

COVER SHEET

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S.E.C Registration Number

M	A	N	I	L	A		E	L	E	C	T	R	I	C		C	O	M	P	A	N	Y						

(Company's Full Name)

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

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

ATTY. WILLIAM S. PAMINTUAN

Contact Person

8632-8014

Company Telephone Number

AMENDED DEFINITIVE INFORMATION STATEMENT

1	2	-	3	1
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Month Day

Fiscal Year

2	0	-	I	S
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FORM TYPE

0	5	3	1
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Month Day

Annual Meeting

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Secondary License Type, if Applicable

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Dept. Requiring this Doc.

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Amended Articles Number/Section

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Total No. of Stockholders

Total Amount of Borrowings

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Domestic

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Foreign

To be accomplished by SEC Personnel concerned

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File Number

LCU

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Document I.D.

Cashier

STAMPS

Remarks = pls. use black ink for scanning purposes



NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

TO ALL STOCKHOLDERS
Manila Electric Company (Meralco)

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders of Meralco will be conducted virtually via <https://company.meralco.com.ph/corporate-governance/SERVE> on Tuesday, May 31, 2022, at 10:00 a.m. with the following agenda:

1. Call to Order
2. Certification of Notice and Quorum
3. Approval of the Minutes of the Annual Meeting of Stockholders held on May 25, 2021
4. Report of the President and Chief Executive Officer
5. Approval of the 2021 Audited Consolidated Financial Statements
6. Ratification of Acts of the Board and Management
7. Amendment of Article I Sections 1, 2, 3, 5 and 7 of the Company's By-Laws
8. Election of Directors for the ensuing year
9. Appointment of External Auditors
10. Other business that may properly be brought before the meeting
11. Adjournment

Minutes of the 2021 Annual Meeting of Stockholders will be available for examination during office hours at the Office of the Corporate Secretary and at the website of Meralco, www.meralco.com.ph.

The Board has fixed the close of business on **March 4, 2022** as the record date for the determination of stockholders entitled to notice of, and to vote at, the meeting. The stock and transfer books of Meralco will not be closed.

In accordance with Article I, Section 3 of the Company's Amended By-Laws, any instrument authorizing a proxy to act shall be submitted to and received at the principal office of Meralco on or before **May 2, 2022, 5:00 p.m.**, addressed to the attention of the Corporate Secretary c/o Corporate Governance and Compliance Office, Ground Floor, Lopez Bldg., Meralco Center, Ortigas Avenue, Brgy. Ugong, Pasig City. Soft copies of the proxies can be emailed in advance to stockholder.affairs@meralco.com.ph. Validation of proxies is set on **May 13, 2022, 10:00 a.m.** at Powertech Building, Meralco Compound, Ortigas Avenue, Brgy. Ugong, Pasig City.

The conduct of the annual stockholders' meeting will be streamed live, and stockholders may attend and participate via remote communication and vote in absentia, using the online portal <https://company.meralco.com.ph/corporate-governance/SERVE>. The guidelines for online voting and participation is set forth in Annex "C" of the Definitive Information Statement.

Pasig City, March 11, 2022.

SIMEON KEN R. FERRER
Corporate Secretary



Annex "A"

AGENDA DETAILS AND RATIONALE

1. **Call to Order.** The Chairman of the Board of Directors, Mr. Manuel V. Pangilinan, will call the meeting to order.
2. **Certification of Notice and Quorum.** The Corporate Secretary, Atty. Simeon Ken R. Ferrer, will certify that copies of this Notice were sent to Stockholders of record as of March 4, 2022 and will certify the number of attendees, whether in person or by proxy, for the purpose of determining the existence of quorum to validly transact business.
3. **Approval of the Minutes of the Annual Meeting of Stockholders held on May 25, 2021.** Copies of the draft Minutes are available for examination during office hours at the Office of the Corporate Secretary and at the website of Meralco, www.meralco.com.ph. Stockholders will be asked to approve the draft Minutes and acknowledge the completeness and accuracy thereof. Below is the text of the proposed resolution:

"RESOLVED, that the Stockholders of the Corporation hereby approve the Minutes of the Annual Stockholders' Meeting held on May 25, 2021."

4. **Report of the President and Chief Executive Officer** – The Report summarizes the milestones and key achievements of Meralco and provides a clear picture of how Meralco reached its goals during the past year 2021.
5. **Approval of the 2021 Audited Consolidated Financial Statements** – Meralco's audited financial statements, highlights of which are explained in the President's Report and in the Information Statement, will be presented to the Stockholders for approval. Copies of the 2021 Audited Financial Statements, previously approved by the Board of Directors, were also submitted to the Securities and Exchange Commission and the Bureau of Internal Revenue. Below is the proposed resolution:

"RESOLVED, that the audited financial statements for the year ended December 31, 2021 be, as the same are hereby, approved."

6. **Ratification of Acts of the Board and Management** – Ratification of the acts of the Board of Directors and Management crucial to the successful performance of the Company in 2021 will be sought from the Stockholders. Below is the proposed resolution:

"RESOLVED, that all acts, resolutions, and deeds of the Board of Directors and Management of the Company from the Annual Stockholders' Meeting held on May 25, 2021 up to the date of this meeting be as they hereby are, confirmed, ratified and approved."

7. **Amendment of Article I Sections 1, 2, 3, 5 and 7 of the Company's By-Laws** - A resolution approving the amendment will be presented to the stockholders for approval by the affirmative vote of the stockholders representing at least two-thirds (2/3) of the outstanding capital stock. Below is the proposed resolution:

"RESOLVED, that the Stockholders of the Corporation hereby approve the amendment of Article I Sections 1, 2, 3, 5 and 7 of the Company's By-Laws quoted below:



ARTICLE I MEETING OF STOCKHOLDERS

Section 1. ANNUAL MEETING. – The annual meeting of the stockholders shall be held on the last Tuesday of May in each year at the principal office of the Company, or at **any place in the city where the principal office of the Corporation is located** as may be fixed by the Board of Directors or the Chairman of the Board and specified in the notice, at such day and hour as the Board or the Chairman shall direct.

Section 2. SPECIAL MEETINGS. – Special meetings of the stockholders may be called by the Chairman of the board or by order of the Board of Directors whenever he or they may deem it necessary, and shall be so called whenever persons holding of record at least one-fourth of outstanding stock of the Company entitled to vote shall in writing request the same. Special meetings shall be held at the principal office of the Company or at **any place in the city where the principal office of the Corporation is located as may be specified in the call.**

Section 3. VOTING. – At all meetings of the stockholders, each stockholder entitled to vote thereat shall be entitled to one vote for each share held of record by him, which vote may be given personally or by attorney or proxy authorized in writing. **The right to vote of stockholders or members may be exercised in person, through remote communication or in absentia.** The instrument authorizing an attorney or proxy to act shall be filed with the Office of the Corporate Secretary of the Company not later than **eighteen (18)** days prior to the scheduled stockholders meeting. In the election of directors each stockholder entitled to vote for directors may accumulate and distribute his votes in accordance with provision of law applicable in such case.

Section 5. NOTICE OF MEETING. – Written notice of the annual and of any special meeting of stockholders shall be given to each stockholder entitled to vote thereat by posting the same in a postage prepaid letter, addressed to each such stockholder at his last known address or at the address last left by him with the Secretary of the Company, or by delivering the same to him personally, **or by electronic transmission,** at least twenty **one (21)** days before the meeting.

x x x

The Board of Directors shall fix the record date which will determine the stockholders entitled to notice and attend a scheduled stockholders meeting.

As used herein, electronic transmission means the delivery or transfer of documents, data or information by electronic mail to the electronic address of the stockholders registered in the books of the Corporation, posting in the Philippine Stock Exchange, posting in the



Corporation's website or such other recognized means of electronic transfer of data or information.

Section 7. VIRTUAL MEETING. The Corporation may opt to hold fully virtual stockholders' meetings, subject to applicable laws, rules and regulations of the Securities and Exchange Commission, as may be amended from time to time. "

8. **Election of Directors for the ensuing year** – Copies of the *curriculum vitae* and profiles of the candidates to the Board of Directors are provided in the Information Statement for the examination of the Stockholders. For this year, the candidates to the Board are the following:

- a) Ms. Anabelle Lim Chua
- b) Atty. Ray C. Espinosa
- c) Mr. James L. Go
- d) Mr. Frederick D. Go
- e) Mr. Lance Y. Gokongwei
- f) Mr. Jose Ma. K. Lim
- g) Ms. Lydia B. Echaz
- h) Retired Chief Justice Artemio V. Panganiban
- i) Mr. Manuel V. Pangilinan
- j) Mr. Pedro O. Roxas
- k) Mr. Victorico P. Vargas

Please refer to pages 4-27 of the Information Statement for the profile of the nominees to the Board.

Stockholders will be given the opportunity to elect the directors who will serve for the term 2022-2023 by way of individual voting administered by a third party.

9. **Appointment of External Auditors** – Meralco's external auditors for 2022-2023, tasked with the preparation of the annual audited financial statements, will be appointed by the Stockholders. This is upon favorable recommendation by the Audit Committee. Below is the text of the proposed resolution:

"RESOLVED, that SGV & Company, Certified Public Accountants, be, as they hereby are, re-appointed as external auditors of the Company for the year 2022-2023."

Please refer to page 34-35 of the Information Statement for the profile of SGV & Company.

10. **Other business that may properly be brought before the meeting** – Stockholders may be requested to consider such other issues/matters as may be raised throughout the course of the meeting.

11. **Adjournment** – After all business has been considered and resolved, the Chairman shall declare the meeting adjourned.

WE ARE NOT SOLICITING YOUR PROXY

Stockholders who will not, are unable or do not expect to attend the meeting but would like to be represented thereat may choose to execute and send a proxy form to the Office of the Corporate Secretary on or before 5:00 p.m., May 2, 2022. Soft copies of the proxies can be emailed in advance to stockholder.affairs@meralco.com.ph. A sample proxy form is provided below. Other forms are available at MERALCO's website www.meralco.com.ph

PROXY

The undersigned stockholder of MANILA ELECTRIC COMPANY (the "Company") hereby appoints _____ or in his absence, the Chairman of the meeting, as attorney-in-fact and proxy, with power of substitution, to present and vote all shares registered in his/her/its name as proxy of the undersigned stockholder, at the Annual Meeting of Stockholders of the Company on May 31, 2022 and at any of the adjournments thereof for the purpose of acting on the following matters:

1. Approval of the Minutes of the Annual Meeting of Stockholders held on May 25, 2021
☐Yes ☐No ☐Abstain
2. Approval of 2021 Audited Consolidated Financial Statements
☐Yes ☐No ☐Abstain
3. Ratification of Acts of the Board and Management
☐Yes ☐No ☐Abstain
4. Amendment of Article I Sections 1, 2, 3, 5 and 7 of the Company's By-Laws
☐Yes ☐No ☐Abstain
5. Election of Directors for the ensuing year
 - 5.1 Ms. Anabelle L. Chua ☐Yes
 - 5.2 Atty. Ray C. Espinosa ☐Yes
 - 5.3 Mr. James L. Go ☐Yes
 - 5.4 Mr. Frederick D. Go ☐Yes
 - 5.5 Mr. Lance Y. Gokongwei ☐Yes
 - 5.6 Ms. Lydia B. Echauz ☐Yes
 - 5.7 Mr. Jose Ma. K. Lim ☐Yes
 - 5.8 Retired Chief Justice Artemio V. Panganiban ☐Yes
 - 5.9 Mr. Manuel V. Pangilinan ☐Yes
 - 5.10 Mr. Pedro E. Roxas ☐Yes
 - 5.11 Mr. Victorico P. Vargas ☐Yes
6. Appointment of External Auditors
☐Yes ☐No ☐Abstain

PRINTED NAME OF STOCKHOLDER

SIGNATURE OF STOCKHOLDER/AUTHORIZED SIGNATORY

EMAIL ADDRESS/CELL PHONE NO.

DATE

SECURITIES AND EXCHANGE COMMISSION
SEC FORM 20-IS
Information Statement Pursuant to Section 20
of the Securities Regulation Code (SRC)

1. Check the appropriate box:
☐ Preliminary Information Statement
☒ Definitive Information Statement
2. Name of Registrant as specified in its charter: Manila Electric Company
3. Country of Incorporation: Philippines
4. SEC Identification Number: PW-102
5. BIR Tax Identification Number: 000-101-528-000
6. Address of principal office: Lopez Building, Ortigas Avenue, Barangay Ugong, Pasig City 1605
7. Telephone Numbers: (632) 8633-4553
8. Date, time and place of meeting of security holders:

Date : May 31, 2022
Time : 10:00 a.m.
Place : Powertech Building, Meralco Compound, Ortigas Avenue, Brgy. Ugong, Pasig City for
presiding officers only and virtually via <https://company.meralco.com.ph/corporate-governance/SERVE>
9. Approximate Date on which the Information Statement is first to be sent or given to security holders:
April 20, 2022
10. Securities registered pursuant to Sections 8 and 12 of the SRC:

		Number of Shares Outstanding (Par Value at P10.00 per share)
a. Common Stock	-	1,127,098,705
		Amount of Debt Outstanding
b. Debt Securities	-	₱7,000 Million Fixed Rate Notes due on 2025

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

Yes ☒ No ☐

If so, disclose the name of the Exchange and the class of securities listed therein: Philippine Stock
Exchange/Common Stock

INFORMATION REQUIRED IN INFORMATION STATEMENT

Date, Time and Place of Meeting of Security Holders

- Date : Tuesday, May 31, 2022
- Time : 10:00 a.m.
- Place : Online web address/URL (for voting in absentia and participation via remote communication) <https://company.meralco.com.ph/corporate-governance/SERVE>

Principal Office: Lopez Building, Ortigas Avenue,
Barangay Ugong, Pasig City

The approximate date on which copies of the Information Statement are first to be sent or given to stockholders is on April 20, 2022.

Dissenter's Right of Appraisal

A stockholder may exercise the right of appraisal (i.e. the right to dissent and demand payment of the fair value of his shares) in the instances provided under the Corporation Code of the Philippines, as follows: 1) in case an amendment to the Articles of Incorporation has the effect of changing or restricting the rights of any stockholder or class of shares, or of authorizing preferences in any respect superior to those of outstanding shares of any class, or of extending or shortening the term of corporate existence; 2) in case of sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets as provided in this Code; 3) in case of merger or consolidation; and 4) investment of corporate funds for any purpose other than the primary purpose of the corporation (Section 80, Title X, Appraisal Right, Revised Corporation Code). The dissenting stockholder who votes against a proposed corporate action may exercise the right of appraisal by making a written demand on the corporation for the payment of the fair value of shares held within thirty (30) days from the date on which the vote was taken: *Provided*, that failure to make the demand within such period shall be deemed a waiver of the appraisal right. (Section 81, Title X, How Right is Exercised, Revised Corporation Code of the Philippines)

Manila Electric Company ("MERALCO") adopts the procedure laid down in Section 81, Title X, of the Revised Corporation Code for a valid exercise of appraisal right.

No corporate actions, however, will be taken up during the meeting involving any of the foregoing instances in which a stockholder may exercise the right of appraisal.

Interest of Certain Persons in or Opposition to Matters to be Acted Upon

(a) No current director or officer, or nominee for election as director or any of his associate, has any substantial interest, direct or indirect, by security holdings or otherwise, in any matter to be acted upon other than election to office.

(b) No director has informed the Company that he intends to oppose any action to be taken at the annual stockholders' meeting.

Voting Securities and Principal Holders Thereof

THE COMPANY IS NOT SOLICITING PROXIES FOR THE
ANNUAL STOCKHOLDERS' MEETING.

As of March 31, 2022, the total outstanding shares/voting shares is 1,127,098,705 common shares, of which 5.15% or 57,735,329 shares are owned by foreign stockholders. Each share is entitled to one (1) vote. Voting rights are vested exclusively on common shares.

All stockholders of record as of March 4, 2022 are entitled to receive a notice of the meeting.

Cumulative Voting for Directors - At all elections of Directors, each stockholder may vote the shares registered in his name in person or by proxy for as many persons as there are Directors, or he may cumulate said shares and give one candidate as many votes as the number of directors to be elected multiplied by the number of his shares shall equal, or he may distribute them on the same principle among as many candidates as he shall see fit; provided that the total number of votes cast by him shall not exceed the number of shares owned by him multiplied by the whole number of directors to be elected.

