generating facility to *MERALCO*'s system. In its Decision dated June 8, 2015, the *ERC* approved *ATN*'s application for authority to develop, own and operate a dedicated point-to-point lines and facilities.

Technical Services Agreement ("TSA") with Integrated Energy Distribution and Marketing ("IEDM"), Ibadan Electric Distribution Company ("IBEDC") and Yola Electric Distribution Company ("YEDC")

MERALCO provides technical and management services for the operations of *IBEDC* and *YEDC* in Nigeria. In consideration, *MERALCO* receives fixed monthly fees, subject to adjustment annually in accordance with the provisions of the *TSA*.

In 2015, the *TSA* was amended to limit the scope to the provision of technical services only for *IBEDC* and revised the fixed monthly fees accordingly.

In 2016, the *TSA* was terminated.

Investment and Management Agreement 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

On May 26, 2014, *MERALCO* and *PEZA* entered into a concession agreement for 25 years, whereby *MERALCO* has been contracted to operate the distribution system of *CEZ* beginning May 26, 2014.

On January 24, 2013, *MERALCO* entered into a tripartite agreement with *PEZA* and *Phinma Energy* for the sale of power to *CEZ* and its locators beginning January 26, 2013.

On December 29, 2014, *MERALCO* has secured its Certificate of Registration No.10-01-U from *PEZA*, which confirms *MERALCO* as an Ecozone Utilities Enterprise at the *CEZ*.

30. **Earnings Per Share Attributable to Equity Holders of the Parent**

Basic and diluted earnings per share are calculated as follows:

	2017	2016	2015
	<i>(In millions, except per share data)</i>		
Net income attributable to equity holders of the Parent (a)	₱20,384	₱19,176	₱19,098
Weighted average common shares outstanding (b)	1,127	1,127	1,127
Per Share Amounts:			
Basic and diluted earnings per share (a/b)	₱18.09	₱17.01	₱16.94

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 2017 and 2016.

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.

31. **Other Matters**

Revised SL Caps

On December 8, 2008, the *ERC* promulgated Resolution No. 17, Series of 2008 adopting a lower maximum rate of *SL* (technical and non-technical) that a private *DU* can pass on to its customers. The revised *SL* cap is 8.5% for private *DUs*, starting with the January 2010 billing. The said cap is one (1) percentage point lower than the *SL* cap of 9.5% provided under *RA* No. 7832. The actual volume of electricity used by *MERALCO* (administrative loss) is recognized as operation and maintenance expense beginning July 2011. The manner by which the utility is rewarded for its efforts in *SL* reduction is addressed by the *ERC* in the Performance Incentive Scheme ("*PIS*") under the *PBR*.

On October 4, 2016, a legislator proposed a bill to lower the current cap of *SL* rate from 8.5% to 5% for private *DUs* and from 13% to 10% for electric cooperatives and to exclude non-technical system losses and electricity used by the private *DUs* and electrical cooperatives from what may be passed on to consumers as *SL* charges. As at February 26, 2018, this proposed bill is still subject for deliberation of the Senate.

On May 9, 2017, the *ERC* posted on its website the draft rules on the *Proposed Rules for Setting the Distribution System Loss Cap and Establishing Performance Incentive Scheme for Distribution Efficiency*. *ERC* engaged a third party consultant to conduct the study on the *SL* of *DUs* and propose new caps. Said rules proposed different *SL* caps according to four (4) clusters. Electric cooperatives ("*EC*") were grouped in Clusters 1 to 3 and private *DUs* in Cluster 4. *DUs* in clusters 1 to 4 have proposed system loss caps of 11.5%, 10%, 7.75%, and 4%, respectively. These caps, which include feeder technical loss and nontechnical loss but exclude sub-transmission and substation technical losses are proposed to be implemented based on the *DUs* next regulatory reset schedule. For *MERALCO*, the proposed implementation date is July 2019. A series of public consultations and focus group discussions followed, the latest of which was a public consultation for Mindanao stakeholders held in Pasig City last August 9, 2017. In said public consultation, the third party consultant proposed a graduated reduction in system loss caps per cluster. Beginning 2018, *DUs* in clusters 1 to 3 shall have a cap of 12% and *DUs* in cluster 4 shall have a cap of 8%, all of which exclude sub-transmission and substation system losses. The caps of cluster 1 to 3 will remain/be lowered to 12%, 10.25%, 8.25% by 2022, respectively. For private *DUs*, the cap will be reviewed based on their submission of annual feeder data to the *ERC*. If private *DUs* fail to submit one (1) year's data (from 2018-2020), its cap in 2022, shall be set at 4.75% excluding sub-transmission and substation system losses. The latest proposal of the third party consultant also includes a 1% cap on sub-transmission and substation system losses which was not previously capped in the original draft rules.