Security Ownership of Certain Record and Beneficial Owners

Based on MERALCO's stock and transfer book, the security ownership as of March 31, 2022 of certain record and beneficial owners of more than 5% of any class of its voting securities is as follows:

Title of Class	Name, address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percent
Common	Beacon Electric Asset Holdings, Inc. 10/F MGO Building, Legaspi corner Dela Rosa Streets, Legaspi Village Makati City Stockholder	Same as the record owner	Filipino	394,059,235	34.96%
Common	JG Summit Holdings, Inc. 42/F Robinsons Equitable Tower, ADB Avenue corner Poveda Road, Ortigas Center Pasig City Stockholder	Same as the record owner	Filipino	333,189,397	29.56%
Common	Philippine Central Depository ("PCD") Nominee Corporation 29th Floor, BDO Equitable Tower 8751 Paseo de Roxas Makati City 1226 No relationship with Issuer	PCD Participants	Filipino and Foreign	197,175,152	17.49%
Common	Metro Pacific Investments Corporation 10/F MGO Building, Legaspi corner Dela Rosa Streets, Legaspi Village Makati City Stockholder	Same as the record owner	Filipino	118,364,807	10.50%

Beacon Electric Asset Holdings, Inc. ("*Beacon Electric*") is a special purpose entity wholly-owned by Metro Pacific Investments Corporation ("*MPIC*") beginning June 2017. It was organized to hold *MPIC*'s shares in *MERALCO*. Mr. Manuel V. Pangilinan, Mr. Jose Ma. K. Lim, Atty. Ray C. Espinosa, Ms. Anabelle L. Chua, or the Chairman of the Stockholders' Meeting of *MERALCO*, is duly authorized as proxy to vote its *MERALCO* shares as he or she may deem proper or beneficial to *Beacon Electric*.

JG Summit Holdings, Inc. ("*JG Summit*") was incorporated in November 1990 as the holding company for a group with substantial business interests in branded consumer foods, agro-industrial and commodity food products, property development and hotel management, air transportation, petrochemicals, and international capital and financial services. In addition, *JG Summit* has business interests in other sectors, including power generation and insurance. *JG Summit* conducts its businesses throughout the Philippines, but primarily in and around Metro Manila and in the regions of Visayas and Mindanao. *JG Summit*, through its subsidiaries, also has branded foods businesses in the People's Republic of China and the ASEAN region, including an interest in a property development company in Singapore. Each of Mr. James L. Go and Mr. Lance Y. Gokongwei are duly authorized as proxies to vote its *MERALCO* shares as they may deem proper or beneficial to *JG Summit*.

MPIC was founded in 1986. It is an investment holding company, with interest in water utilities, toll roads, electricity distribution, and healthcare service businesses in the Philippines. It operates six (6) business segments: Water Utilities, Toll Operations, Power Distribution, Power Generation, Healthcare, and Others. The Water Utilities segment provides water and sewerage services through a network of pipelines, pumping stations, and mini-boosters. The Toll Operations segment is involved in the operation and maintenance of toll road facilities. The Power Distribution segment distributes and supplies electricity. The Power Generation includes power projects through *MERALCO* PowerGen Corporation and operations of coal and diesel-powered generating capacities of Global Business Power Corporation, the leading power supplier in the Visayas. The Healthcare segment operates and manages hospitals, nursing and medical schools, and other related enterprises. The other segment is involved in the operation of real estate properties; and provision of property development, investment holding, and management services. Mr. Manuel V. Pangilinan, Mr. Jose Ma. K. Lim, Atty. Ray C. Espinosa, Ms. Anabelle L. Chua, or the Chairman of the Stockholders' Meeting of *MERALCO*, is duly authorized as proxy to vote its *MERALCO* shares as he or she may deem proper or beneficial to *MPIC*.

PCD Nominee Corporation is a wholly-owned subsidiary of the Philippine Depository and Trust Corporation ("*PDTC*"). Originally, stock certificates were issued to investors every time they acquired shares of the Company. However, with the Philippine Central Depository's ("*PCD*") computerized Book Entry System that took effect in November 1997, investors of *MERALCO* shares now have an option whether they will be issued certificates or not. Their shares may be lodged at the *PCD* and further trading will be scripless (computerized with no certificates) until they request for the issuance of certificates. The *PCD* Nominee Corporation holds the shares as the registered owner thereof in *MERALCO*'s books on behalf of *PCD* Participants and their clients. The participants of *PCD* are the beneficial owners of such shares and may be nominated as proxy to vote the same. Stockholders with *PCD*-lodged shares have no record of their shareholdings with *MERALCO* or its transfer agent, Rizal Commercial Banking Corporation ("*RCBC*"). Only shares with stockholders certificates are recorded in *MERALCO*'s books, which may be voted by the registered owners or their proxies.

Security Ownership of Management

As of March 31, 2022, the securities owned beneficially, directly or indirectly, by directors and executive officers of *MERALCO* are as follows:

No.	Title of Class	Name of Beneficial Owner	Number of Shares and nature of Beneficial Ownership	Citizenship	Percent of Class
1.	Common	Manuel V. Pangilinan	55,000 (Direct)	Filipino	0.00%
2.	Common	Lance Y. Gokongwei	10,010 (Direct)	Filipino	0.00%
3.	Common	Ray C. Espinosa	51,000 (Direct)	Filipino	0.00%
4.	Common	Anabelle L. Chua	16,060 (Direct)	Filipino	0.00%
5.	Common	Lydia B. Echauz	1,100 (Direct)	Filipino	0.00%
6.	Common	Frederick D. Go	10,030 (Direct)	Filipino	0.00%
7.	Common	James L. Go	194,450 (Direct)	Filipino	0.00%
8.	Common	Jose Ma. K. Lim	55,010 (Direct)	Filipino	0.00%
9.	Common	Artemio V. Panganiban	14,001 (Direct)	Filipino	0.02%
10.	Common	Pedro O. Roxas	1,000 (Direct)	Filipino	0.00%
11.	Common	Victorico P. Vargas	8,917 (Direct)	Filipino	0.00%
12.	Common	Simeon Ken R. Ferrer	767 (Direct)	Filipino	0.00%
13.	Common	Roberto R. Almazora	93,082 (Direct)	Filipino	0.01%
14.	Common	Ronnie L. Aperoch	14 (Direct)	Filipino	0.00%
15.	Common	William S. Pamintuan	-	Filipino	0.00%
16.	Common	Betty C. Siy-Yap	-	Filipino	0.00%
17.	Common	Maria Luisa V. Alvendia	-	Filipino	0.00%
18.	Common	Edgardo V. Carasig	-	Filipino	0.00%
19.	Common	Ferdinand O. Geluz	12,877 (Direct)	Filipino	0.00%
20.	Common	Melanie T. Oteyza	-	Filipino	0.00%
21.	Common	Jose Ronald V. Valles	-	Filipino	0.00%
22.	Common	Antonio M. Abuel, Jr.	7,927 (Direct)	Filipino	0.00%
23.	Common	Francis Euston R. Acero	500 (Direct)	Filipino	0.00%
24.	Common	Ireneo B. Acuña	18,355 (Direct)	Filipino	0.00%
25.	Common	Patrick Dave B. Bacani	-	Filipino	0.00%
26.	Common	Joseph L. Amosco	5,198 (Direct)	Filipino	0.00%
27.	Common	Roque D. Bacani	-	Filipino	0.00%
28.	Common	Bennette D. Bachoco	-	Filipino	0.00%
29.	Common	Joseph Allan C. Baltazar	-	Filipino	0.00%
30.	Common	Rita D. Bantigue	-	Filipino	0.00%
31.	Common	Benjamin U. Cusi	24,050 (Direct)	Filipino	0.00%
32.	Common	Sante C. Buella	-	Filipino	0.00%
33.	Common	Ricardo Carmelo D. Buenafe	5,070 (Direct)	Filipino	0.00%
34.	Common	Alberto N. Castillo	600 (Direct)	Filipino	0.00%
35.	Common	Ricardo L. Concepcion	-	Filipino	0.00%
36.	Common	Jenevi L. Dela Paz	-	Filipino	0.00%
37.	Common	Ma. Cecilia M. Domingo	1,495 (Direct)	Filipino	0.00%
38.	Common	Lawrence S. Fernandez	4,500 (Direct)	Filipino	0.00%
39.	Common	Maria Carmela T. Migrño	-	Filipino	0.00%
40.	Common	Richard O. Ochava	-	Filipino	0.00%
41.	Common	Charina P. Padua	41,609 (Direct)	Filipino	0.00%
42.	Common	Raymond B. Ravelo	-	Filipino	0.00%
43.	Common	Glen N. San Pedro	-	Filipino	0.00%
44.	Common	Jerry B. Lao	-	Filipino	0.00%
45.	Common	Erville D. Magtubo	-	Filipino	0.00%
46.	Common	Jose S. Reyes, Jr.	8,827 (Direct)	Filipino	0.00%

No.	Title of Class	Name of Beneficial Owner	Number of Shares and nature of Beneficial Ownership	Citizenship	Percent of Class
47.	Common	Froilan J. Savet	8,435 (Direct)	Filipino	0.00%
48.	Common	Jeffrey O. Tarayao	-	Filipino	0.00%
49.	Common	Maria Zarah R. Villanueva-Castro	-	Filipino	0.00%
50.	Common	Agapito R. Zaldarriaga	10,369 (Direct)	Filipino	0.00%
51.	Common	Ma. Cynthia C. Soluren	11,575 (Direct)	Filipino	0.00%

As of March 31, 2022, the securities owned beneficially by the nominees for election to the Board of Directors (“BOD”) are as follows:

No.	Title of Class	Name of Beneficial Owner	Number of Shares and nature of Beneficial Ownership	Citizenship	Percent of Class
1.	Common	Manuel V. Pangilinan	55,000 (Direct)	Filipino	0.00%
2.	Common	Lance Y. Gokongwei	10,010 (Direct)	Filipino	0.00%
3.	Common	Ray C. Espinosa	51,000 (Direct)	Filipino	0.00%
4.	Common	Anabelle L. Chua	16,060 (Direct)	Filipino	0.00%
5.	Common	Lydia B. Echauz	1,100 (Direct)	Filipino	0.00%
6.	Common	Frederick D. Go	10,030 (Direct)	Filipino	0.00%
7.	Common	James L. Go	194,450 (Direct)	Filipino	0.00%
8.	Common	Jose Ma. K. Lim	55,010 (Direct)	Filipino	0.00%
9.	Common	Artemio V. Panganiban	14,001 (Direct)	Filipino	0.00%
10.	Common	Pedro O. Roxas	1,000 (Direct)	Filipino	0.00%
11.	Common	Victorico P. Vargas	8,917 (Direct)	Filipino	0.00%

The aggregate number of shares owned on record by the Chief Executive Officer, Executive Officers, Directors and Nominees as of March 31, 2022 is 671,828 shares or 0.06% of *MERALCO*'s total outstanding shares.

Voting Trust Holders

MERALCO is not aware of any person holding more than 5% of common shares under a voting trust or similar agreement.

Changes in Control

Based on *MERALCO*'s stock and transfer book, there is no change in the control of *MERALCO* since the beginning of the last fiscal year.

Directors and Executive Officers

As of March 31, 2022, the names of the incumbent Directors, nominees for election as directors and Executive Officers of *MERALCO* and their respective ages, citizenship, current positions, periods of service and business experiences during the past five (5) years are as follows:

MANUEL V. PANGILINAN
Filipino, 75 years old

Chairman, Board of Directors
Chairman, Executive Committee
Chairman, Remuneration and Leadership Development Committee
Director of Manila Electric Company since May 26, 2009

Education and Training:

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

Membership in Board of Listed Companies:

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

Membership in Board of Non-Listed Companies:

- Beacon Electric Asset Holdings, Inc.
- Smart Communications, Inc.
- PLDT Communications and Energy Ventures Inc.
- Landco Pacific Corporation
- Medical Doctors, Inc.
- Colinas Verdes Corporation
- Davao Doctors Hospital
- Riverside Medical Center, Inc.
- Our Lady of Lourdes Hospital
- Asian Hospital Inc.
- Maynilad Water Services, Inc.
- Mediaquest, Inc.
- Associated Broadcasting Corporation (TV5)
- NLEX Corporation
- MERALCO PowerGen Corporation
- Philex Petroleum Corporation
- Metro Pacific Hospital Holdings, Inc.
- Makati Medical Center
- Cardinal Santos Medical Center
- Digital Telecommunications Phils. Inc.
- Digitel Mobile Philippines, Inc.

Position and Membership in Other Organizations and Corporations:

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

Corporation, Digital Telecommunications Phils. Inc., Digitel Mobile Philippines, Inc. and MERALCO PowerGen Corporation

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

LANCE Y. GOKONGWEI

Filipino, 55 years old

Vice-Chairman, Board of Directors

Member, Executive Committee

Member, Finance Committee

Member, Remuneration and Leadership Development Committee

Director of Manila Electric Company since December 16, 2013

Education and Training:

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

Membership in Board of Listed Companies:

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

Membership in Board of Non-listed Companies:

- JG Summit Petrochemical Corporation
- Robinsons Bank Corporation
- Gokongwei Brothers Foundation, Inc.
- JG Summit Olefins Corporation
- Altus Property Ventures, Inc.

Position and Membership in Other Organizations and Corporations:

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

RAY C. ESPINOSA

Filipino, 65 years old
President and CEO since May 28, 2019
Director of Manila Electric Company since May 26, 2009

Education and Training:

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

Membership in Board of Publicly Listed Companies:

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

Membership in Board of Non-Listed Companies:

- Smart Communications, Inc.
- Maybank Philippines, Inc.
- Mediaquest Holdings, Inc.
- Philstar Daily, Inc.
- Business World Publishing, Inc.
- Signal TV, Inc.
- First Pacific Company Limited

Position and Membership in Other Organizations and Corporations:

- Audit Committee Chairman of Lepanto Consolidated Mining Company
- Senior Advisor to the President and Chief Executive Officer of PLDT Inc.
- Member of the Integrated Bar of the Philippines, Philippine Bar Association, and Inter-Pacific Bar Association
- Nomination, Election and Governance Committee Member of Roxas Holdings, Inc.
- Executive Committee Member of LAWASIA Energy Section
- President of Mediaquest Holdings, Inc.
- Chairman of Business World Publishing, Inc. and Philstar Daily, Inc.

ANABELLE L. CHUA

Filipino, 61 years old
Chairman, Finance Committee
Member, Audit Committee
Member, Risk Management Committee
Member, Nomination and Governance Committee
Member, Related Party Transactions Committee
Director of Manila Electric Company since May 31, 2016

Education and Training:

- BS Business Administration and Accountancy, University of the Philippines

Membership in Board of Listed Companies:

- Philippine Stock Exchange

Membership in Board of Non-Listed Companies:

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

Position and Membership in Other Organizations and Companies

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

FREDERICK D. GO

Filipino, 52 years old
Member, Nomination and Governance Committee
Member, Audit Committee
Member, Risk Management Committee
Member, Related Party Transactions Committee
Director of Manila Electric Company since November 25, 2019

Education and Training:

- BS Management Engineering, Ateneo de Manila University

Membership in Board of Listed Companies:

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

Membership in Board of Non-Listed Companies:

- JG Summit Petrochemical Corporation
- JG Summit Olefins Corporation
- Robinsons Bank Corporation
- Luzon International Premier Airport Development Corporation
- Cebu Light Industrial Park

Position and Membership in Other Organizations and Companies:

- President and Chief Executive Officer, Robinsons Land Corporation
- Chairman and President, Altus Property Ventures, Inc.
- Chairman, Luzon International Premier Airport Development Corporation
- Vice Chairman, Robinsons Bank Corporation
- Group General Manager, Shanghai Ding Feng Real Estate Development Company Limited
- Group General Manager, Xiamen Pacific Estate Investment Company Limited
- Group General Manager, Chengdu Ding Feng Real Estate Investment Company Limited
- Group General Manager, Taicang Ding Feng Real Estate Development Company Limited
- Vice Chairman, Philippine Retailers Association

JAMES L. GO

Filipino, 82 years old

Member, Executive Committee

Member, Audit Committee

Member, Risk Management Committee

Member, Finance Committee

Member, Nomination and Governance Committee

Member, Related Party Transactions Committee

Director of Manila Electric Company since December 16, 2013

Education and Training:

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

Membership in Board of Listed Companies:

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

Membership in Board of Non-Listed Companies:

- JG Summit Petrochemical Corporation
- JG Summit Olefins Corporation

- Marina Center Holdings, Inc.
- Hotel Marina City Private Limited
- Gokongwei Brothers Foundation, Inc.

Position and Membership in Other Organizations and Corporations:

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

JOSE MA. K. LIM

Filipino, 69 years old

Chairman, Risk Management Committee

Member, Executive Committee

Member, Audit Committee

Member, Related Party Transactions

Member, Nomination and Governance Committee

Member, Remuneration and Leadership Development Committee

Director of Manila Electric Company since May 29, 2012

Education and Training:

- BA Philosophy, Ateneo de Manila University
- Masters in Business Administration, Asian Institute of Management

Membership in Board of Listed Companies:

- Metro Pacific Investments Corporation

Membership in Board of Non-listed Companies:

- 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 Investment Corporation
- EasyTrip Services Corporation
- Metropac Movers Inc.
- Medical Doctors, Inc.
- Manila Medical Services Inc.
- Asian Hospital Inc.
- Our Lady of Lourdes Hospital
- Manila Doctors Hospital
- Davao Doctors Hospital.

- Asian Institute of Management
- Ateneo Graduate School of Business
- Indra Philippines, Inc.
- Light Rail Manila Holdings, Inc.
- Light Rail Manila Holdings 6, Inc.
- Metro Pacific Light Rail Corporation
- AHI Hospital Holdings Corp.
- Colinas Verdes Hospital Managers Corporation
- Metro Pacific Tollways Development Corporation
- Metro Pacific Tollways North Corporation
- Metro Pacific Tollways Vizmin Corporation
- Metro Pacific Tollways South Corporation
- Beacon Powergen Holdings, Inc.
- MetroPac Iloilo Holdings Corporation
- MetroPac Iloilo Bulk Water Supply Corporation
- MetroPac Cagayan de Oro, Inc.
- MetroPac Logistics Company, Inc.
- Eco-System Technologies International, Inc.
- Maynilad Water Holding Company, Inc.
- Cagayan de Oro Bulk Water Inc.
- Collared Wren Holdings, Inc.
- MPCALA Holdings, Inc.
- Larkwing Holdings, Inc.
- CAVITEX Infrastructure Corporation
- Cebu Cordova Link Expressway Corporation
- Pacific Global One Aviation Company
- Metro Vantage Properties, Inc.
- Surallah Biogas Ventures, Inc.
- Philippine Disaster and Risk Foundation, Inc.

Position and Membership in Other Organizations and Corporations:

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

LYDIA B. ECHAUZ

Filipino, 74 years old
Director of Manila Electric Company since May 25, 2021
Member, Finance Committee
Member, Nomination and Governance Committee
Member, Audit Committee

Education and Training:

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

Membership in Board of Listed Companies:

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

Membership in Board of Non-Listed Companies:

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

ARTEMIO V. PANGANIBAN

Filipino, 85 years old
Lead Independent Director
Chairman, Audit Committee
Member, Executive Committee
Member, Risk Management Committee
Member, Related Party Transactions Committee
Independent Director of Manila Electric Company since May 27, 2008

Education and Training:

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

Membership in Boards of Listed Companies:

- Petron Corporation
- First Philippine Holdings Corporation
- PLDT Inc.
- Metro Pacific Investments Corporation
- Robinsons Land Corporation
- GMA Network, Inc.
- GMA Holdings, Inc.
- Asian Terminals, Inc.
- Jollibee Foods Corporation

Membership in Boards of Non-Listed Large Companies:

- Metro Pacific Tollways Corporation
- TeaM Energy Corporation
- Tollways Management Corporation
- Asian Hospital Inc.

Position and Membership in Other Organizations, Foundation and Corporations:

- Chairman, Board of Advisers of Metrobank Foundation; President, Manila Metropolitan Cathedral-Basilica Foundation, Inc.; Chairman, Board of Trustees, Foundation for Liberty and Prosperity and the Philippine Judges Foundation; Chairman, Philippine National Committee of the Asean Law Association; Trustee, Tan Yan Kee Foundation; ACN (Aid to the Church in Need) Philippines; Claudio Teehankee Foundation; and Member (and Chairman of the Philippine National Group) of the Permanent Court of Arbitration (The Hague, Netherlands)
- Senior Adviser of Metropolitan Bank and Trust Company
- Member, Advisory Council of the Bank of the Philippine Islands
- Adviser of Double Dragon Properties Corp. and MerryMart Consumer Corp.
- Columnist, Philippine Daily Inquirer
- Retired Chief Justice of the Supreme Court of the Philippines

PEDRO O. ROXAS

Filipino, 66 years old

Independent Director

Chairman, Nomination and Governance Committee

Chairman, Related Party Transactions Committee

Member, Finance Committee

Member, Audit Committee

Member, Risk Management Committee

Member, Remuneration and Leadership Development Committee

Independent Director of Manila Electric Company since May 25, 2010

Education and Training:

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

Membership in Board of Listed Companies:

- Roxas and Company, Inc.
- Roxas Holdings, Inc.
- PLDT Inc.
- Cemex Holdings Inc.

Membership in Board of Non-listed Companies:

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

Position and Membership in Other Organizations and Corporations:

- Chairman of Roxas and Company, Inc., Roxaco Land Corporation, Roxas Holdings, Inc. and Club Punta Fuego, Inc.
- President, Philippine Sugar Millers Association
- Independent Director of PLDT Inc., Cemex Holdings Inc. and BDO Private Bank, Inc.
- Trustee of Philippine Business for Social Progress
- Trustee of Roxas Foundation, Inc.

VICTORICO P. VARGAS

Filipino, 70 years old

Director of Manila Electric Company since May 28, 2019

Member, Finance Committee

Member, Remuneration and Leadership Development Committee

Education and Training:

- BS Psychology, University of Santo Tomas

Membership in Board of Non-Listed Companies:

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

Position and Membership in Other Organizations and Companies

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

Executive Officers

SIMEON KEN R. FERRER, 65, Filipino

Corporate Secretary (since May 26, 2009)

Atty. Ferrer is the Corporate Secretary of two other public companies: Century Peak Metals Holdings Corporation and Commonwealth Foods, Inc. and an Independent Director of Grand Plaza Hotel Corporation, a company listed on the Philippine Stock Exchange. He is also the Corporate Secretary or Board member of various non-public companies. He is Of Counsel at SyCip Salazar Hernandez & Gatmaitan, having recently retired as Senior Partner and head of the Corporate Services Department. He is a member of the Integrated Bar of the Philippines and the Philippine Bar Association, and a Fellow of the Institute of Corporate Directors. Atty. Ferrer is an SEC-accredited lecturer on corporate governance and is a member of the faculty of the School of Law of the Ateneo de Manila University. He is also the International Alumni Contact for the Philippines of the University of Michigan Alumni Association. Atty. Ferrer completed his Bachelor of Science degree in Business Economics and Bachelor of Laws degree at the University of the Philippines and obtained his Master of Laws degree from the University of Michigan as a DeWitt Fellow.

RAY C. ESPINOSA, 65, Filipino

President and CEO (since May 28, 2019)

(Refer to his profile on page 10)

ROBERTO R. ALMAZORA, 61, Filipino

Senior Vice President (since March 2009)

Head, MPower

Mr. Almazora heads MPower, the Local Retail Electricity Supply business segment of MERALCO. He holds a Bachelor of Science degree in Electrical Engineering from the University of the Philippines, and completed his Masters in Business Management at the Asian Institute of Management. Previously, he held various executive positions during his 33 years with MERALCO and served as Board of Director in various subsidiaries/affiliates of MERALCO, among which include Indra Philippines, Inc., Meralco Energy Inc., Meralco Industrial Engineering Services Corporation, Miescor Builders Inc. ("MBI"), Miescor Logistics Inc., Aclara Meters Philippines, Inc., Clark Electric Distribution Corporation and Bauang Private Power Corporation. He served as President of MBI in 2011. He currently serves as Director in Comstech Integration Alliance, Incorporated. He has also been a recipient of various awards and distinctions. In 2004, he was awarded Outstanding Alumnus for Management by the Epsilon Chi Fraternity of University of the Philippines. In 2011, he was granted the Professional Degree Award from Electrical Engineering by the University of the Philippines Alumni Engineers, where he served as Trustee. He has also been tapped as a resource speaker in various energy conferences and has served as an energy adviser to business groups and associations.

RONNIE L. APEROCHO, 53, Filipino

Senior Vice President (since January 1, 2017)

Head, Networks

Mr. Aperocho also serves as the President and CEO of Meralco Energy, Inc., MRAIL, Inc. and Meralco Industrial Engineering Services Corporation, and the Chairman of the Board of Directors of its two (2) subsidiaries, namely, Miescor Logistics Inc. and Miescor Builders Inc. He is also a member of the Board of Directors of Aclara Meters Philippines, Inc., Clark Electric Distribution Corporation, MGen Renewable Energy Inc., Radius Telecoms, Inc. and MSpectrum, Inc. He sits in the Board of Trustees of the Meralco Power Academy and One Meralco Foundation. He holds a Bachelor of Science degree in Electrical Engineering from Mindanao State University and topped the 1991

Electrical Engineering Board Exams. A registered Professional Electrical Engineer and ASEAN Chartered Professional Engineer, he holds a Masters Degree in Business Administration from J.L. Kellogg School of Management of Northwestern University/The Hong Kong University of Science and Technology.

WILLIAM S. PAMINTUAN, 60, Filipino
Senior Vice President and Chief Legal Counsel
Assistant Corporate Secretary
Compliance Officer and Head, Legal and Corporate Governance Office
Data Protection 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., Meralco Industrial Engineering Services Corporation, MGen Renewable Energy, Inc. and Nortesol III, Inc. and LagunaSol Corporation. 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., PMHC Pulanai Inc., PMHC Lalawinan Inc., Aurora Managed Power Services, Inc., eSakay, Inc., MPioneer Insurance, Inc., Aclara Meters Philippines, Inc., Lighthouse Overseas Insurance Limited, e-Meralco Ventures, Inc., Paragon Vertical Corporation and Meralco Energy, Inc. He is a trustee of Meralco Pension Fund and Meralco Power Foundation, Inc. He is a former Trustee of Shareholders' Association of the Philippines, Inc. He is the Vice Chairman of MAP Energy Committee. He served as Officer-in-Charge and Acting President of Meralco Energy, Inc. He was a former Corporate Secretary and Senior Vice President of Digital Telecommunications Phils., Inc. and Digitel Mobile Phils., Inc.; and General Manager of Digitel Crossing, Inc. He is the incumbent Assistant Corporate Secretary of Cebu Pacific, Inc. He is also a member of the Board of Directors of the University of the Philippines Alumni Association and Board Governor of the UP Vanguard, Inc.. He is a member of the Management Association of the Philippines, Integrated Bar of the Philippines and Philippine Bar Association. Atty. Pamintuan holds a Bachelor of Arts degree in Political Science and a Bachelor of Laws degree from the University of the Philippines.

BETTY C. SIY-YAP, 60, Filipino
Senior Vice President and Chief Finance Officer (since July 2009)
Chief Risk Officer

Ms. Siy-Yap is a Director of Clark Electric Distribution Corporation, CIS Bayad Center, Inc., Meralco Industrial Engineering Services Corporation, Aclara Meters Philippines, Inc., Radius Telecoms, Inc., MPioneer Insurance Inc., Indra Philippines, Inc., Redondo Peninsula Energy, Inc., Atimonan One Energy Inc., MERALCO PowerGen Corporation, MRAIL, Inc.; among others. She is the President of Lighthouse Overseas Insurance Limited. She is a Trustee of the Meralco Pension Fund, One Meralco Foundation, Inc., and Treasurer of First Pacific Leadership Academy, Inc. and MVP Sports Foundation, Inc. She was previously a Director of Rockwell Land Corporation, a member of the Market Governance Board of the Philippine Dealing Exchange Corp., Vice Chairman and member of the Board of Accountancy of the Professional Regulation Commission. She was a Partner of SyCip Gorres Velayo & Co. (a Member Firm of Ernst & Young Global) from 1995 to 2009. Ms. Siy-Yap holds a Bachelor of Science in Business Administration and Accountancy degree from the University of the Philippines and a Master's in Business Administration from J.L. Kellogg School of Management at Northwestern University/The Hong Kong University of Science and Technology.

MARIA LUISA V. ALVENDIA, 59, Filipino

First Vice President (since March 2019)

Chief of Staff and Supply Chain Advisor

Ms. Alvendia is the Chief of Staff of *MERALCO*'s President and Chief Executive Officer. Concurrently, she performs the role of Supply Chain Advisor. Prior to joining *MERALCO*, she was the Chief of Staff to the Chief Corporate Services Officer of *PLDT, Inc. ("PLDT")* and *Smart Communications, Inc. ("SMART")* and Group Head of *PLDT* and *SMART* Supply Chain Planning and Procurement. With her industry-recognized supply chain expertise, she became Director of Philippine Institute of Supply Management. She also led various Supply Chain process improvements and system implementation for different companies and held global procurement roles. Ms. Alvendia is a certified Purchasing Manager and holds a Bachelor of Science degree in Psychology from the University of the Philippines.

ROQUE D. BACANI, 46, Filipino

First Vice President (since January 1, 2022)

Head, Information, Communication, Technology and Transformation

Chief Information Officer, CIS Bayad Center, Inc.

Chief Technology Advisor, Radius Telecoms, Inc.

Mr. Bacani is the First Vice President and Head of Meralco's Information, Communication, Technology and Transformation since October 2019. He also serves as the Chief Information Officer of CIS Bayad Center, Inc., and the Chief Technology Advisor of Radius Telecoms, Inc. He has over 25 years of experience in the field of information technology and telecommunications. Prior to joining *MERALCO*, he took on concurrent roles as Vice President and Head of Group IT Corporate Technology and Head of Data Management Office of *Smart Communications, Inc.* and *PLDT, Inc.* He was also a former Chief Technology Officer of *Talas Data Intelligence Inc.* (A wholly owned subsidiary of *PLDT*). He holds a Bachelor of Science degree in Industrial Engineering from Polytechnic University of the Philippines.

EDGARDO V. CARASIG, 57, Filipino

First Vice President (since January 1, 2020)

Head, HR and Corporate Services Meralco

Mr. Carasig is the Chairman of Customer Frontline Solutions, Inc. and a Director of Meralco Industrial Engineering Services Corporation, Miescor Builders, Inc., Miescor Logistics, Inc., MRAIL, Inc., and CIS Bayad Center, Inc. He is also a trustee of Meralco Pension Fund and Meralco Power Academy. He holds a Bachelor of Science degree in Industrial Management Engineering from the De La Salle University.

FERDINAND O. GELUZ, 57, Filipino

First Vice President (since January 1, 2020)

Chief Commercial Officer of Customer Retail Services

Mr. Geluz is the First Vice President and Chief Commercial Officer of Meralco's Customer Retail Services since August 2020. He was also appointed Director, President and Chief Executive Officer of *MSpectrum, Inc.* He is also a Director of *Miescor Logistics Inc.*, *Miescor Builders Inc.*, *Radius Telecoms Inc.*, *CIS Bayad Center, Inc.*, *eSakay, Inc.*, *Meralco Energy Inc.* and *Aclara Meters Philippines, Inc.* He previously occupied the position of First Vice President and Head of *MERALCO's* Supply Chain and Logistics Management from July 2018 to July 2020, managing the Supply Chain (Strategic Sourcing/Vendor Management, Procurement and Materials Management) and Facilities Engineering and Security Services. He holds a Bachelor of Science Electrical Engineering from the

University of the Philippines. He was 6th Placer in the Board Examination for Registered Electrical Engineer in 1998 and was recipient of the 2019 Professional Degree Award in Electrical Engineering UP Alumni Engineers/UP College of Engineering.

MELANIE T. OTEYZA, 51, Filipino

First Vice President (since October 1, 2018)

Chief Audit Executive

Ms. Oteyza was a former Director of Rajawali Corpora in Indonesia handling Corporate Governance and Internal Audit. She was also previously the Ethics Committee Chairman, Audit and Risk Committee Deputy Chairman and a Member of the HR and IT Board Committees for RC Holding. In Singapore, she was appointed as the Audit Director of Singapore Telecommunications Limited Inc. ("SingTel") handling the international investments, joint ventures and regional mobile associates in Africa and Asia Pacific of the SingTel group. She was also the Assistant Vice President for Internal Audit of San Miguel Corporation and the Country Audit Head for National Foods Limited handling internal audit across Australia as well as other international entities in the Asia Pacific region. She was also the Audit Center Head of PLDT Inc. and an Internal Audit Executive at Digital Telecommunications Philippines Inc. She worked in various assurance and consulting companies such as Protiviti Singapore and SyCip, Gorres and Velayo (a Member Firm of Ernst & Young Global). She also served as a Board of Governor for the Singapore Institute of Internal Auditors ("IIA") and Board of Director for the Philippine Institute of Internal Auditors ("IIA"). Ms. Oteyza holds a Bachelor of Science Degree in Commerce Major in Accounting, Magna Cum Laude, and a Masters Degree in Business Administration, Summa Cum Laude, at University of Santo Tomas. She also completed her Executive Management Leadership Program from the Asian Institute of Management with Superior Performance Award. Ms. Oteyza is a Certified Public Accountant with international certifications from IIA USA such as Certified Internal Auditor ("CIA") – William S. Smith Awardee, Certification in Risk Management Assurance ("CRMA"), Certification in Control Self-Assessment ("CCSA") and a Qualified Validator in Quality Assurance for Internal Audit. She successfully passed the Professional Directors Program ("PDP") examination and completed the PDP program of the Institute of Corporate Directors ("ICD") on September 2019 where she is currently a Graduate Member and a Teaching Faculty. She is actively involved in the Corporate Governance Standards Committee of ICD and also pursuing a global certification for Qualification in Internal Audit Leadership in IIA USA.