On February 23, 2018, the *ERC* posted in its website its Rules for Setting the Distribution System Loss (“*DSL*”) Cap and Establishing Performance Incentive Scheme for Distribution Efficiency. The Rules allow for a gradual reduction of Feeder System (Primary and Secondary Distribution System) Loss caps as follows:

Year of Implementation	EC Cluster 1	EC Cluster 2	EC Cluster 3	Cluster 4 (Private <i>DUs</i>)
		(in percentage)		
2018	12.00	12.00	12.00	6.50
2019	12.00	11.00	11.00	6.25
2020	12.00	10.25	10.00	6.00
2021	12.00	10.25	9.00	5.50
2022 and onwards	12.00	10.25	8.25	4.75 (if no annual submission of feeder data)

Subtransmission and substation loss is fully recoverable. However, if *DUs* do not submit monthly metered subtransmission and substation distribution loss data, such losses, as well as distribution feeder losses, will be set to zero in the computation of the recoverable system loss charge. The *DU* may also elect for an individualized *DSL* cap.

Benefit-Sharing Scheme to Lower System Loss

On January 26, 2011, *MERALCO*, together with *PEPOA* and Philippine Rural Electric Cooperative Association (“*PHILRECA*”), filed a joint petition to the *ERC* to initiate rule-making to adopt the *Proposed Guidelines for the Implementation of an Incentive Scheme to Lower the System Losses of Private Distribution Utilities and Electric Cooperatives to Level Below the System Loss Cap, for the Benefit of End-Users*. This was aimed to encourage the *DUs* to reduce *SL* levels below the cap set by the *ERC* and benefit the end-users through lower *SL* charges. Public hearings were conducted and completed on June 15, 2011.

On December 11, 2012, the *ERC* posted on its website the second draft of the *Rules to Govern the Implementation of a Benefit Sharing to Lower the System Losses of Electric Distribution Utilities*. As at February 26, 2018, the Joint Petition is pending further action or decision by the *ERC*.

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 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 the *CRB* information on end-users with (i) monthly average peak demand of at least 1 *MW* for the preceding 12 months; and (ii) monthly average peak demand of 750 *kW* but not greater than 999 *kW*. The *ERC* shall use this information as basis for 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 Retail Electricity Suppliers (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”.

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 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, *ERC* filed a Petition for Certiorari and Prohibition with prayer for *TRO* and/or *WPI* before the *SC* (“*SC* Petition”), 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 *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 *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 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 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 *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.

Interim Pre-Emptive Mitigating Measure in the WESM

On May 5, 2014, the *ERC* issued Resolution No 8, Series of 2014, setting an interim pre-emptive mitigating measure in the *WESM*, which established a price threshold in the *WESM* applied over a 72-hour period, which is determined through a rolling average Generated Weighted Average Price (“*GWAP*”) of ₱8,186 per *MWh*. Also, a secondary cap amounting to ₱6,245 per *MWh* is imposed upon a breach of the threshold, or Secondary Cap mechanism. Such interim measure aims to mitigate sustained high prices in the *WESM* during the May and June 2014 supply months. On June 16, 2014, the *ERC* issued another resolution extending the effectivity of the pre-emptive mitigating measure for 45 days from expiration or until August 9, 2014. Public consultation and a subsequent focus group discussion were held on July 23 and 25, 2014, respectively. On August 5, 2014, the *ERC* resolved to (i) adopt a permanent pre-emptive mitigating measure that will be applied in the *WESM*; (ii) direct all interested stakeholders to submit their proposed measures within 20 days from effectivity of such Resolution; and (iii) extend the effectivity of the Secondary Cap mechanism for a period of 120 days from August 10, 2014 or until the establishment by the *ERC* of a permanent pre-emptive mitigating measure in the *WESM*, whichever comes earlier.

On September 29, 2014, the *ERC* conducted a public consultation on the proposed permanent pre-emptive mitigating measures in the *WESM*. Parties were given until October 7, 2014 to file their comments, if any.

On October 24, 2014, the *WESM* Tripartite Committee issued a Joint Resolution to further extend the interim offer price cap in the *WESM* for 120 days starting October 24, 2014 to harmonize with the finalization of the permanent pre-emptive mitigating measure which shall be applied in the *WESM*. On February 20, 2015, the *WESM* Tripartite Committee issued a joint resolution which extended further the imposition of the interim *WESM* offer price cap at its current level until September 30, 2015.

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 seven (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*. As at February 26, 2018, *MERALCO* is awaiting the further action of the *CA* on the motion.

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 26, 2018, 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.

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 an *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 an *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. During the hearing, *NGCP* was given three (3) days from the said date to file its comment on the subsequent pleadings filed, after which the case is deemed submitted for resolution.

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 Dasmariñas-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.

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 (a) accept and approved the consignation of the amount of ₱194.1 million; (b) declare *MERALCO* to have paid in full the purchase price of the sale of *TransCo*'s assets; (c) direct *TransCo* to execute the corresponding Deeds of Absolute Sale; and (d) 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 is pending resolution. In a Letter dated December 27, 2017, *Labrador* denied *TransCo*'s request for settlement of the warrant of distrains issued by said city against *TransCo*'s properties, including the subject properties for local business tax claims. As at February 26, 2018, *MERALCO* is awaiting for *CA*'s decision before any action may be taken in relation to the contract to sell.