RAYMOND B. RAVELO, 44, Filipino

First Vice President (since January 1, 2022)

Chief Sustainability Officer

Concurrent to his role as Chief Sustainability Officer, Mr. Ravelo is also the President and Chief Executive Officer ("CEO") of eSakay, Inc. He is a Director on the Boards of eSakay, Inc., MSpectrum, Inc., MGEN Renewable Energy, Inc. ("MGreen") and Powersource First Bulacan, Solar Inc. He previously served as MERALCO's Head of Strategy and Business Development from 2011 to 2019 and was also the President and CEO and a member of the Board of Directors of Radius Telecoms, Inc. from 2011 to 2016. Prior to joining MERALCO, he was part of McKinsey and Company's Washington DC office where he led strategy development efforts and operations performance transformations for top companies in North America, Latin America, Europe, Southeast Asia, and across a wide range of industries. Mr. Ravelo holds a Bachelor of Science degree, magna cum laude, in Management Engineering from the Ateneo de Manila University. He earned his Masters in Business Administration at The Wharton School of the University of Pennsylvania where

he was a Joseph Wharton Fellow and an Omnicom Communication Fellow. Mr. Ravelo is also a former Trustee of the Wharton-Penn Alumni Association, Inc.

JOSE RONALD V. VALLES, 51, Filipino

First Vice President (since January 1, 2020)

Head, Regulatory Management Office (since July 2018)

Atty. Valles is a member of the Board of Directors of Clark Electric Distribution Corporation and Philippine Electricity Market Corporation. He holds a Bachelor of Science degree in Commerce Major in Management of Financial Institutions from the De La Salle University, a Bachelor of Laws degree from San Beda College, and a Master's degree in Business Economics from University of Asia and the Pacific ("UA&P"). He attended the Public Utility Research Center – World Bank International Training Program on Utility Regulation and Strategy at the University of Florida and the Global Strategic Leadership Program by Wharton University of Pennsylvania and First Pacific Leadership Academy. He is currently teaching at the UA&P – School of Law and Governance, Institute of Law.

ANTONIO M. ABUEL, JR., 53, Filipino

Vice President (since January 1, 2014)

Head, Organizational Safety and Business Continuity Management Office

Mr. Abuel has been employed in *MERALCO* for 31 years. Over the last four (5) years, he has been leading the *MERALCO*'s Environment, Health and Safety ("ESH") and Business Continuity Programs. Prior to this, he had extensive work experience in Networks for 26 years which included headships of Network Planning and Project Management, North and Central Distribution Services and Subtransmission Services. Mr. Abuel has also been serving as Chairman of the *MERALCO* Kuryenteng Ligtas (KLigtas) Awards Program for the years 2017 to present. He was appointed as Chairman of the Institute of Integrated Electrical Engineers Electrical Safety Committee for 2019, 2021 & 2022. He was elected and serves as Board of Director of Safety Organization of the Philippines and is the Director-in-Charge of its Industrial Safety Division for the years 2018 to present as well as Board of Trustee and President of the Department of Energy ("DOE")-supported Safety and Health Association for the Power and Energy Sector for the years 2019 to 2022. He is one of *MERALCO*'s representatives in the DOE Task Force on Energy Resiliency and Philippine Disaster Resiliency Foundation – Power and Energy Cluster Committee. He is currently serving as Trustee and President of the Meralco Savings and Loan Association and Meralco Employees Mutual Aid and Benefits Association, Inc. Mr. Abuel is a Professional Electrical Engineer, ASEAN Certified Professional Engineer, Department of Labor and Employment ("DOLE") Accredited Occupational Safety and Health Consultant, Bureau of Fire Accredited Fire Safety Practitioner and Fire Brigade Member Practitioner, Department of Environment and Natural Resources and Laguna Lake Development Authority accredited Pollution Control Officer. He was also an active contributor to the DOLE Republic Act 11058 Implementing Rules and Regulations technical working group. He achieved a Pass with Merit in the Certificate of the Business Continuity Institute Examination in December 2016. He completed his academic requirements for Executive Masters in Business Administration at the Asian Institute of Management in 2009. He holds a Bachelor of Science degree in Electrical Engineering from the University of Santo Tomas.

FRANCIS EUSTON R. ACERO, 44, Filipino

Vice President (Since January 1, 2022)

Data Protection Officer (since December 13, 2021)

Atty. Acero joined MERALCO in November 2019, where he was assigned as the Deputy Data Protection Officer and thereafter as Data Protection Officer. Prior to joining MERALCO, he was the Division Chief of the Data Security and Technical Standards Division of the National Privacy Commission from March to October 2019, and the Complaints and Investigation Division of the National Privacy Commission from August 2016, where he was an active contributor to the Implementing Rules and Regulations of the Data Privacy Act and for other issuances of the National Privacy Commission. Atty. Acero is also a faculty member of the Far Eastern University, where he has taught since 2016. Atty. Acero is a Certified Information Privacy Professional (Europe) from the International Association of Privacy Professionals. Atty. Acero is also a Certified Data Protection Trainer from the National Association of Data Protection Officers of the Philippines. Atty. Acero completed his Bachelor of Arts degree in Journalism at the University of the Philippines and his Juris Doctor from the Ateneo de Manila University.

IRENEO B. ACUÑA, 55, Filipino

Vice President (since January 1, 2013)

Head, Electric Distribution Development Group

Mr. Acuña heads the Electricity and Distribution Development Group which is responsible for the development of business opportunities in electricity distribution and the operations for Cavite Ecozone and Pampanga Electric Cooperative II. Mr. Acuña is concurrently a Director of Comstech Integration Alliance Inc. and Fieldtech Specialist, 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).

JOSEPH L. AMOSCO, 53, FILIPINO

Vice President (since January 1, 2022)

Head, Energy Management, MPower

Mr. Amosco heads the Energy Management organization of the Retail Electricity Supply unit of Meralco. He previously held headship positions in Energy Sourcing Office of Meralco and was part of the Management Team who established Meralco Energy, Inc. He holds a Bachelor of Science degree in Mechanical Engineering from De La Salle University, a Bachelor of Science degree in Electrical Engineering and ranked 6th in the 1991 Mechanical Engineering Board Examinations. He completed his Masters in Management at the Asian Institute of Management.

PATRICK DAVE B. BACANI, 51, Filipino

Vice President (since January 1, 2017)

Head, Sustainability Programs, Reporting & Partnerships

Mr. Bacani has been with MERALCO since August 2012. He joined the Corporate Sustainability Office in September 2021. Prior to his current role, he performed various roles under Human Resources & Corporate Services. As an HR practitioner for over 25 years, Mr. Bacani served companies across various industries – 24/7, Convergys, Chevron, Change Management International, and SyCip Gorres Velayo & Co. He holds a degree in Management major in Human Resources Management from De La Salle University - College of St. Benilde and Masters in Business Administration from De La Salle University.

BENNETTE D. BACHOCO, 53, Filipino

Vice President (since July 7, 2011)

Head, Financial Planning and Reporting

Ms. Bachoco is a Director of Miescor Builders Inc., Customer Frontline Solutions, Inc., Inc., Meralco Financial Services Corporation. She is also an agent of Meralco Pension Fund. Prior to joining *MERALCO*, she was a Partner of SyCip Gorres Velayo & Co. (a Member Firm of Ernst & Young Global) and was a former Senior Vice President for Finance of Trans-Asia Oil and Energy Development Corporation. Ms. Bachoco holds a Bachelor of Science degree in Business Administration and Accountancy degree from the University of the Philippines and a Master in Business Management from the Asian Institute of Management.

JOSEPH ALLAN C. BALTAZAR, 55, Filipino

Vice President (since January 1, 2016)

Head, South Distribution Services

Mr. Baltazar is a Trustee of Meralco Employees Fund for Charity, Inc. He was a former Director and Corporate Secretary of the Grid Management Committee and was a member of the WESM Technical Committee under the Philippine Electricity Market Corporation. Mr. Baltazar is a Professional Electrical Engineer and a graduate of Bachelor of Science in Electrical Engineering at Mapua Institute of Technology.

RITA D. BANTIGUE, 58, Filipino

Vice President (January 1, 2020)

Corporate Human Resource and Transformation Office Head, Miescor and Head, HR Business Partner for Subsidiaries.

Ms. Bantigue has had 32 years of experience as a Human Resource Practitioner. She holds a Bachelor of Arts degree major in Psychology, Guidance and Counseling from St. Scholastica's College. She received her Masters of Arts major in Guidance and Counseling and Doctor of Philosophy major in Counseling Psychology from the De La Salle University.

SANTE C. BUELLA, 55, Filipino

Vice President (January 1, 2022)

Head, Revenue Assurance and Metering Services

Mr. Buella has been with MERALCO since September 1990. He held various key positions under Networks organization prior to his assignment as Head of Revenue Assurance and Metering Services in July 2019. He holds a Bachelor of Science in Electrical Engineering Degree (BSEE) from the Technological Institute of the Philippines (TIP) Manila.

RICARDO CARMELO D. BUENAFE, 53, Filipino

Vice President (since January 1, 2022)

Head, Regulatory Risk & Compliance

Mr. Buenafe has been the Head of Regulatory Compliance Office of MERALCO since 2008. Prior to this, he was part of the Executive Staff of the President and Chief Operating Officer, a member of the Interruption Frequency Rate/Cumulative Interruption Time (IFR/CIT) Task Force Secretariat, Power Quality Office and Technical Quality Assurance Staff. He holds a Bachelor of Science degree in Management Engineering from the Ateneo de Manila University and a Master of Business Administration degree from the University of the Philippines. He has been with MERALCO for 31 years.

ALBERTO N. CASTILLO, 55, Filipino
Vice President (since January 1, 2022)
Head, Sub-Transmission Services

Mr. Castillo has been employed in Meralco for 33 years. Prior to his assignment as Head of Sub-transmission Services (STS) last 2021, he led Substation for five (5) years with his expertise in substation construction, operation and maintenance works. He is a graduate of Bachelor Science in Electrical Engineering at Mapua Institute of Technology and a holder Professional Electrical Engineering (PEE) license.

RICARDO L. CONCEPCION, 57, Filipino
Vice President (January 1, 2022)
Head, MERALCO Employee and Labor Relations (since 2001)
General Manager, MIESCOR BUILDERS INC. (since 2017)
Head, MIESCOR GROUP Corporate Labor Relations (since 2019)

Mr. Concepcion has been an HR practitioner for 37 years. He joined Meralco in 1989 and he was assigned as Head of Meralco's Employee and Labor Relations office from 2001 to present. In 2017, he was also assigned the role of General Manager for Miescor Builders, Inc. or MBI – a subsidiary of MIESCOR. In 2019, he also headed, in concurrent capacity, MIESCOR Group's Corporate Labor Relations, including its Security office. Mr. Concepcion was also the former head of MIESCOR Group's Human Resources from 2015 to 2019. He is currently a member of the People Management Association of the Philippines (PMAP) - Labor and Industrial Relations Committee and MERALCO's representative to the Employers Confederation of the Philippines (ECOP). Mr. Concepcion graduated from the University of Santo Tomas with a degree in AB-Behavioral Science, achieved his Certificate Course on Human Resources Management in Ateneo de Manila University and he also holds a Bachelor of Laws degree from Jose Rizal University.

BENJAMIN U. CUSI, 59, Filipino
Vice President (since January 1, 2015)
Head of Facilities, Security and General Services

Mr. Cusi is a Professional Electrical Engineer ("PEE") and is currently the President of Meralco Financial Services ("FinServe"), Chairman of Meralco Employees Fund for Charity, Inc ("MEFCI"), and Director of MIESCOR Logistics Inc ("MLI"). He was a former Chairman of AESIEAP (Association of Electricity Supply Industry of East Asia and the Western Pacific) Technical Working Group 3 (2019-2020). He was a former President and Director of Meralco Employees Mutual Aid and Benefits Association. He graduated with Bachelor's Degree in Electrical Engineering from the Mapua Institute of Technology.

JENEVI L. DELA PAZ, 47, Filipino
Vice President (since June 2019)
Chief Operating Officer, Radius Telecoms, Inc.

Mr. Dela Paz joined *MERALCO* in February 2019. He was assigned as Officer-in-Charge for Operations of Radius Telecoms, Inc. in March 2019 and thereafter as Chief Operating Officer. Prior to joining *MERALCO*, he was First Vice President for Corporate Services of First Coconut Manufacturing Inc., a subsidiary of First Agri Holdings Corp. under First Pacific Company Ltd. Before rejoining the MVP group in 2015, he was the Corporate Vice President and part of the Management Committee of Atlantic Gulf & Pacific Company of Manila (AG&P), steering committee of the AG&P/Flour Joint Venture Company, President of AG&P Estates Management, Inc. and a member of the Board of Directors of AG&P Fieldcom, Inc. Before AG&P, he worked for 13 years with the PLDT

Group under various capacities. He was part of the founding management team of ePLDT, Inc., Group Treasury Head for ePLDT, Chief Finance Officer and Board Director of Digital Paradise, Inc. (Netopia), Chief Operating Officer of NetGames, Inc., and Vice-President for Group Treasury of MediaQuest Holdings, Inc. Mr. Dela Paz graduated from Ateneo de Manila University with a degree in Management Economics, having received scholarship grants from the Ateneo for both his high school and undergraduate studies. He received his Masters in Business Management, also under a scholarship grant, from the Asian Institute of Management.

MA. CECILIA M. DOMINGO, 53, Filipino

Vice President (since January 1, 2019)

Head, Corporate Business Group

Ms. Domingo is the head of *MERALCO* Corporate Business Group since July 2019, the segment that caters to the needs of *MERALCO*'s top 2000 Enterprises, conglomerates and multinationals. She started in *MERALCO* as a cadet engineer in 1990 and has been assigned in different offices and positions within the Company. She is a registered electrical engineer who graduated Magna Cum Laude from Nueva Ecija University of Science and Technology in Cabanatuan City. She holds an Executive Masters in Business Administration from the Asian Institute of Management. She serves as Council Leader of Capitol City Foursquare Church, a Born-Again Christian church where she and her family actively worship and serve.

LAWRENCE S. FERNANDEZ, 53, Filipino

Vice President (since January 1, 2015)

Head, Utility Economics

Mr. Fernandez received a Bachelor of Science degree in Mechanical Engineering from the University of the Philippines and is a licensed mechanical engineer. He is member of the Renewable Energy Market Governance Committee, representing private distribution utilities. Mr. Fernandez was a Director of the Philippine Economics Society and had served as a Director of the Energy Efficiency Practitioners of the Philippines ("ENPAP") (formerly Energy Management Association of the Philippines)).

JERRY B. LAO, 50, Filipino

Vice President (January 1, 2022)

Head, Central Distribution Services

Mr. Lao has been employed in *MERALCO* for 28 years and for the last 8 years he has been the Sector Head of San Pablo, Balintawak, Manila and Pasig. This eventually led him to become the present head of Central Distribution Services. He previously served as Chairman of Meralco Employees Mutual Aid and Benefits Association, Inc. (2018-2019). He has also been serving as Member of the *MERALCO* Kuryenteng Ligas (KLigas) Awards Program from 2017 to present. He is a Professional Electrical Engineer and holds a Bachelor of Science degree in Electrical Engineering from Holy Angel University.

ERVILLE D. MAGTUBO, 47, Filipino

Vice President (January 1, 2022)

Head, Customer Care Group

Mr. Magtubo joined Meralco in August 2020 to head the newly formed Customer Care Group of Meralco. With a Bachelor of Computer Science degree from the University of the Philippines, he has a combined experience of 27 years in the areas of IT services and outsourcing services. Mr. Magtubo was part of the ePLDT group for 12 years. He was Assistant Vice-President and Head of the Systems

Integration Group that provided various IT integration services for the customers of ePLDT. He was later appointed as Vice President and General Manager of iPlus Intelligent Networks, Inc, an ePLDT subsidiary that provided managed IT services and outsourcing services. Concurrently, he was the Sales Director of Infocom Technologies, Inc, another subsidiary that provided connectivity services and contact center services. Prior to joining ePLDT, he was the Channels Manager for Southeast Asia and India of Internet Security Systems, a U.S. based data security company.

MARIA CARMELA T. MIGRIÑO, 46, Filipino

Vice President (since October 28, 2019)

Head, Group Chief Information Security Officer

Ms. Migriño heads the Cyber Security of *MERALCO*, CIS Bayad Center and Customer Frontline Solutions and provides oversight functions to the rest of the *MERALCO* subsidiaries by defining and maintaining the cybersecurity strategy and ensuring technology and process initiatives are designed, implemented and maintained in accordance to *MERALCO*'s information security policies and global cybersecurity standards for both Technology and Operational Technology. Prior to joining *MERALCO*, Ms. Migriño was the Vice President of Globe Fintech Innovations, Inc. (A joint venture of Globe Telecom, Ant Financial Services Group, an affiliate company of the Chinese Alibaba Group) which she served as the Head of Information Security, Data Privacy and Enterprise Risk Management and was a former Director for Cyber Risk Services and a Resiliency Practice Leader from Navarro Amper and Company/Deloitte Southeast Asia (a Member Firm of Deloitte Touche Tohmatsu). Ms. Migriño holds a Bachelor of Science degree in Information Technology from St. Paul College with Academic Excellence.

RICHARD O. OCHAVA, 54, Filipino

Vice President (since January 1, 2019)

Chief Operating Officer, Meralco Industrial Engineering Services Corporation

President and CEO of Miescor Builders Inc.

President and CEO of Miescor Logistics Inc.

Mr. Ochava was the former Chairman and Vice President of Meralco Mutual Aide Benefit Association. He was a senior manager for Subtransmission Services, former head of *MERALCO*'s Substation Support Services, Project Management Office and Distribution Services Design Office. He was also the head of Networks Contracts and Outsourcing Management Office. Mr. Ochava is a registered electrical engineer and holds a Bachelor of Science degree in Electrical Engineering from the Technological University of the Philippines.

CHARINA P. PADUA, 53, Filipino

Vice President (since January 1, 2018)

Head, Home and Micro Business - North Business Area

Ms. Padua has been the Head of Home and Micro Business for North Business Area since February 1, 2019. She served as Head of Commercial Operations of *MERALCO* since October 2012 until January 31, 2019. She holds a Bachelor of Science degree in Business Economics from the University of the Philippines and an Executive Masters in Business Administration from the Asian Institute of Management. She served as a Trustee in the Board of Meralco Savings and Loans Association from 2013 to 2016.

GLEN N. SAN PEDRO, 57, Filipino
Vice President (since December 1, 2020)
Head of Supply Chain Management

Mr. San Pedro was the Head of Procurement of PLDT, Inc. and then as Group Head of Procurement and Logistics for eight (8) years at ePLDT, Inc. He continued to specialize in Supply Chain Management and procurement when he migrated to Alberta, Canada. He was the purchaser for food processing specialist of Newly Weds Foods Inc. that further exposed him to international standards and best practice. He holds a Bachelor of Science degree in Management Engineering from Manuel L. Quezon University. He completed "Supply Management Training in Procurement" as well as "Principles of Buying" from The Purchasing Management Association of Canada (in Edmonton, Alberta, Canada).

JOSE S. REYES JR., 52, Filipino
Vice President (since January 1, 2018)
Head, North Distribution Services

Mr. Reyes is a Registered Electrical Engineer by profession and holds a degree in Bachelor of Science in Electrical Engineering from the Mapúa Institute of Technology and Master of Science in Electrical Engineering from the University of the Philippines. He also completed his Management Development Program from the Asian Institute of Management with Academic Excellence award and the New Frontiers Middle Management Program with Outstanding Action Learning Project award. He is currently the President and Trustee of the Meralco Employees Fund for Charity, Inc.. He joined *MERALCO* in 1991 as a Cadet Engineer and completed the course with the Academic Excellence and Exemplary Leadership Awards. He was also recognized as *MERALCO*'s outstanding employees in 2008 and 2009, and his office was awarded with the Presidential Awards - Technical Services category in 2005 and 2008.

FROILAN J. SAVET, 54, Filipino
Vice President (since January 1, 2017)
Head, Network Planning and Design

Mr. Savet is a registered ASEAN Chartered Professional Engineer since November 2018 and a Professional Electrical Engineer since March 2015. He is a Senior Institute of Integrated Electrical Engineers (IIEE) Member who served as the 2019 Chairman of the IIEE Professional Training and Development Committee. He earned his Master of Science in Electrical Engineering – Major in Power Systems from the University of the Philippines in October 2003 and a Bachelor of Science degree in Electrical Engineering from Mapua University in May 1990 graduating as a silver medalist, and he ranked second in the April 1992 Electrical Engineering Licensure Examinations. He is a Director of the Distribution Management Committee, Inc. from 2014 to 2019. He is the incumbent Vice Chairman and Committee member of the Third-Party Bids and Awards Committee (TPBAC) administering *MERALCO*'s Competitive Selection Process for its Power Supply Agreements. He is a member of the PRC's Career Progression and Specialization Program-Credit Accumulation and Transfer System (CPSP-CATS) Committee – Board of Electrical Engineering. Most recently, he was elected to Mesala, Inc.'s Board of Trustees as an independent trustee with tenure until May 2023.

JEFFREY O. TARAYAO, 42, Filipino
Vice President (since January 1, 2022)
Chief Corporate Social Responsibility Officer
President, One Meralco Foundation (since June 2011)

Mr. Tarayao has led and managed corporate social responsibility ("CSR"), community relations, sustainability and communications programs in the last 20 years. He is a Global Reporting Initiative-

certified sustainability reporting specialist. When he joined Meralco in 2011, he led the transformation of its CSR and community relations initiatives into a more strategic and business-aligned program. He is currently the private sector representative in the Philippine National Volunteer Services Coordinating Agency, Trustee of the Archdiocese of Manila's Caritas Margins program and a member of the Management Association of the Philippines. He also served in the inaugural board of trustees of the Humanitarian Leadership Academy based in London, United Kingdom from 2016 to 2019 and previously Chaired the League of Corporate Foundations, President of the Coalition for Better Education and Trustee of the International Association of Business Communicators Philippines. In 2011, he was chosen as one of the Asia 21 Fellows of Asia Society, a group of emerging leaders of Asia below 40 and in 2012, one of the 40 under 40 International Development Leaders by the Washington DC-based Development Exchange. Prior to joining Meralco, he served as Head of Community Relations and CSR of Globe Telecom. Tarayao obtained his Master of Sustainable Development degree from Macquarie University in Sydney, Australia in 2018 as an Australia Awards Scholar and completed his undergraduate studies from the University of Santo Tomas, Manila, Philippines where he is also a lecturer on Corporate Social Responsibility and Good Governance in the College of Commerce and Business Administration.

MARIA ZARAH R. VILLANUEVA-CASTRO, 51, Filipino

Vice President (since January 1, 2019)

Head, Corporate Legal Services

Atty. Villanueva-Castro holds a Bachelor of Arts degree major in Political Science from the University of the Philippines and a Bachelor of Laws degree from San Beda University. She is also the Corporate Secretary of One Meralco Foundation, Inc., Comstech Integration Alliance, Inc., Meralco Pension Fund, Meralco Employees Fund for Charity, Inc., Pure Meridian Hydropower Corporation, Inc. and Meralco Employees Savings and Loan Association. She is also a professor of law and bar review lecturer for Commercial Laws.

AGAPITO R. ZALDARRIAGA, 53, Filipino

Vice President (Since December 1, 2020)

Head, Corporate Communications

Mr. Zaldarriaga is the Head of Corporate Communications since December 1, 2020. He served as the Head of Public Information Office under Corporate Communications group of *MERALCO* from 2016 to 2020. He is currently the Chairman of the International Association of Business and Communications of the Philippines since 2018 and served as its president from 2016 to 2018. He earned his Bachelor's Degree in Asian Studies in 1985 from the De La Salle University.

MA. CYNTHIA C. SOLUREN, 57, Filipino

Senior Assistant Vice President (since January 1, 2018)

Head, Treasury for Distribution Utility

Ms. Soluren is the Treasurer of Meralco Financial Services Corporation and Comstech Integration Alliance Inc. She has been a Trustee of the Meralco Savings and Loan Association Inc. ("*MESALA*") since 2013 and is the President of the *MESALA*. Ms. Soluren holds a Bachelor of Science degree in Statistics and a Masters degree in Business Administration from the University of the Philippines.

Term of Office

The Directors are elected at the annual meeting of stockholders for a term of one (1) year, until their successors are duly elected and qualified.

Nominees

The members of the *BOD* of *MERALCO* are elected from a Final List of Candidates qualified by its Nomination and Governance Committee. The Final List of Candidates is determined after pre-screening and evaluation of qualifications of the nominees nominated by stockholders of record. The Nomination and Governance Committee is composed of Pedro O. Roxas, as Chairman, and Lydia B. Echauz, Frederick D. Go, Anabelle L. Chua, Jose Ma. K. Lim and James L. Go as members. The candidates for directors for the ensuing calendar year are:

1. Anabelle L. Chua
2. Lydia B. Echauz
3. Ray C. Espinosa
4. James L. Go
5. Frederick D. Go
6. Lance Y. Gokongwei
7. Jose Ma. K. Lim
8. Artemio V. Panganiban
9. Manuel V. Pangilinan
10. Pedro O. Roxas
11. Victorico P. Vargas

Below is a summary of relevant information regarding the nominees for independent directors:

Name of Nominee	Nominated By	Relationship	Date of First Appointment
Artemio V. Panganiban	Atty. Mariano D. Miranda	None	May 27, 2008
Pedro O. Roxas	Atty. Mariano D. Miranda	None	May 25, 2010
Lydia B. Echauz	Atty. Mariano D. Miranda	None	May 25, 2021

MERALCO has adopted the provisions of Rule 38 of the *SRC* on nominations and election of independent directors ("*IDs*") (Article II, Section 2 of the Amended By-Laws, as approved by the Securities and Exchange Commission on June 14, 2005) and Revised Corporation Code Section 22.

At present, *MERALCO*'s two (2) *IDs* have served as such more than the term limit provided in the Corporate Governance Manual, *SEC* Code of Governance and *SEC* Memorandum Circular No. 9 Series of 2011.

Retired Chief Justice Artemio V. Panganiban has been the Company's *ID* since May 27, 2008 while Mr. Pedro O. Roxas served as an *ID* since May 25, 2010; thus, exceeding the term limit provided in the rules.

Meritorious Justification

In the event that Retired Chief Justice Artemio Panganiban and Mr. Pedro Roxas will again be nominated this year as independent director, meritorious justification for their retention should again be presented to the stockholders for their approval.:

The proposed retention of Retired Chief Justice Artemio Panganiban and Mr. Pedro Roxas as independent directors should be viewed in light of the unprecedented backdrop of the COVID-19 Pandemic. The most recent corporate financial and operational indicators have clearly shown that the global COVID-19 pandemic has brought about unique and serious operational, legal and regulatory risks¹, that unfortunately have continued to loom relentlessly over the company and the nation as a whole. In the midst of such uncertainty, Meralco and its stakeholders will benefit from stability in the Board brought about in part by Ret. CJ Panganiban's and Mr. Roxas' deep experience and knowledge of the company that will enable them to continue to provide steady guidance and meaningful participation towards the crafting of policies and strategies to immediately address these risks.

Retired Chief Justice Artemio V. Panganiban

Ret. Chief Justice Panganiban has been a beacon of integrity² and independence in the MERALCO Board. He distinguished himself as a legal luminary whose wealth of expertise and experience³ in the energy industry critically contributed to the Company's continuing success despite the challenges and risks brought about by the COVID-19 global pandemic. As the shareholders' representative to the Board, he freely shared his measured opinions on relevant issues raised during meetings, encouraged critical discussion, and fostered sound resolutions toward the attainment of the Company's strategic objectives while promoting the best interest of all stakeholders.

Ret. CJ Panganiban effectively served as the Board's Lead Independent Director. He acted as an intermediary between the Chairman and the other directors, contributed to the performance evaluation of the Chairman and convened and chaired the meetings between the non-executive directors (NEDs) and the external auditor and heads of the internal audit, compliance and risk functions, in the absence of the executive director.

Ret. CJ Panganiban chaired the Company's Audit Committee and led the Board in ensuring the adequacy of the Company's material controls (including operational, financial and compliance controls) and risk management systems. He has also spearheaded the review of the effectiveness of the Company's internal control system to ensure the integrity, effectiveness and adequacy of its accounting and financial reporting systems.

Ret. CJ Panganiban also played a significant role in the Risk Management and Related Party Transactions Committees, ensuring that all related party transactions (RPTs) of the Company are done in fair and at arm's-length terms, to the benefit and best interest of the Company and its shareholders. Said committees of the Board are also tasked with overseeing the Enterprise-Wide Risk Management framework, through the assessment of top risks and review of the effectiveness of risk mitigation strategies and treatment plans developed by management.

Mr. Pedro O. Roxas

Mr. Pedro Roxas has been the Board's governance champion. Being at the forefront in promoting best governance practices⁴ in the Board, he provided indispensable support to the Company towards achieving its long-term strategic goals and objectives while ensuring that it fully commits to its environmental, social and civic responsibilities. His wealth of expertise and experience⁵ enabled him to provide significant contributions to the Board in the areas of business, finance, governance and operations.

As a testament to his efforts in ensuring a strong governance culture in the Company, Meralco was conferred an ASEAN Asset Class Award by the ASEAN Capital Markets Forum for being one of the Philippine publicly-listed companies which attained at least 75% of the maximum attainable score in the ASEAN Corporate Governance Scorecard (ACGS).

Similarly, in January 2021, Meralco once again received an ASEAN Asset Class Award from the Securities and Exchange Commission (SEC) and the Institute of Corporate Directors (ICD) for being recognized as one of the top companies in the region with sterling 2019 ACGS assessment results. Meralco also garnered a Three-Golden Arrow Award in the ICD's Golden Arrow Awards based on the 2019 ACGS assessment which elevated to Four Golden Arrow for its 2020 governance performance.

The foregoing constitute meritorious justification to allow the nominations of both Retired CJ Panganiban and Mr. Roxas as IDs for 2021-2022 to be submitted to the stockholders for consideration on May 31, 2022.

¹ The following are some of the material legal proceedings in 2020 and still pending in 2021 involving the Company:

- In the Matter of the Application for Approval of: a) Confirmation of the True-Up Calculation of the Actual Weighted Average Tariff (AWAT) vis-à-vis ERC-Approved Average Rate Implemented for the Lapsed Regulatory Years; and b) Approval of the Final Refund Scheme to Account for the Lapsed Regulatory Years, with Prayer for Provisional Authority, MERALCO, Applicant. ERC Case No. 2020-043 RC (Filed on December 23, 2020)
- In the Matter of the Application for Authority to Implement the Proposed Capital Expenditure (CAPEX) Program for RY 2021, with Prayer for Provisional Authority, Manila Electric Company, Applicant. ERC Case No. 2020-028 RC (Filed on September 28, 2020)
- In the Matter of Alleged Violation of the Advisories issued by the Energy Regulatory Commission (ERC) during the Enhanced Community Quarantine (ECQ) and Modified Enhanced Community Quarantine (MECQ). ERC Case No. 2020-001 SC. Energy Regulatory Commission (Show Cause Order received June 2, 2020)

² In recognition of Ret. CJ Panganiban's various roles and outstanding contributions as a jurist, lawyer, civic leader, business entrepreneur, catholic lay worker, and youth leader, he received the following major awards from various governments, civic clubs, consumer associations, bar groups, religious movements and other non-government organizations, both local and international:

- THE RENAISSANCE JURIST OF THE 21st CENTURY given by the Supreme Court of the Philippines during his retirement ceremonies on December 6, 2006
- SILVER JUBILEE AWARDEE, Legal Management Council of the Philippines, 1990
- OUTSTANDING MANILAN FOR 1991 given by the City of Manila
- MOST OUTSTANDING LAW ALUMNUS FOR 1988 (sole awardee) given by the Far Eastern University Law Alumni Association on December 16, 1988
- MOST OUTSTANDING PRACTISING LAWYER given by the Consumers' Union of the Philippines on March 16, 1994

- MOST DISTINGUISHED ALUMNUS in the field of LAW given by the FEU ADVOCATE, official student newspaper of Far Eastern University, 1990
- MOST OUTSTANDING SILVER JUBILARIAN, Mapa High School, 1979
- BLUE FALCON Awardee, Mapa High School Alumni Association, 1993
- GOLDEN HELM AWARD from the Senate of West Berlin and the Int'l. Association of Helmsmen, Berlin (1984)
- MOST OUTSTANDING TOURISM PERSONALITY AWARD given by the Skal Club of Makati (1986); FOUNDER'S AWARD, Philippine Travel Agencies Association (1990)
- PRESIDENTIAL GAWAD AWARD given by the Pamantasan ng Lungsod ng Maynila (City University of Manila), 1995
- DR. NICANOR REYES, SR. MEDAL OF MERIT given by Far Eastern University, May 1, 1998
- MEDAL OF HONOR, Angeles University Foundation, 1999
- EMINENT AND DISTINGUISHED JURIST AWARD given by the Consumers' Union of the Philippines, 2002
- DISTINGUISHED SERVICE CROSS, Far Eastern University, 1998
- DIAMOND JUBILEE AWARD, Far Eastern University, 2003
- ORDER OF THE EASTERN STAR, Far Eastern University, 2006
- LIFETIME ACHIEVEMENT AWARD, FEU Law Alumni Association, 2006
- NOBLESSE OBLIGE AWARD, Pasig Catholic College, 2007
- AWARD OF HONOR, Philippine Bar Association, 2007
- MOST OUTSTANDING KAPAMPANGAN given by the Province of Pampanga, 2010
- RULE OF LAW AWARD given by the Chief Justice Claudio Teehankee Foundation on April 18, 2013
- CERTIFICATE OF APPRECIATION, Supreme Court of the Phil and Society for Judicial Excellence, October 20, 2016
- DIAMOND JUBILEE AWARD, as the most outstanding alumnus during the last 60 years given by the Far Eastern University Law Alumni Association, at Conrad Hotel, Pasay City, November 24, 2018
- ROTARY CLUB OF MANILA (RCM) LEADERSHIP AWARD, for being the only RCM President to become Chief Justice, given at Philippine International Convention Center, Pasay City, June 21, 2019