On December 12, 2011, *MERALCO* signed various agreements for the acquisition of certain sub transmission assets of *TransCo* within the *MERALCO* franchise area for its sole account, as well as through a consortium with Batangas II Electric Cooperative, Inc., ("*BATELEC II*") and First Bay Power Corporation ("*FBPC*"). On September 18, 2012, an amended consortium agreement was executed between *MERALCO* and *FBPC*. On October 17, 2012, *MERALCO* signed two (2) separate amended consortium agreements with *BATELEC II*, and with *FBPC* and *BATELEC II*. These amended consortium agreements superseded the agreements signed on December 12, 2011. On December 27 and 28, 2012, the Contract to Sell and Consortium Agreements, respectively, covering these sub transmission assets were filed with the *ERC* for approval.

The applications for approval of the Consortium Agreement between *MERALCO* and *BATELEC II* and the Contract to Sell among *TransCo*, *MERALCO* and *BATELEC II* were submitted for resolution of the *ERC*. As at February 26, 2018, the application is pending approval by the *ERC*.

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 as a renewable energy policy that offers guaranteed payments on a fixed per *kWh* for electricity from wind, solar, ocean, hydropower and biomass energy sources, excluding any generation for own use.

On May 16, 2011, the National Renewable Energy Board ("*NREB*") filed its Petition to Initiate Rule Making for the Adoption of *FIT*. The Petition proposed a specific *FIT* Rate for each emerging renewable resource. On July 27, 2012, after undergoing several public consultations and public hearings, the *ERC* approved *FIT* Rates lower than the rates applied by the *NREB*.

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.

On July 30, 2014, *TransCo* filed its Application for Approval of the *FIT-All* for calendar years 2014 and 2015. On October 7, 2014, the *ERC* provisionally approved a *FIT-All* of ₱0.0406 per *kWh* effective in the January 2015 billing as a separate line item in the bills of end consumers. In its letter to *MERALCO* dated December 18, 2014, the *ERC* clarified that the January 2015 billing covers consumption of customers for the period December 26, 2014 to January 25, 2015.

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. The parties have been directed to submit their respective memoranda.

On April 30, 2014, the *DOE* issued a certification revising the installation target for solar from 50 *MW* to 500 *MW*, an additional capacity of 450 *MW*. In its certification, the *DOE* stated that "solar energy generation projects given their short installation period can greatly contribute in providing additional generating and reserve capacity in the summer seasons of 2015 and 2016".

On January 28, 2015, the *ERC* conducted a public consultation on the increase of the installation target for solar renewable energy generation (additional 450 *MW*) and the *FIT* Rate for the additional solar capacity. In the said hearing, it was clarified that the additional 450 *MW* installation capacity for solar is already approved by the *DOE*. On April 28, 2015, the *ERC* issued a Decision dated March 27, 2015 setting the new solar *FIT* Rate at ₱8.69 per *kWh*, which shall apply prospectively.

On April 7, 2015, the *DOE* issued a certification revising the installation target for wind from 200 *MW* to 400 *MW*. On April 13, 2015, the *ERC* initiated the review of the *FIT* for wind technology. In a letter dated April 15, 2015, the *ERC* directed the *NREB* to submit a proposal regarding the review of *FIT* for wind technology beyond the original 200 *MW* installation target. The *NREB* proposed a Wind *FIT* of ₱8.49 per *kWh*. On July 30, 2015, the *ERC* conducted a public consultation on the new proposed Wind *FIT*. 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 26, 2018, the *MR* is pending further action of the *ERC*.

On December 22, 2015, *TransCo* filed its Application for Approval of the *FIT-All* for calendar year 2016. In an Order dated February 16, 2016, the *ERC* provisionally approved a *FIT-All* of ₱0.1240 per *kWh* effective in the succeeding billing period after *TransCo* received the Order. The *FIT-All* was implemented starting April 2016 billing month.

On December 1, 2016, *TransCo* filed its Application for Approval of the *FIT-All* for calendar year 2017. In an Order dated April 26, 2017, the *ERC* set the case for initial hearing on May 15, 19 and June 2 and 9, respectively. Hearings on this case have been completed and the parties have filed their respective memoranda.

On August 30, 2017, *TransCo* filed its Application for Approval of the *FIT-All* for calendar year 2018 seeking to collect a *FIT-All* rate of ₱0.2932 per *kWh*. The initial hearing of this case was held on December 6, 2017 where *MERALCO* cross-examined a witness of *TransCo*. The next hearing is on February 22, 2018 for the continuation of cross examination by *MERALCO* and other intervenors of the said witness.

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*.

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. The final pricing methodology, however, will be addressed in another set of rules and will be endorsed to 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. As at December 31, 2017, *MERALCO* has already installed 1,197 meters and energized 1,090 net metering customers. *MERALCO* is the first *DU* in the country which implemented the Net Metering Program.

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" and *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".

To prepare for the scheduled maintenance of the Malampaya gas facility, *MERALCO*, as directed by the *DOE*, conducted a forum for its customers participating in the *ILP* on January 19, 2017. Under the *ILP*, a customer may voluntarily reduce its load requirement from the grid usually by shifting its requirement to its generator set.

As at December 31, 2017, there are 161 companies with a total committed de-loading capacity of 582 *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 26, 2018, the *ERC* has yet to resolve *MERALCO*'s Motion for Partial Reconsideration.