³ Membership in Boards of Listed and Non-Listed Companies involved in Energy:

- Petron Corporation
- First Philippine Holdings Corporation
- Metro Pacific Investments Corporation
- TeaM Energy Corporation

⁴ The Company's Nomination and Governance Committee accomplished the following through the leadership of Mr. Pedro Roxas as its Chairman:

- Conducted Annual Board, Board Committees, and President and CEO Performance Assessment
- Assessed Meralco's public ownership report
- Screened the nominees to the Board
- Reviewed the Board committee composition
- Assessed Meralco's Revised ASEAN Corporate Governance Scorecard (ACGS)
- Reviewed and endorsed Meralco's Integrated Annual Corporate Governance Report (I-ACGR)
- Approved the implementation of electronic voting in absentia for the company's Annual Stockholders' Meeting
- Reviewed the engagement of an external facilitator to assess Board effectiveness
- Facilitated the annual CG enhancement and continuing education programs
- Conducted the onboarding orientation for the new directors
- Approved the conduct and evaluated the results of the Ethical Climate Survey
- Reviewed and approved the following:
 - o Amended Gifts Policy Disclosure Procedures
 - o Revised Insider Trading Policy
 - o Social Media Policy
 - o Amended Suppliers Business Conduct Policy
 - o Amended Whistleblowing Internal Rules and Regulations
 - o Guidelines on Board and Board Committee Memberships
 - o Revised Manual of Corporate Governance
 - o Nomination and Election Policy
 - o Board Diversity Policy
 - o RPT Committee Charter
 - o Anti-Bribery and Corruption Policy
 - o Board Charter
 - o Policy on Alternative Dispute Resolution
 - o Revised Related Party Transactions Policy
 - o Revised Nomination and Governance Committee Charter
 - o Revised Finance Committee Charter
 - o Adoption of guidelines on Board meetings through teleconferencing and videoconferencing

⁵ Membership in Boards of Listed and Non-Listed Companies:

- Roxas and Company, Inc.
- Roxas Holdings, Inc.
- PLDT Inc.
- Cemex Holdings Inc.
- Roxaco Land Corporation
- Club Punta Fuego, Inc.
- BDO Private Bank, Inc.
- Brightnote Assets Corporation
- Fundacion Santiago, Inc.
- MAPFRE Insular Insurance Corporation

Attendance of Directors in Board and Committee Meetings

Below is the record of attendance of the directors in 2021:

2021 ASM and Board Meeting Attendance			
Director	Designation	25-May-21	Board Meetings / Organizational Meeting
		Annual Stockholders' Meeting	
Manuel V. Pangilinan	Chairman	Present	12/13
Ray C. Espinosa ¹	Director	Present	13/13
Anabelle L. Chua	Director	Present	13/13
James L. Go	Director	Present	13/13
Frederick D. Go	Director	Present	13/13
Lance Y. Gokongwei	Director	Present	13/13
Elpidio L. Ibañez	Director	Present	6/6
Lydia B. Echaz ²	Independent Director	Present	8/8
Jose Ma. K. Lim	Director	Present	13/13
Artemio V. Panganiban	Lead Independent Director	Present	13/13
Pedro O. Roxas	Independent Director	Present	13/13
¹ President and CEO			
² Ms. Lydia B. Echaz replaced Mr. Elpidio L. Ibañez during ASM May 25, 2021			

2021 Board Committee Meeting Attendance								
	Finance	Audit	Risk Management	Related Party Transactions	Nomination and Governance	Remuneration and Leadership Development	Executive Committee	Sustainability
Manuel V. Pangilinan ¹	N/A	N/A	N/A	N/A	N/A	3/3	4/4	1/1
Ray C. Espinosa	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Anabelle L. Chua ²	12/12	6/6	2/2	2/2	4/4	N/A	N/A	N/A
James L. Go	12/12	6/6	2/2	2/2	4/4	N/A	3/4	N/A
Frederick D. Go	N/A	6/6	2/2	2/2	4/4	N/A	N/A	1/1
Lance Y. Gokongwei	9/12	N/A	N/A	N/A	N/A	3/3	3/4	0/1
Elpidio L. Ibañez ³	5/5	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Lydia B. Echaz ³	7/7	3/3	N/A	N/A	2/2	N/A	N/A	N/A
Jose Ma. K. Lim ⁴	N/A	6/6	2/2	2/2	4/4	N/A	4/4	1/1
Artemio V. Panganiban ⁵	N/A	6/6	2/2	2/2	N/A	N/A	4/4	N/A
Pedro O. Roxas ⁶	12/12	5/6	1/2	2/2	4/4	3/3	N/A	1/1
Victorico P. Vargas	12/12	N/A	N/A	N/A	N/A	3/3	N/A	N/A
¹ Chairman, Executive Committee, Remuneration & Leadership Committee, and Sustainability Committee								
² Chairman, Finance Committee								
³ Ms. Lydia B. Echaz replaced Mr. Elpidio L. Ibañez during ASM May 25, 2021								

⁴ Chairman, Risk Management Committee

⁵ Chairman, Audit Committee; Lead Independent Director

⁶ Chairman, Nomination & Governance Committee, and Related Party Transaction Committee; Independent Director

The Board recognizes the importance of a regular performance assessment, individually and collectively as part of their accountability. Assessments are conducted annually to evaluate their specific and overall performance for the past calendar year. The Board evaluated their individual and collective performances regarding the Board and its committees' structures, processes and responsibilities. The assessment likewise identified the training and skills development program needed by the Board. The Board also reviewed the performance of the President and CEO based on his leadership, working relations with the Board, Management, and communication. Four (4) assessment instruments with corresponding evaluation criteria were accomplished by the directors, namely the Board Self-Assessment, General Board Committee Assessment, Board Committee Self-Assessment, and the President and CEO Performance Assessment. The assessment criteria or metrics include board structure and qualification, board duties and responsibilities, duties and responsibilities as an individual director, and board committee functions and over-all performance vis-à-vis the respective charters. The aggregated results are presented to the Board during meeting immediately following the end of the assessment process. Every three years, the assessments are supported by an external facilitator. The Company engaged the services of the Good Governance Advocates and Practitioners of the Philippines ("GGAPP") for the evaluation of the 2019 Board, Committee, and CEO performance assessment.

Significant Employees

The Company considers its whole manpower complement working as a team as imperative in the attainment of its goals. The Company has no employee who is not an executive officer and who is expected to make individually on his own a significant contribution to the business.

Family Relationships

Mr. James L. Go is the uncle of Mr. Lance Y. Gokongwei and Mr. Frederick D. Go, all of whom are Directors of *MERALCO*.

Other than the above, there are no family relationships up to the fourth civil degree, either by consanguinity or affinity, among directors, executive officers, or nominees.

Involvement in Certain Legal Proceedings

No director, nominee for election as director, or executive officer of the Company has been involved in or the subject of, during the past five (5) years up to the latest date, any of the following events that is material to an evaluation of his ability or integrity to serve *MERALCO*: (a) bankruptcy petition; (b) conviction by final judgment in a criminal proceeding; (c) order, judgment, or decree barring, suspending, or limiting involvement in any type of business, securities, commodities, or banking activities; (d) judgment for violation of a securities or commodities law or regulation.

Certain Relationships and Related Transactions

Except with respect to the Related Party Transactions as discussed in Note 23 to the consolidated financial statements as at December 31, 2021 and 2020 and for each of the three (3)

years ended December 31, 2021, there was no transaction during the last three (3) years involving *MERALCO* in which any of its directors or executive officers, any nominee for election as director, or security holder owning 10% or more of *MERALCO*'s total outstanding shares and members of their immediate family had a material interest.

Resignation of Directors

To date, no director has resigned or declined to stand for re-election for the Board due to any disagreement with the Company relative to the Company's operations, policies and practices.

Compensation of Directors and Officers

The aggregate annual compensation for the last two fiscal years and projected compensation for the ensuing year of *MERALCO*'s Chief Executive Officer ("CEO") and four most highly compensated executive officers, as a group, and all other key officers, other officers and directors, as a group, are as follows:

NAME	YEAR	SALARIES ¹	BONUS ²	OTHER ANNUAL COMPENSATION ³
		Amounts in Millions		
Chief Executive Officer (CEO) and four (4) most highly compensated executive officers ⁴	Projected 2022	₱131	₱75	₱18
	2021	132	75	16
	2020	117	184	7
All other key officers, other officers and directors as a group (excluding the CEO and four most highly compensated executive officers)	Projected 2022	272	133	36
	2021	216	107	27
	2020	204	309	23

¹ Basic salaries and allowances.

² Includes government-mandated payout and variable pay

³ Commutation of unused leave benefits.

⁴ Comprised of the following: Ray C. Espinosa, President and CEO; Betty C. Siy-Yap, Senior Vice President and Chief Finance Officer; William S. Pamintuan, Senior Vice President, Chief Legal Counsel, Assistant Corporate Secretary, Compliance Officer and Head, Legal and Head, Corporate Governance and Chief Data Protection Officer; Ronnie L. Apercho, Senior Vice President and Head, Networks and President and Chief Executive Officer, MIESCOR; Edgardo V. Carasig, First Vice President and Head, Human Resources and Corporate Services.

All directors are entitled to a reasonable per diem for their attendance in meetings of the BOD and Board Committees plus an additional compensation, provided that the total value of such additional compensation, in whatever form so given, shall not exceed one (1) percent of the income before income tax of *MERALCO* during the preceding year.

Each of the Directors is entitled to a per diem of ₱140,000 for every BOD meeting attended. Each member of the Audit, Risk Management, Remuneration and Leadership Development, Finance, Governance and Nomination Committees is entitled to a fee of ₱24,000 for every committee meeting attended. Also, the members of the BOD are entitled to a stock grant based on a pre-approved

number of shares for each Director which was implemented beginning May 2013 as approved by the Stockholders. The Directors have the option to receive the number of shares granted of the equivalent cash value.

MERALCO does not have standard arrangement on the remuneration of its existing directors and officers aside from the compensation herein stated.

Below are the details of the remuneration paid to the directors in 2021:

	Remuneration for Board Meetings Attended in 2021	Remuneration for Committee Meetings Attended in 2021	TOTAL
EXECUTIVE DIRECTOR			
Ray C. Espinosa	₱1,680,000	₱-	₱1,680,000
NON-EXECUTIVE DIRECTOR			
Manuel V. Pangilinan	1,540,000	192,000	1,732,000
Lance Y. Gokongwei	1,680,000	360,000	2,040,000
Anabelle L. Chua	1,680,000	624,000	2,304,000
James L. Go	1,680,000	696,000	2,376,000
Frederick D. Go	1,680,000	360,000	2,040,000
Elpidio L. Ibañez	700,000	120,000	820,000
Jose Ma. K. Lim	1,680,000	456,000	2,136,000
Victorico P. Vargas	1,680,000	360,000	2,040,000
INDEPENDENT DIRECTORS			
Lydia B. Echauz	980,000	288,000	1,268,000
Artemio V. Panganiban	1,680,000	336,000	2,016,000
Pedro E. Roxas	1,680,000	672,000	2,352,000
TOTAL INDEPENDENT DIRECTORS	4,340,000	1,296,000	5,636,000
GRAND TOTAL	₱18,340,000	₱4,464,000	₱22,804,000

The Directors and Officers are covered by a Casualty Line Insurance Policy effective until June 27, 2022. The policy covers Company Securities, Company Employment Practices Breach, Regulatory Crisis Event Costs, Investigation Costs, Public Relations Expenses, Investigation Costs for Derivative Demands, Tax Liability and other additional limits such as Bodily Injury and Property Damage Defence Costs, Health and Safety Costs, Gross Negligence Manslaughter Defence Costs and Environmental Violation (Defence Costs Including Civil and admin Fines).

Independent Public Accountants

The independent public accountants of *MERALCO* is the accounting firm, SyCip Gorres Velayo & Co. ("SGV"). The audit of the consolidated financial statements of *MERALCO* and subsidiaries was led and signed by the engagement partner, Mr. Narciso T. Torres Jr., issued a statement confirming the independence of SGV with respect to the Company in accordance with the Code of Ethics for Professional Accountants in the Philippines adopted by the Philippine Board of Accountancy.

The terms of engagement, scope of services and fees of the external auditors were reviewed and approved by the Audit Committee. The Audit Committee is composed of six (6) members and chaired by independent director, retired Chief Justice Artemio V. Panganiban. The other members of the committee are independent directors Pedro O. Roxas and Lydia B. Echauz, directors Jose Ma. K. Lim, James L. Go, Frederick D. Go and Anabelle L. Chua.

The representatives of SGV will be present during the annual meeting and will be given an opportunity to make a statement or respond to questions, if necessary.

Pursuant to the General Requirements of SRC Rule 68, Par. 3 (Qualifications and Reports of Independent Auditors), the Company has engaged SGV as external auditors, and Mr. Narciso T. Torres Jr. is the partner-in-charge beginning the audit of the 2018 financial statements. In compliance with SRC Rule 68 Part 3(b)(iv)(ix), Mr. Torres shall be rotated after seven (7) years of engagement. A five (5)-year cooling off period shall also be observed in the re-engagement of the same signing partner.

Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

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

The External Auditors

The shareholders of *MERALCO* has reappointed SGV as its external auditors for the year ended December 31, 2021 during the annual stockholders' meeting on May 25, 2021. The signing partner of SGV for *MERALCO* is Mr. Narciso T. Torres Jr.

(a) Audit and Audit-Related Fees

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

	2021	2020
	(Amounts in millions)	
Financial statements audit*	₱18.1	₱9.8
Audit of financial statements in accordance with the requirements of the Business Separation and Unbundling Plan of the <i>ERC</i> and Audit of universal charge reports as required by <i>PSALM</i>	0.7	0.7

* 2021 includes the audit fees of GBPC and subsidiaries.

(b) Tax Fees

Not applicable.

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

The Audit Committee approves the terms of engagement and scope of services of the independent auditors as endorsed by Management. For non-audit services, Management is required to disclose to the Audit Committee any engagement contracting the appointed independent auditors to ensure that their independence will not be compromised.

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

Not applicable.

- (e) *If there were any disagreements as described in subparagraph (2), the registrant shall request the former accountant to furnish the registrant with a letter addressed to the Commission stating whether it agrees with the statements made by the registrant and, if not, stating the respects in which it does not agree. The registrant shall file the former accountant's letter as an exhibit to the report or registration statement containing this disclosure.*

Not applicable.

OTHER MATTERS

Action with Respect to Reports

The approval of the following will be considered and acted upon at the meeting:

1. Minutes of the Annual Stockholders' Meeting held on May 25, 2021
 - Minutes of the annual meeting of stockholders held on May 26, 2020
 - Report of the President and Chief Executive Officer
 - Prospect/Outlook from the Chairman
 - Approval of the 2020 audited consolidated financial statements
 - Ratification of acts of the Board and Management
 - Election of Directors for the ensuing year
 - Appointment of external auditors
2. Report of the President and Chief Executive Officer
3. Approval of the 2021 audited consolidated financial statements
4. Ratification of Acts of the Board and Management during the year
 - Refer to attached Annex B on the List of the Acts of the Board and Management for Ratification
5. Amendment of Article I Sections 1, 2, 3, 5 and 7 of the Company's By-Laws

Amendment of Article I Sections 1, 2, 3, 5 and 7 of the Company's By-Laws - A resolution approving the amendment will be presented to the stockholders for approval by the affirmative vote of the stockholders representing at least a majority of the outstanding capital stock.

“RESOLVED, that the Stockholders of the Corporation hereby approve the amendment of Article I Sections 1, 2, 3, 5 and 7 of the Company's By-Laws quoted below:

ARTICLE I MEETING OF STOCKHOLDERS

Section 1. ANNUAL MEETING. – The annual meeting of the stockholders shall be held on the last Tuesday of May in each year at the principal office of the Company, or at any place in the city where the principal office of the Corporation is located as may be fixed by the Board of Directors or the Chairman of the Board and specified in the notice, at such day and hour as the Board or the Chairman shall direct.

Section 2. SPECIAL MEETINGS. – Special meetings of the stockholders may be called by the Chairman of the board or by order of the Board of Directors whenever he or they may deem it necessary, and shall be so called whenever persons holding of record at least one-fourth of outstanding stock of the Company entitled to vote shall in writing request the same. Special meetings shall be held at the principal office of the Company or at any place in the city where the principal office of the Corporation is located as may be specified in the call.

Section 3. VOTING. – At all meetings of the stockholders, each stockholder entitled to vote thereat shall be entitled to one vote for each share held of record by him, which vote may be given personally or by attorney or proxy authorized in writing. The right to vote of stockholders or members may be exercised in person, through remote communication or in absentia. The instrument authorizing an attorney or proxy to act shall be filed with the Office of the Corporate Secretary of the Company not later than eighteen (18) days prior to the scheduled stockholders meeting. In the election of directors each stockholder entitled to vote for directors may accumulate and distribute his votes in accordance with provision of law applicable in such case.

Section 5. NOTICE OF MEETING. – Written notice of the annual and of any special meeting of stockholders shall be given to each stockholder entitled to vote thereat by posting the same in a postage prepaid letter, addressed to each such stockholder at his last known address or at the address last left by him with the Secretary of the Company, or by delivering the same to him personally, or by electronic transmission, at least twenty one (21) days before the meeting.

X X X

The Board of Directors shall fix the record date which will determine the stockholders entitled to notice and attend a scheduled stockholders meeting.

As used herein, electronic transmission means the delivery or transfer of documents, data or information by electronic mail to the electronic address of the stockholders registered in the books of the Corporation, posting in the Philippine Stock Exchange, posting in the Corporation's website or such other recognized means of electronic transfer of data or information.

Section 7. VIRTUAL MEETING. The Corporation may opt to hold fully virtual stockholders' meetings, subject to applicable laws, rules and regulations of the Securities and Exchange Commission, as may be amended from time to time. ”

6. Election of directors for the ensuing year
7. Appointment of external auditors

Amendments of Charter, By-Laws and Other Documents

The amendments to the Company's By-Laws particularly on Article I regarding the meeting of stockholders were proposed to comply with Sections 23, 49, 50 and 52 of the Revised Corporation Code and SEC Memorandum Circular 6 Series of 2020.

Voting Procedures

- (a) Each stockholder shall be entitled to one vote for each share.
- (b) All items in the agenda for approval/ratification of the stockholders require the affirmative vote of at least a majority of the stockholders entitled to vote.
- (c) In the election of directors, each stockholder entitled to vote may cumulate and distribute his votes in accordance with the Corporation Code of the Philippines.
- (d) Voting and counting of votes shall be done through the Company's Stockholders Electronic Registration and Voting Express ("SERVE") platform found at <https://company.meralco.com.ph/corporate-governance/SERVE> (Please refer to attached Annex C on the Requirements And Procedure For Electronic Voting In Absentia and Participation Via Remote Communication for more details.) All votes will be counted and tabulated by the *SERVE* and validated by the Corporate Secretary and Auditors. Inspectors from an independent third party appointed by the Board will also be present to validate the votes. The Corporate Secretary shall report the results of voting during the meeting.

MANAGEMENT REPORT

Business and General Information

1) Business Development

The name of the issuer is Manila Electric Company, also known as *MERALCO* or "the Company", and was duly organized on May 7, 1919 under the laws of the Republic of the Philippines. *MERALCO*, is a private distribution utility ("*DU*"), which 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 end of *MERALCO*'s congressional franchise.

MERALCO has a unit for its participation in retail electricity supply (“*RES*”). The *MERALCO* local *RES*, under the trade name, *MPower*, is a business unit within *MERALCO*.

Consistent with *MERALCO*'s franchise obligations and applicable laws, subsidiary companies were created to meet the Company's specific needs for support, service, or enhancement that may either add value, savings, or profitability to, or improve the efficiency of, the core business. Separately, these subsidiaries also provide services to non-related entities.

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

Meralco Industrial Engineering Services Corporation (“*MIESCOR*”) is a wholly owned subsidiary of *MERALCO* and was formerly its Plant and Engineering Department. *MIESCOR* became an engineering and construction subsidiary on December 5, 1973. For 48 years, *MIESCOR* has provided safe, quality, timely, smart and best value services in the fields of power generation, transmission, distribution, as well as industrial plants, water resources, utility attachment, trading, and telecommunications. Backed by a highly competent technical team, the company has also provided consultancy, engineering, and integration services to major telecommunication service providers.

MIESCOR holds the highest category license of “AAAA”, granted by the Philippine Contractor Accreditation Board (“*PCAB*”), for general engineering, building, electrical and mechanical works, and telecommunication facilities. In addition, *MIESCOR* is ISO 9001:2015 (QMS), ISO 14001:2015 (EMS), and ISO 45001:2018 (OHS) certified for its processes in Engineering, Procurement and Construction services, as audited and verified by certifying body, TUV Rheinland.

MIESCOR, together with its subsidiaries Miescor Builders Inc. (“*MBI*”) and Miescor Logistics Inc. (“*MLI*”), offer a wide array of services in the fields of engineering, procurement, construction, operation, maintenance, distribution services, testing and commissioning, building and facilities management, renovation, vehicle leasing, and fleet management. *MBI* holds a *PCAB* license category “AAA” for electrical works, general engineering and building, foundation and waterproofing works. *MLI* on the other hand holds an “AA” license category for general building services.

In 2020, the Safety and Health Association of the Philippine Energy Sector (“*SHAPES*”) awarded *MIESCOR* seven (7) Corporate Safety and Health Excellence Awards, including a special recognition for initiatives in safeguarding its employees against the *COVID-19* pandemic. *MIESCOR* was also given two (2) recognitions by *MERALCO* for its contribution in the Power Restoration Activities in areas severely affected by Typhoon Rolly and Typhoon Ulysses.

With more than 7,000 employees, the *MIESCOR Group* has brought solid value-for-money propositions to its clients, contributing to the nation's sustainable growth and development, and working on several notable projects in various industries all over the Philippines. Some of its projects include the 500kV Transmission Line for GNPowr Dinginin in Bataan and the Alagao Switching Station for Meralco in Bulacan. These projects are critical to ensure stable and reliable power to homes, businesses, and industries in parts of the Luzon island.”

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

CIS Bayad Center, Inc., (“*Bayad*”) a pioneer in outsourced payment collection service, has now evolved into a full-service fintech company offering a whole suite of financial products and services, available in its extensive physical and digital payment touchpoints. Powering more than 45,000 over-the-counter payment locations and leading online and mobile payment applications, the company recently rebranded as “*Bayad*”, launching its new identity, as well as introducing its revitalized all-in-one per transaction mobile app and new online payment facility, *Bayad App* and *Online*. Providing a seamless onsite-to-online customer experience that caters to both traditional and next generation of payers, *Bayad* cements itself as the authority in payments.

To complement its suite of value offerings, *Bayad* established Customer Frontline Solutions, Inc. (“*CFS*”), and invested in Fieldtech Specialist, Inc. (“*FSI*”). *CFS* specializes in providing outsourced tellering and other administrative services to top corporations in the Philippines, while *FSI* operates as the largest “read-and-bill” or spot-billing field service in the country. Through these institutions, *Bayad* continues to trailblaze the industry as it elevates the Filipinos’ payment experience, at the same time providing end-to-end payment solutions to major institutions and government agencies nationwide.

Meralco Energy, Inc. (“*MServ*”) is a wholly owned subsidiary of *MERALCO*. It is a one-stop shop for energy services and solutions that will guarantee total system efficiency for customer facilities. *MServ*’s scope of activities include Engineering, Procurement and Construction (“*EPC*”)/Installation of Electrical and Mechanical Facilities and Engineering Services. Its expertise is in the *EPC* of electrical facilities such as substations, powerhouses, and transmission lines. *MServ* offers low voltage/load side distribution services capitalizing on its capability to value-engineer electrical designs. *MServ* can also provide energy efficiency and urban services such as energy management system, smart streetlighting, sewage treatment plant, heating, ventilation and air conditioning and lighting solutions.

MServ is a AAA *PCAB*-licensed company and a *DOE*-accredited *Energy Service Company*.

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

Radius delivers its services on an end-to-end full fiber optic network covering more than 5,000 kms in the Mega Manila and nearby provinces, as well as Clark and Cebu, with plans to expand to other major cities in the Visayas and Mindanao region by 2021. It is also one of the first telecommunications companies in the Philippines certified by the Metro Ethernet Forum, a consortium certifying carrier ethernet services globally.

Radius provides world-class data connectivity solutions over its dense fiber optic network, with access nodes strategically located within business districts, industrial and Information Technology (“*IT*”) parks, data centers, and main thoroughfares. Currently, *Radius* affirms its role in nation building by providing leading edge connectivity solution, products and services, not just for the

business sector but also for the consuming public. It aims to deliver an enhanced customer experience in every touchpoint.

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

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

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

Clark Electric Distribution Corporation ("*CEDC*") is 65% owned by *MERALCO*. *CEDC* is a private stock corporation with a fully paid authorized capital stock of ₱700 million, divided into 7 million shares with par value of ₱100 each. To sustain its corporate purposes, the Board of Directors and the stockholders authorized the increase of *CEDC*'s authorized capital stock to ₱1.5 billion, for regulatory approval. *CEDC* is the grantee of a franchise to distribute electric power in the Clark Special Economic Zone ("*CSEZ*"), site of the former U.S. Clark Air Base in the Philippines transformed into a premier economic zone comprising the Clark Freeport Zone ("*CFZ*") and contiguous subzones. In 2021, *CEDC*'s energy sales was posted at 557.6 GWh, a 10.3% increase compared with the 2020 sales. The higher sales was attributed to the resumption of operations of various Clark locators, especially the commercial establishments, with the easing of the COVID 19 restrictions. *CEDC* ended the year with an unaudited net income of ₱235.1 million, total assets of ₱3.4 billion, and a net worth of ₱2.1 billion.

CEDC serves a total of 2,613 customers composed of commercial (54.7%), industrial (43.2%), and residential and streetlight (2.1%) accounts, with a peak demand of 98.7 MW.

CEDC has an aggregate substation capacity of 283 MVA (100 MVA at 230 kV – 69 kV level and 183 MVA at 69 kV – 13.8 kV level), which is more than enough to meet the power requirements of existing and future customers in the next 3 to 5 years, inclusive of projected load growth in the franchise area, especially with the recent upgrading of its Kalaw substation. Over the years, *CEDC* has developed and grown its distribution network valued at ₱1.5 billion at the end of 2021. Its present distribution network consists of 2,008 distribution transformers, 37.8 circuit-km. linear length of sub-transmission lines, 153 circuit-km. and linear length of primary lines.

It continues to expand its asset base and upgrade its distribution network to ensure power adequacy, stability, reliability, and quality at reasonable cost within its franchise area, as well as customer service delight.

For system performance in 2021, *CEDC* excelled in meeting the standards set by the Energy Regulatory Commission (*ERC*). Majority of its system performance indicators were in the reward levels,

such as voltage regulation, system loss, time to process application, and time to connect premises, and none in the penalty level. Unscheduled power interruptions were minimal at 1.7 times a year. System loss for the year was at 2.08%, much lower than the system loss cap and probably the lowest among all the distribution utilities in the country, which translated to a substantial reduction in customer bills by ₱0.1738 per kWh on the average or approximately ₱97 million.

CEDC's projects in the pipeline include the completion of the Mabalacat substation to serve the new Clark International Airport Terminal and to address the growing demand of big developers, like Clark Global Corporation, SM, and Clark Frontier; the installation of additional 8 Remote-Controlled Line Reclosers (RCLRs), as part of CEDC's smart grid initiatives, to minimize power interruptions and expedite power restoration; the acquisition and operation of an Advanced Distribution Management System (ADMS) to further improve system reliability and flexibility through the effective management of outages for the faster identification and isolation of line troubles and swift restoration of power. Among them are projects scheduled for completion in 2021 but were delayed due to the Covid-19 pandemic.

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

MGen's subsidiaries and affiliates are as follows:

A. Operational Projects:

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

B. Investments:

- PacificLight Power Pte. Ltd. ("PLP"):
 - o PLP owns a 2 x 400 MW combined cycle turbine power plant mainly fueled by liquefied natural gas ("LNG") in Jurong Island, Singapore and has been operating since February 2014.
 - o It is the largest Clean Development Mechanism ("CDM") registered project under the United Nations Framework Convention on Climate Change.

- o MGen effectively holds 58% equity interest in PLP.
 - PLP is 70% owned by FPM Power Holdings Ltd. (“FPM”). The remaining 30% interest is directly held by MPG Asia Limited, a wholly owned subsidiary of MGen. FPM is a 60:40 joint venture between First Pacific Company Ltd and MGen.
- Global Business Power Corporation (“GBP”):
 - o GBP with a total gross capacity of 1,091MW, is one of the leading independent power producers in Visayas and Mindanao. On March 31, 2021, MGen completed the acquisition of all shareholdings in GBP.
 - o Subsidiaries and affiliates:
 - Cebu Energy Development Corporation (“CEDC”) owns and operates a 246MW clean coal-fired power plant located in Toledo City, Cebu. It is a consortium composed of GBP, Aboitiz Power Corporation, and Vivant Integrated Generation Corporation. It is 56% beneficially owned by GBP.
 - Toledo Power Co. (“TPC”) owns and operates 60MW and 82MW coal-fired power plant in Daanlungsod, as well as a 40MW diesel-fired power plant in Carmen – all in Toledo City, Cebu. It is 100% beneficially owned by GBP.
 - Panay Energy Development Corporation (“PEDC”) owns and operates 164MW and 150MW clean coal-fired power plants located in Iloilo City, Iloilo. It is 89% beneficially owned by GBP.
 - Panay Power Corporation (“PPC”) owns and operates four diesel-fired power plants. In Iloilo City, it has a 75MW plant and a 20 MW plant. It also has a 7.5MW plant and a 5MW plant in Nabas and New Washington, Aklan. It is 89% beneficially owned by GBP.
 - GBH Power Resources, Inc. (“GPRI”) owns a 7.5MW diesel-fired plant in Pinamalayan, Oriental Mindoro. At present, it is operating for purposes of plant preservation. It is 100% beneficially owned by GBP.
 - Global Energy Supply Corporation (“GES”) is a Retail Electricity Supplier (RES) licensed by the ERC and serves as GBP’s RES arm. It is 100% beneficially owned by GBP.
 - Global Trade Energy Resources (“GTERC”) is primarily engaged in trading thermal coal and consumable commodities for wholesale retail, as well as chartering freight barges and vessels. It is 100% beneficially owned by GBP.
 - PH Renewables, Inc. (“PHRI”) is developing a 75MWac solar plant in Baras, Rizal. Target commercial operations is by third quarter of 2022. It is 54% beneficially owned by GBP.

- Alsons Thermal Energy Corporation (“ATEC”) is a Mindanao-based power generation holding company that has 75% equity interest in Sarangani Energy Corporation (“SEC”). SEC owns and operates a 237MW coal-fired power plant in Maasim, Sarangani. ATEC also has 100% ownership in San Ramon Power, Inc. (“SRPI”). SRPI is developing a 120MW coal-fired power plant in Zamboanga. GBP owns a 50% minus 1 stake in ATEC.
- MGEN Renewable Energy, Inc. (“MGreen”)
 - o MGen incorporated MGreen on June 6, 2019 as MGen’s vehicle for its investments in renewable power generation projects.
 - o Subsidiaries and affiliates:
 - PowerSource First Bulacan Solar, Inc. (“PFBSI”) owns a 55MWac solar power plant in San Miguel, Bulacan. It is a joint venture between MGreen (60%) and PowerSource Energy Holdings Corporation. PFBSI provides clean and renewable power to the Luzon Grid through its 20-year PSA with MERALCO approved by the ERC on December 22, 2016. PFBSI started commercial operations in May 2021.
 - Nortesol III, Inc. (“Nortesol”) is engaged in the development, construction, and operation of power plant and related facilities using renewable energy system and hybrid energy system with target capacity of 110 MW dc/90 MWac. It is 70% owned by MGreen. Nortesol is awaiting the issuance of the leasing policy by the Laguna Lake Development Authority.
 - Lagunasol Corporation (“LagunaSol”) is engaged in the development, construction, and operation of a power plant and related facilities using solar energy. It was incorporated on September 24, 2020 and is 100% owned by MGreen.

C. Development Projects:

- Atimonan One Energy, Inc. (“A1E”):
 - o MGen’s wholly owned subsidiary developing a 2 x 600 MW (net) coal-fired power plant in Atimonan, Quezon.
 - o The Department of Energy (“DOE”) issued A1E a Certificate of Energy Project of National Significance (“CEPNS”) for commerciality under Executive Order No. 30 – a key recognition of the project’s importance to the country’s future energy supply. Transmission right-of-way (“ROW”) acquisition continues to progress well and is almost fully secured.
 - o The project has secured an Environmental Compliance Certificate (“ECC”) by the Department of Environmental and Natural Resources (“DENR”), received a land use conversion for the project site, and gained full control of the project area.
 - o The project has been granted a Foreshore Lease Agreement by the DENR and also received its Certificate of Registration from the BOI as a pioneer project – the first ultra-supercritical coal-fired power plant project in the country.

- Redondo Peninsula Energy, Inc. (“RP Energy”):
 - o RP Energy is a joint undertaking among MGen (50%), Therma Power, Inc. of the Aboitiz Group (25%), and Taiwan Cogeneration International Corp. (25%). RP Energy is developing a 2 x 300 MW (net) circulating fluidized bed, coal-fired power plant in the Subic Freeport Zone.