Prepaid Retail Electricity Service ("PRES")

On December 12, 2014, *MERALCO* filed an application for authority to offer and provide *PRES* to its customers as well as the applicable rules to govern *PRES*. In a Decision dated April 27, 2015, the *ERC* approved the application with modification. As at December 31, 2017, there are 89,717 customers availing of *PRES*.

CSP for Power Supply Agreements

As early as February 2013, the *ERC* posted the first draft of rules on *PSA* approval, solicited comments from stakeholders thereon and conducted various focused group discussions. Said draft required *DUs* to undergo *CSP* in their supply procurement, required a specific procedure for such and prescribed a *PSA* template.

Meanwhile, in October 2014, the *DOE* issued for comments its draft Circular on Demand Aggregation and Supply Auctioning Policy ("DASAP"). This was likewise subjected to public consultations.

In June 2015, *DOE* promulgated *DOE* Circular No. 2015-06-0008, "Providing Policies for Further Enhancement of the *WESM* Design and Operations", prescribing *DUs* to procure all its uncontracted demand through *CSP*, through the participation of a Third Party and which may be done by *DUs* on an aggregated basis. The *DOE* Circular gave *DOE* and *ERC* 120 days to issue the necessary Implementing Guidelines ("IG"). Instead of issuing an *IG*, in a Joint Resolution dated October 20, 2015, it was agreed by *DOE* and *ERC* that the latter shall be the one to issue the relevant *CSP* regulations. On the same date, *ERC* promulgated Resolution No. 13, Series of 2015.

ERC Resolution No. 13, Series of 2015 included the following provisions:

- All *DUs* are required to undergo *CSP*. Pending the *ERC*'s issuance of a prescribed process, *DUs* may adopt any accepted form of *CSP*, provided that the terms of reference shall include, among others, the following – (a) contract capacity or energy volume, (b) generation source, (c) method of fuel procurement, (d) contract period, (e) tariff structure, (f) Philippine peso or foreign currency denominated payment, (g) penalties, (h) applicable transmission projects, and (i) other key parameters.
- A *CSP* is successful if there are at least two (2) qualified bids. Should there be at least two (2) failed bids, then a *DU* can proceed with direct negotiation.
- The *CSP* requirement shall apply to *PSAs* that although executed, have not yet been filed for approval before the *ERC*.

On March 15, 2016, *ERC* released Resolution No. 1, Series of 2016 entitled, "A Resolution Clarifying the Effectivity of *ERC* Resolution No. 13, Series of 2015". In this new Resolution, *ERC* clarified that after judicious study and due consideration of views raised by different industry stakeholders, it has resolved that:

- The effectivity of *ERC* Resolution No. 13, Series of 2015 is hereby restated to be April 30, 2016.
- On the other forms of *CSP* referred to in Section 2 of the *ERC* Resolution No. 13, Series of 2015, these should likewise comply with the minimum terms of reference and the requirement of at least two (2) qualified bids for the *CSP* to be considered successful.

In reference to *PSAs* with provisions allowing the automatic renewal or extension of their term, *PSAs* that were previously approved by the *ERC* or filed with the *ERC* before the effectivity of this Resolution may have one (1) automatic renewal or extension for a period not exceeding one (1) year from the end of their respective terms. Upon effectivity of this Resolution, automatic renewal clauses or extension of *PSAs* shall no longer be permitted.

On November 18, 2016, *MERALCO* received a copy of the Petition dated April 28, 2016 filed by a consumer group in the *SC* against *ERC*, *DOE*, *MERALCO*, *Central Luzon Power*, *St. Raphael*, *PEDC*, *Mariveles Power*, *A1E*, *RP Energy* and the Philippine Competition Commission which sought to declare as void Resolution No. 1, Series of 2016 and to mandate the *ERC* to disapprove all *PSA* applications for failing to comply with the *CSP* requirement. In a Resolution dated November 16, 2016, the *SC* directed all parties to comment on the Petition. *MERALCO* has filed its comments to the Petition. In a Resolution dated June 17, 2017, the petitioners were directed to file their replies to the comments filed by respondents.

On February 9, 2018, the *DOE* published *DOE* Circular No. DC2018-02-003, entitled, "Adopting and Prescribing the Policy for the Competitive Selection Process in the Procurement by Distribution Utilities of Power Supply Agreements for the Captive Market". Upon effectivity of the Circular, all prospective *PSAs* in grid and off-grid areas shall be procured through *CSP*.

The *CSP* under the 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:

- Generation project owned by the *DU* funded by grant or donations
- Negotiated procurement of emergency supply
- Provision of supply in off-grid areas prior to the entry of New Power Providers
- 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* 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*"). Each *CSP* shall be completed within five (5) months from the time of the publication of the Invitation to Bid until submission of the *PSA* to the *ERC*.

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.

Within 60 days upon effectivity of the Circular, the *ERC* shall develop rules and procedures to:

- (i) support the Circular, including guidelines for *TPA* accreditation and a *PSA* template, and
- (ii) address disputes arising from the conduct of the *CSP*. As at February 26, 2018, *MERALCO* is currently awaiting the rules and procedures to be promulgated by the *ERC*.

32. **Event After the Financial Reporting Date**

On February 26, 2018, the *BOD* of *MERALCO* approved the declaration of cash dividends of ₱8.065 a share to all shareholders of record as at March 28, 2018, payable on April 25, 2018. This consists of a final regular cash dividend of ₱4.478 per share and a special cash dividend of ₱3.587 per share.

Glossary of Terms

CONSUMER SATISFACTION INDEX (CSI) is the weighted index that measures general and specific areas of customer satisfaction and priorities. Both satisfaction and level of importance by attribute are dictated by customers through an annual survey (bi-annual starting 2015). This survey is conducted among all customer segments: residential, commercial, industrial, local government units (LGUs), and national government offices.

CONTESTABLE CUSTOMER is an electricity end-user that belongs to the contestable market.

CONTESTABLE MARKET the electricity end-users who have a choice of a supplier of electricity as may be determined by the ERC in accordance with the EPIRA.

DISTRIBUTION CHARGE is the tariff component associated with the cost of developing, constructing, operating and maintaining the distribution system of Meralco, which delivers power from high voltage transmission grids to commercial and industrial establishments and residential end-users.

DISTRIBUTION SYSTEM refers to the system of wires and associated facilities of a franchised DU extending between: (a) the delivery points on the transmission or subtransmission system or generating plant connection and (b) the points of connection to the premises of end-users.

DISTRIBUTION UTILITY (DU) refers to any electric cooperative, private corporation, government-owned utility or existing local government unit which has an exclusive franchise to operate a distribution system in accordance with its franchise and the EPIRA.

ELECTRIC POWER GENERATION is the process of converting primary energy sources, e.g. fossil fuels (oil, natural gas and coal), flowing water, geothermal energy, solar and wind and radioactive (uranium) materials into electricity.

ELECTRIC POWER PLANT refers to facilities for producing electricity through electric power generation.

ELECTRIC POWER INDUSTRY REFORM ACT (EPIRA) OF 2001 or Republic Act No. 9136, which was signed into law on June 8, 2001 by Pres. Gloria Macapagal-Arroyo.

ELECTRIC POWER INDUSTRY PARTICIPANT refers to any person or entity engaged in the generation, transmission, distribution or supply of electricity as defined in Chapter I, Section 4 (s) of the EPIRA.

ENERGY is the integral of the active power with respect to time, measured in watt- hour or multiples thereof. It is power derived from the utilization of physical or chemical resources, especially to provide light and heat or to work machines.

ENERGY REGULATORY COMMISSION (ERC) is the independent, quasi-judicial regulatory body that was created pursuant to Section 38 of the EPIRA.

FEED-IN-TARIFF (FIT) refers to a renewable energy policy that offers guaranteed payments on a fixed rate per kilowatthour for emerging renewable energy sources, applicable for a given period of time.

FEED-IN-TARIFF ALLOWANCE (FIT-All) is a uniform charge in peso per kWh (PhP/kWh) billed to all on-grid electricity consumers nationwide. The FIT-All charge forms part of a fund which is used to pay the FIT-eligible developers of renewable energy-based power plants (i.e. solar, wind, biomass, run-of-river hydro) for the energy they produce. For Meralco customers, the FIT-All charge appeared on their electricity bills starting February 2015, with the label "FIT-All (Renewable)".

GENERATION CHARGE is the tariff component associated with the cost of Meralco's purchase of power from its suppliers – Independent Power Producers (IPPs), via Power Supply Agreements (PSAs) and the WESM.

GIGAWATT is the unit of electric power equal to 1,000,000,000 watts.

GIGAWATT HOUR (GWh) is the unit of electric energy equal to 1,000,000,000 watt-hours.

GRID is the high voltage backbone system of interconnected transmission lines, substations and related facilities, located in each of Luzon, Visayas and Mindanao, or as may be determined by the ERC in accordance with Section 45 (c) of the EPIRA.

INDEPENDENT POWER PRODUCER (IPP) is an existing power-generating entity not owned by the NPC.

KILOVOLT-AMPERE (kVA) is the practical unit of apparent power, equivalent to 1,000 volt-amperes.

KILOWATT (kW) is the unit of electric power equal to 1,000 watts.

KILOWATTHOUR (kWh) is the unit of energy equal to 1,000 watthours.

LOAD is the entity or electrical equipment that consumes or draws electrical energy.

LOAD FACTOR is the ratio of the total energy delivered during a given period to the product of the maximum demand and the number of hours during the same period.

LOCAL FRANCHISE TAX is levied by provinces and cities for businesses enjoying a franchise, and paid to such LGUs, in accordance with the provisions of Sections 15 and 137 of the Local Government Code (LGC). This is a pass-through charge for Meralco, paid and collected in accordance with the LGC and ERC Regulations.

LOCAL RES is the non-regulated business segment of the DU authorized by the ERC to supply electricity to contestable customers within the DU's franchise area only, or persons authorized by appropriate entities to supply within their respective economic zones. As local retail electricity supplier, the DU is not required to secure a supplier's license.

LUZON GRID is the high voltage backbone system of interconnected transmission lines, substations and related facilities located in the island of Luzon.

MAINTENANCE is any activity intended to keep equipment in satisfactory working condition including tests, measurements, replacements, adjustments and repairs that are either corrective or preventive in nature.

NATIONAL GRID CORPORATION OF THE PHILIPPINES (NGCP) is a privately-owned corporation which was awarded the concession to operate and maintain the Philippines' electricity transmission network. NGCP was granted a 50-year franchise under Republic Act No. 9511. As the system operator of the power grid, NGCP balances the demand and supply of electricity to efficiently serve all of its customers which are generators, private distribution utilities, electric cooperatives, government-owned utilities, ecozones, industries and directly connected companies.

NATIONAL POWER CORPORATION (NPC) is the government-owned and controlled corporation created under Republic Act No. 6395, as amended.

NATIONAL TRANSMISSION CORPORATION (TRANSCO) is a government-owned and controlled corporation created under Section 8 of the EPIRA to which NPC transferred its transmission and sub-transmission facilities.

NET METERING is a consumer-based incentive program which supports renewable energy (RE) initiatives. It covers electric power generated by an end-user from an eligible on-site RE system, for instance, facilities with solar panels. The end-user is credited for any electric energy exported to the DU. This system of distributed generation shall not exceed one hundred kilowatts (100 kW) in capacity as defined in R.A. 9513.

OPEN ACCESS refers to the system of allowing any qualified person the use of transmission and/or distribution system and associated facilities subject to the payment of transmission and/or distribution retail wheeling rates duly approved by the ERC.

PERFORMANCE-BASED REGULATION (PBR) is an internationally accepted rate- setting methodology adopted by the ERC, pursuant to Section 43 (f) of the EPIRA to replace the Return-on-Rate Base (RORB) or Cost-Plus regulation. PBR is a forward- looking framework that aims to ensure that capital and operating expenditures are efficiently undertaken to provide timely, reliable, adequate and affordable power by the distribution utility to consumers in its franchise area. PBR entails the use of incentive mechanisms that reward or penalize the utility for exceeding or falling short of the prescribed performance standards.

PHILIPPINE ECONOMIC ZONE AUTHORITY (PEZA) is the Philippine government agency created under Republic Act No. 7916 tasked to promote investments, extend assistance, register, grant incentives and facilitate the business operations of investors in export-oriented manufacturing and service facilities inside selected areas throughout the country proclaimed as PEZA Special Economic Zones (ecozones).

PHILIPPINE ELECTRICITY MARKET CORPORATION (PEMC) is a nonstock and non-profit corporation constituted in November 2003 upon the initiative of the Department of Energy (DOE) with representatives from the various sectors of the electric power industry to be the governance arm of the WESM. The PEMC was likewise constituted as the autonomous group market operator (AGMO) to undertake the preparations for the establishment of the WESM and its initial operations during the interim period prior to the selection of the independent market operator (IMO). As AGMO, it acts as both the governance arm and market operator of the WESM. After the transition to the IMO, the PEMC will remain to be the governance arm of the WESM while its market operations functions will be transferred to the IMO.

POWER is the average of the instantaneous power over one period of the electrical wave, measured in watts or multiples thereof.

POWER SECTOR ASSETS AND LIABILITIES MANAGEMENT CORPORATION (PSALM) is a government-owned and controlled corporation created under Section 49 of the EPIRA, which took ownership of all existing NPC generation assets, liabilities, IPP contracts, real estate and all other disposable assets.

RULES FOR SETTING DISTRIBUTION WHEELING RATES (RDWR) is a price cap variation of the PBR as adopted by the ERC for private distribution utilities. This is an update of the Distribution Wheeling Rates Guidelines (DWRG) considering specific entry points among private distribution utilities. RDWR includes a reward and penalty mechanism called the Performance Incentive Scheme (PIS), which includes the following: a) Price linked Incentive (S-factor) scheme which determines the rewards or penalties of DUs using a weighted performance measure, based on the performance levels achieved against a number of indices in the calendar year preceding each regulatory year; b) Guaranteed Service Level (GSL) scheme which provides customers guarantees regarding responsiveness and effectiveness of DUs. If GSLs are not met, predetermined penalties will be paid by distribution utilities directly to customers.

SYSTEM LOSS in a distribution system, is the difference between the electric energy input to the system and electric energy output from the system. It refers to technical and non- technical losses occurring in a distribution system during the conveyance of electricity to end-users.

SYSTEM LOSS CHARGE is the tariff component associated with the cost of technical and non-technical system losses. The maximum level of losses that may be recovered by private distribution utilities was set at 9.5% by Republic Act No. 7832 which was reduced to 8.5% starting 2010, as provided under ERC Resolution No.17, Series of 2008.

SYSTEM TROUBLES are multiple outages compromising the security and reliability of the transmission and/or distribution network

TRANSITION SUPPLY CONTRACT (TSC) is a document, that contains the agreement between a generator and a distribution utility on the terms and conditions of the supply and purchase of energy including a corresponding schedule of applicable rates and consistent with Section 67 of the EPIRA.

TRANSMISSION CHARGE is the tariff component associated with: a) the cost of delivery of electricity from generators, usually located in other provinces or in remote areas outside the DU's franchise area, to the distribution system of the DU such as Meralco, and b) charges for ancillary services procured by the transmission service provider, which is the NGCP.

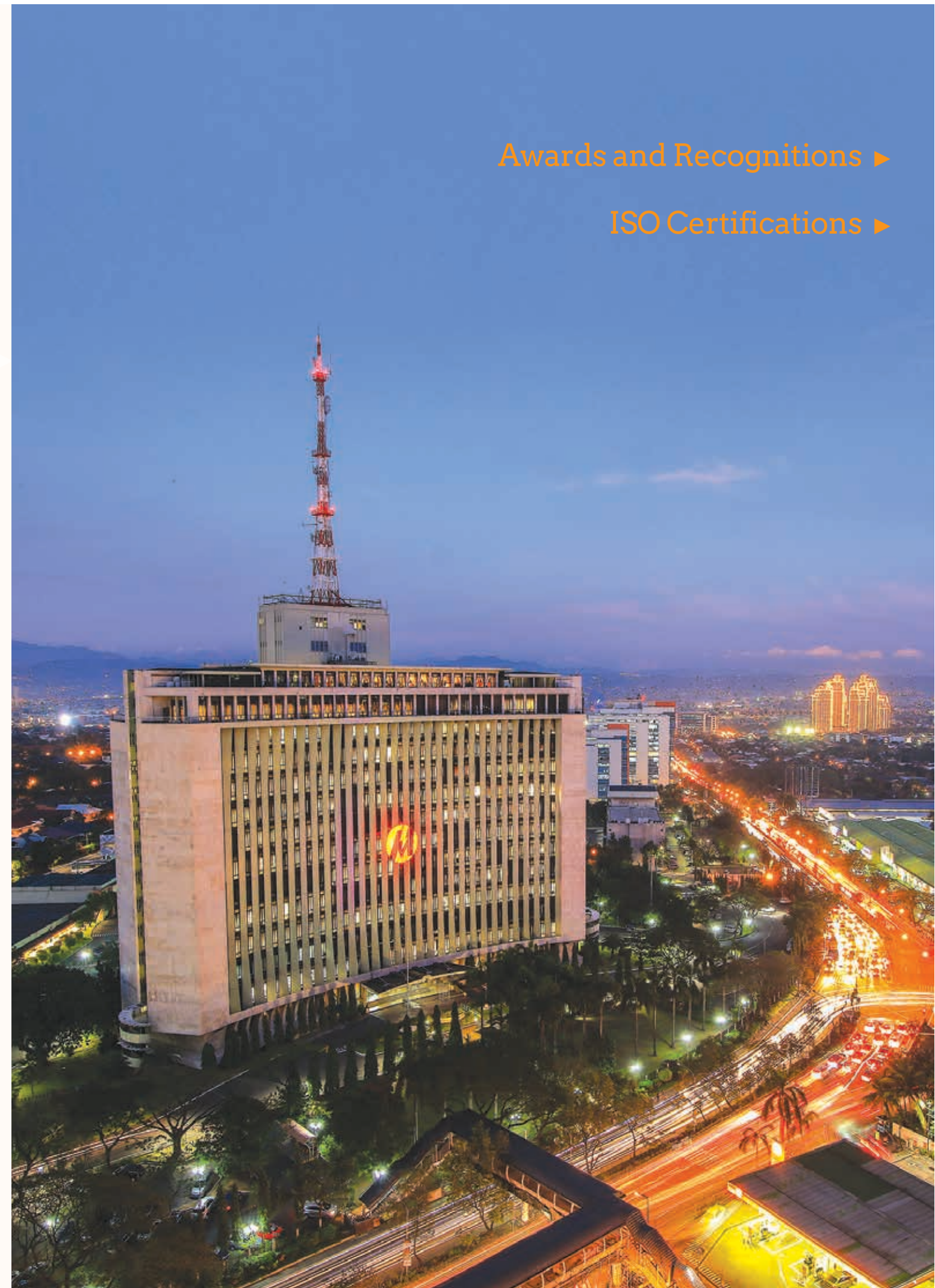
UNIVERSAL CHARGE is the tariff component associated with the charge imposed on all electricity end-users as determined, fixed and approved by the ERC, pursuant to Section 34 of the EPIRA. It is remitted to the PSALM. At present, this includes the stranded contract costs of NPC, stranded debts of NPC, missionary electrification, and environmental charges. Other possible components of the Universal Charge which are yet to be resolved by the ERC are: a) Stranded Contract Costs of Distribution Utilities, and b) Equalization of the taxes and royalties applied to indigenous or renewable sources of energy vis-à-vis imported fuels.

VALUE ADDED TAX (VAT) is a tax imposed on the value added in the generation, transmission, distribution, and retail supply of electricity. It is a form of indirect sales tax because the VAT at each of the stages mentioned is charged to the final consumer as part of the electricity price, with generation companies, NGCP. DUs and RESs acting merely as collecting agents.

WHOLESALE ELECTRICITY SPOT MARKET (WESM) is the market where trading of electricity is made and was established by the DOE pursuant to Section 30 of the EPIRA.

Awards and Recognitions ►

ISO Certifications ►



Awards and Recognitions

INTERNATIONAL RECOGNITIONS

AWARD	ENTRY TITTLE	PLACE	LOCATION
Stevie Awards (Sales and Customer Service)	Meralco is in a Relationship with its Customers	Bronze	February 24, 2017 Las Vegas, USA
Asian Utility Week Awards	Kuryente Load	Best Consumer Engagament Project	May 24, 2017 Bangkok, Thailand
Stevie Awards (Asia Pacific)	Meralco and Workplace – Changing how things work	Gold	June 2, 2017 Tokyo, Japan
	Meralco Power Club – Engaging the Corporate Customer	Silver	
	The Meralco Orange Tag: Empowering Customers with Just One Look	Bronze	
	Power Up Forum Series – Finance Edition: Improving Numbers through Customer Engagement	Bronze	
	Meralco Power Club Golf Invitational: Transforming a Day Activity to a Life-Changing Event	Bronze	
PR Asia Awards	In-house PR Team of the Year	Finalist	June 6, 2017 Hongkong
Gold Quill Awards	Meralco Advisory: Building the Customer Relationship Through Trust and Relevance	Merit	June 13, 2017 Washington DC, USA
Asian Power Awards	Meralco Prepaid Electricity Service	Smart Grid Project of the Year	September 20, 2017 Bangkok, Thailand
International Business Awards (Stevies)	Meralco Prepaid Electricity Service: Breaking Grounds in the Global Smart Grid Landscape	Gold	October 21, 2017 Barcelona, Spain
	The 6th Luminaries: A Future of Possibilities	Silver	
	Meralco is in a Relationship With its Customers	Silver	
	Meralco Power Club – Engaging the Corporate Customer	Bronze	
	Meralco Power Club Golf Invitational: Transforming a Day Activity to a Life-Changing Event	Bronze	
	The Meralco PAGCOR-1 Substation Lights Up Manila's Entertainment City	Bronze	
	Meralco Corporate Partners Microsite: A Key Customer Touchpoint	Bronze	
	The Meralco Orange Tag: Empowering Customers with Just One Look	Bronze	
	Lives Changed: The Meralco and One Meralco Foundation 2016 Unified Annual Reports	Bronze	
Platts Global Energy Awards	Meralco's System Loss Management Program	Finalist	December 7, 2017 New York City
	Meralco Prepaid Electricity Service: Breaking Grounds in the Global Smart Grid Landscape		

PHILIPPINE RECOGNITIONS

PHILIPPINE QUILL AWARDS (MANILA, PHILIPPINES)		ANVIL AWARDS (MANILA, PHILIPPINES)	
Special Award	Company of the Year	Special Award	PR Team of the Year: Meralco Public Information Office
Excellence Award	17	Gold Anvil	7
Merit Award	18	Silver	4

ISO Certifications

CERTIFICATION OF ENVIRONMENTAL MANAGEMENT SYSTEMS

CERTIFIED ENTITIES	CERTIFICATION STANDARD	DATE OF CERTIFICATION
<ul style="list-style-type: none">Balintawak SectorValenzuela SectorPlaridel SectorManila SectorRizal SectorPasig SectorParañaque SectorDasmariñas SectorSan Pablo SectorSanta Rosa SectorSub-Transmission Services	ISO 14001:2004 Environmental Management System	May 16, 2017

CERTIFICATION OF OCCUPATIONAL HEALTH AND SAFETY MANAGEMENT SYSTEMS

CERTIFIED ENTITIES	CERTIFICATION STANDARD	DATE OF CERTIFICATION
<ul style="list-style-type: none">Balintawak SectorValenzuela SectorPlaridel SectorManila SectorRizal SectorPasig SectorParañaque SectorDasmariñas SectorSan Pablo SectorSanta Rosa SectorSub-Transmission Services	OHSAS 18001: 2007 Occupational Health and Safety Assessment Series	May 16, 2017

CERTIFICATION OF QUALITY MANAGEMENT SYSTEMS

CERTIFIED ENTITIES	CERTIFICATION STANDARD	DATE OF CERTIFICATION
Supply Chain Management	ISO 9001: 2008 Quality Management System	September 15, 2015 Expected Date of Recertification: June 6, 2018 under ISO 9001:2015 version

CERTIFICATION OF COMPETENCE OF TESTING AND CALIBRATION LABORATORIES

CERTIFIED ENTITIES	CERTIFICATION STANDARD	DATE OF CERTIFICATION
Metering Services Asset Management – Testing Laboratory	ISO/IEC 17025:2005	October 14, 2013 Expected Date of Recertification: May 9, 2018

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COMMON STOCK

The Company's common stock is listed on the Philippine Stock Exchange (Ticker: MER). The declassification of the Company's common stock removed the Class "A" and Class "B" classifications effective September 3, 2007. The declassification does not entail a recall, a cancellation or a replacement of certificates previously issued. All existing stock certificates, whether Class "A" or Class "B", remain valid. Shares are available to foreign investors up to a maximum of 40 percent of the outstanding capital stock.

2017 MERALCO ANNUAL REPORT

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**Beginning January 1, 2018*





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