MSpectrum Inc. (“*Spectrum*”) is a renewable energy (“*RE*”) provider in the Philippines. Spectrum boasts of end-to-end technical capabilities, its synergy with the MERALCO Group of Companies, and support of world-class service and product providers. Its mission is to provide renewable energy solutions to businesses and communities, delight our stakeholders, improve lives, and build a sustainable future. Its vision is to be the most trusted *RE* company in the Philippines; trusted by its customers, the community, its employees, partners and shareholders.

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

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

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

eSakay, Inc. (“*eSakay*”) is a wholly-owned subsidiary of MERALCO. It integrates vital components across electric mobility ecosystems, providing end-to-end and tailor-fit electric vehicle (“*EV*”) and charging infrastructure solutions to private and public sector customers throughout the country, helping them modernize and electrify their transport systems. eSakay propagates sustainable and green mobility solutions – from the supply of *EV* and charging stations to the provision of managed services (i.e. *EV* operatorship, fleet management, and charging services).

In January 2019, eSakay launched its first electric Public Utility Vehicle (“*ePUV*”) initiative with its Makati-Mandaluyong eJeep route, servicing commuters in the two (2) cities through 15 zero-emission, zero-noise, and 100% electric jeeps. This is in full support of the Department of Transportation’s Public Utility Vehicle Modernization Program (“*PUVMP*”).

eSakay also supports multiple private sector clients supplying and/or providing operatorship services across *EV* types – from eVans and eShuttles to eMotorcycles and eScooters. Key initiatives such as these are all part of eSakay’s thrust to help build ‘greener’ roads and ‘bluer’ skies for customers, communities, and the country. eSakay’s vision is to be the country’s top green mobility solutions provider, spurring and driving the Philippines’ journey towards an emissions-free transportation sector. eSakay’s mission is to accelerate the adoption of electric mobility in the

Philippines by providing the highest value tailor-fit and end-to-end EV and charging infrastructure solutions.

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

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

2) Business of Issuer

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

	2021	2020	2019
Residential	36.71%	37.84%	31.13%
Commercial	33.07%	33.89%	39.43%
Industrial	29.91%	27.94%	29.14%
Streetlights	0.31%	0.33%	0.30%
TOTAL	100.00%	100.00%	100.00%

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

MERALCO sources the electricity it distributes from different power suppliers as follows:

	2021	2020	2019
First Gas Power Corporation (“ <i>FGPC</i> ”) – <i>Sta. Rita Power Plant</i> and FGP Corp. (“ <i>FGP</i> ”) – <i>San Lorenzo Power Plant</i>	24.97%	24.95%	26.37%
South Premier Power Corporation (“ <i>SPPC</i> ”) – <i>Ilijan Power Plant</i>	14.57%	13.55%	15.33%
Philippine Electricity Market Corporation (“ <i>PEMC</i> ”) – Wholesale Electricity Spot Market or <i>WESM</i>	9.79%	11.98%	10.34%
San Miguel Energy Corporation (“ <i>SMEC</i> ”) – <i>Sual Coal-fired Plant</i>	10.57%	11.37%	11.18%
San Buenaventura Power Limited (“ <i>SBPL</i> ”)	7.93%	7.92%	4.02%
Masinloc Power Partners Co., Ltd. (“ <i>Masinloc</i> ”)	6.59%	5.97%	7.27%
Quezon Power (Philippines) Limited	6.82%	5.33%	6.72%
AC Energy Philippines, Inc. (“ <i>AC Energy</i> ”)	5.71%	4.84%	-
Therma Luzon, Inc. (“ <i>TLI</i> ”) – <i>Pagbilao Coal Plant</i>	1.18%	4.81%	4.93%
First NatGas Power Corporation (“ <i>FNPC</i> ”)	4.82%	4.24%	6.66%
Sem-Calaca Power Corporation (“ <i>Sem – Calaca</i> ”)	2.90%	3.03%	3.32%
Others	4.15%	2.01%	3.86%
TOTAL	100.00%	100.00%	100.00%

Franchise and Concession Agreements

MERALCO holds a congressional franchise under Republic Act (“*RA*”) No. 9209 effective June 28, 2003. *RA* No. 9209 grants *MERALCO* a 25-year franchise valid through June 28, 2028 to construct, operate, and maintain the electric distribution system in the cities and municipalities of Bulacan, Cavite, Metro Manila, and Rizal and certain cities, municipalities and barangays in the

provinces of Batangas, Laguna, Pampanga, and Quezon. On October 20, 2008, the *ERC* granted *MERALCO* a consolidated Certificate of Public Convenience and Necessity for the operation of electric service within its franchise coverage, effective until the expiration of *MERALCO*'s congressional franchise. The franchise area of *MERALCO* over specified areas in Luzon is approximately 9,685 square kilometers, covering 36 cities and 75 municipalities.

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

The *ERC* granted the following subsidiaries distinct *RES* licenses to operate as affiliate retail electricity suppliers in Luzon and Visayas, namely; Vantage Energy Solutions and Management, Inc. ("*Vantage*"), a wholly owned subsidiary of *MERALCO*; Solvre, Inc., a wholly owned subsidiary of *MERALCO* PowerGen Corporation ("*MGen*"); and MeridianX Inc. ("*MeridianX*"), a wholly owned subsidiary of Comstech Integration Alliance, Inc., on January 10, 2017, February 9, 2017 and February 9, 2017, respectively. Clarion Energy Management Inc. ("*Clarion*"), a wholly owned subsidiary of *Clark Electric*, and Phoenix Power Solutions, Inc. ("*PPSI*"), a wholly owned subsidiaries of *MERALCO*, have submitted the requirements for its *RES* licensing to *ERC*. The approval of its *RES* licensing is pending with the *ERC*.

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

Retail Competition and Open Access ("RCOA")

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

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

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

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

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

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

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

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

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

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

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

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

On November 24, 2016, the *ERC* promulgated a resolution moving the contestability date of end users with an average monthly peak demand of at least one (1) *MW* from December 31, 2016 to February 26, 2017. On January 17, 2017, *MERALCO*, through its counsel, received an SC Resolution dated December 5, 2016, which consolidated the SC *DOE* Petition with the SC *ERC* Petition. The same resolution also denied the Motion for Partial Reconsideration filed by *MERALCO*.

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

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

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

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

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

Government Approval of Principal Products or Services

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

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

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

Government Approval and Regulation

Energy Regulatory Agency

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

COVID-19 Pandemic

The *COVID-19* pandemic has resulted in health-related risks of the employees and business partners that may affect the business operations of the *MERALCO*.

The implementation of community quarantines or lockdowns may hamper the company in conducting its regular business process or activities such as implementation of electrification projects, processing of service applications, meter reading, delivery of bills and disconnection notices, and acceptance of payments. The *COVID-19* pandemic may also lead to corporate image/reputation risks if *MERALCO* will not be able to provide electric services and even financial impact if the affected customers will not be pay their bills.

MERALCO is currently implementing controls to prevent and minimize the spread of the virus among its workforce and partners such as safety and health protocols and flexible work arrangements. It is also implementing various initiatives to ensure the continuity of services such as coordination with government agencies to allow *MERALCO* personnel and partners to work within the lockdown areas, promote the use of digital channels such as online inquiries, online payments to avoid physical contacts between its workforce and the customers.

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

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

The *TRAIN* Law increased the excise tax on coal from ₱10.00 per metric ton to ₱50.00 per metric ton upon its effectivity. This tax is to increase year on year, up to ₱150.00 per metric ton for coal, effective

January 1, 2020. Under *MERALCO*'s PSA with certain generators, should there be any increase in existing charges, fees, taxes, duties assessments, or other similar amounts, a party to the PSA may claim the same as a charge due to change in law, upon *ERC* approval thereof. *MERALCO* and certain generators filed a joint application for approval of recovery of the increase in excise tax as a result of the implementation of the *TRAIN* Law. As at filing date, the parties await the decision of the *ERC*.

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

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

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

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

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

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

Number of Employees

As at December 31, 2021, *MERALCO* has a total of 5,905 regular employees (Managerial/Executive - 1,511, Supervisory – 3,077 and Rank & File – 1,317) covered by two (2) unions, namely, First Line Association of Meralco Supervisory Employees (“*FLAMES*”) and Meralco Employees and Workers Association (“*MEWA*”). The *Company* has existing Collective Bargaining Agreements with these unions expiring on November 30, 2024 (*FLAMES*) and November 30, 2022 (*MEWA*). The *Company* does not expect that there will be significant hiring nor reduction of employees in the next 12 months.

Properties

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

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

As at December 31, 2021, in addition to the head office, *MERALCO* has 10 networks sector offices, 38 business centers and 17 customer centers or extension offices. Its network facilities consist of 131 substations (total capacity of 20,408 MVA), 1,002 circuits (total of 41,529 circuit-kms.) and 209,482 distribution transformers in service (total capacity of 17,689 MVA).

Separately, *CEDC* facilities consist of subtransmission and distribution assets and buildings and improvements located in *CSEZ*. *CEDC* distribution facilities include four (4) substations with a capacity of 100 MVA at 230 kV – 69 kV level and 183 MVA at 69 kV – 13.8 kV level (energize). Its present distribution network consists of 2,008 distribution transformers, 37.8 circuit-km. linear length of sub-transmission lines, 159.12 circuit-km. linear length of primary lines, and 27.82 circuit-km. linear length (111.29 conductor length) of secondary lines.

MGen, through its subsidiaries, Atimonan Land Ventures Development Corporation (“*ALVDC*”) and Calamba Aero Power Corporation (“*CAPC*”), owns several parcels of land for the development and construction of power plant projects. The land of *ALVDC*, located in Atimonan, Quezon, is intended to be used by *A1E* for its 2 x 600 MW (net), ultra super-critical coal-fired plant project while the land of *CAPC* is held for future power plant project in Calamba, Laguna. *A1E* is a subsidiary of *MGen*.

Radius, *MERALCO*'s telecommunications subsidiary, owns 7,635 kilometers of fiber optic cables and telecommunications infrastructure in certain parts of Metro Manila.

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

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

The properties of *MERALCO* and its subsidiaries are free from any mortgage, charge, pledge, lien or encumbrance.

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

The *MERALCO* Group has a *BOD*-approved annual capital expenditure budget which mainly represents planned expenditures for the electric capital projects of the power distribution business. The capital expenditure budget shall address requirements in areas with large concentration of core customers, correct normal deficiencies in the system, stretch loading limits of *MERALCO* facilities and initiate practical and cost-effective projects to correct system deficiencies. These capital expenditures are financed through funds from operating and financing activities of *MERALCO*.

Legal Proceedings

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

1. In the matter of the Joint Application for Approval of the Settlement Agreement between Manila Electric Company ("*MERALCO*") and National Power Corporation ("*NPC*"), with Prayer for Provisional Authority, National Power Corporation and Manila Electric Company, Applicants
ERC Case No. 2004-109
(Filed by NPC and *MERALCO* on April 15, 2004)

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

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

The proceedings in this case are currently suspended, upon motion of *MERALCO*, pursuant to the Energy Regulatory Commission ("*ERC*") Order dated September 14, 2009 in order to obtain ruling from a regular court on issues raised by the Office of the Solicitor General ("*OSG*") which are outside the jurisdiction of the *ERC*.

MERALCO v. NPC, Power Sector Assets and Liabilities Management Corporation ("PSALM"), and the Republic of the Philippines, represented by the Office of the Solicitor General
S.C.A. Case No. 3392, RTC Pasig City, Branch 71
(Filed on November 23, 2009)

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

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

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

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

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

The OSG then filed a Petition for Review with the Supreme Court ("SC") to question the CA Decision. *MERALCO* and *NPC* filed their respective comments thereon while the OSG filed its Reply. *MERALCO* filed a Rejoinder. The parties have filed their respective memoranda. *MERALCO* is awaiting further action of the SC on the matter.

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

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

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

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

NASECORE v. ERC and MERALCO
C.A.-G.R. SP No. 129052
(Petition dated April 2, 2013)

National Association of Electricity Consumers for Reforms, Inc.
(*NASECORE*) v. Energy Regulatory Commission, Manila Electric
Company and the Commission on Audit
G.R. No. 226443
(Petition dated September 30, 2016)

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

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

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

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

3. In the Matter of the Application for Refund of Overcharge (sic)
Distribution Rates in the Residential Rates of ₱39 Billion in 2004-2007.
ERC Case No. 2008-092 CC
(Filed by the Applicant on July 15, 2008)

This application was filed against *MERALCO* by a customer, seeking the refund to residential consumers a total of ₱39 billion on the ground that *MERALCO* allegedly overcharged its distribution costs (distribution, metering, supply and systems loss charges) for the period of 2004-2007. *MERALCO* received the Joint Memorandum filed by the *NASECORE*, Federation of Village Association ("*FOVA*") and Federation of Las Piñas Village Association ("*FOLVA*") on October 22, 2008. *MERALCO* filed its Memorandum on October 24, 2008, while it received the customer's Memorandum on October 28, 2008. On September 14, 2010, the *ERC* issued a Decision dismissing the case. The customer filed a *MR* which is pending resolution by the *ERC*.

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

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

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

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

6. In the Matter of the Application for Approval of: a) *MAP* for *RY* 2014; and b) Translation of the *MAP* for *RY* 2014 into a Distribution Rate Structure for *MERALCO's* Various Customer Classes, with Prayer for the Issuance of a Provisional Authority, *MERALCO*, Applicant.
ERC Case No. 2013-056 RC
(Filed on April 1, 2013)

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

7. In the Matter of the Application for Approval of: a) *MAP* for *RY* 2015; and b) Translation of the *MAP* for *RY* 2015 into a Distribution Rate Structure for *MERALCO*'s Various Customer Classes, with Prayer for the Issuance of a Provisional Authority, *MERALCO*, Applicant.
ERC Case No. 2014-029 RC
(Filed on March 31, 2014)

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

8. In the Matter of the Application for Approval of: a) an Interim Average Rate; and b) Translation of the Interim Average Rate into a Distribution Rate Structure for *MERALCO*'s Various Customer Classes, with Prayer for the Issuance of a Provisional Authority, *MERALCO*, Applicant.
ERC Case No. 2015-112 RC
(Filed on June 11, 2015)

On June 11, 2015, *MERALCO* filed its application for the approval of its proposed Interim Average Rate of ₱1.3939 per *kWh* and translation thereof into rate tariffs by customer category. On July 10, 2015, the *ERC* provisionally approved an Interim Average Rate of ₱1.3810 per *kWh* and the rate translation per customer class, which was reflected in the customer bills starting July 2015. *MERALCO* has completed the presentation of its evidence and has filed its Formal Offer of Evidence ("FOE"). Hearings on the case are ongoing.

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

9. In the Matter of the Application for Approval of: a) Confirmation of the True-Up Calculation of the Actual Weighted Average Tariff ("AWAT") vis-à-vis ERC-Approved Average Rate Implemented for the Lapsed Regulatory Years; and b) Approval of the Final Refund Scheme to Account for the Lapsed Regulatory Years, with Prayer for Provisional Authority, *MERALCO*, Applicant.
ERC Case No. 2020-043 RC
(Filed on December 23, 2020)

On December 23, 2020, *MERALCO* filed an Application for (1) confirmation of the true-up calculation of the Actual Weighted Average Tariff ("AWAT") vis-à-vis ERC-approved average rate for the lapsed regulatory years; and (2) approval of the final refund scheme to account for the lapsed regulatory years. The lapsed regulatory years covered the period from June 30, 2015 to November 2020 when *MERALCO* implemented the Interim Average Rate ("IAR").

MERALCO prayed that a Decision be rendered:

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

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

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

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

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

PSALM vs. ERC, MERALCO and PEMC
G.R. No. 219977
(Petition received on October 27, 2015)

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

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

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

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

In an Order dated July 1, 2013, the *ERC* issued the following clarifications/resolutions:
1) *SPPC* should be included as one of the SGCs against whom a petition for dispute resolution should be filed by *MERALCO*; 2) Amount to be refunded by *NPC* is not only ₱5.2 billion but also the subsequent payments it received from *MERALCO* beyond August 2012 until the actual cessation of

the collection of the 2.98% line loss charge in its *TOU* rates and Petition to be filed by *MERALCO* against the *SGCs* should not only be for the recovery of the amount of ₱4.7 billion but also the subsequent payments beyond August 2012 until the actual cessation of the collection of the 2.98% line loss charge in its *TOU* rates. ; 3) "*SCPC Ilijan*" pertains to *SPPC* instead. Thus, the refundable amount of ₱706 million pertaining to "*SPPC Ilijan*" should be added to *SPPC*'s refundable amount of ₱1.1 billion; 4) Grant the "Motion for Extension" filed by *MERALCO* and directed *MERALCO* to file a petition against the following *SGCs*: *MPPCL*, *APRI*, *TLI*, *SMEC*, *SCPC* and *SPPC*, otherwise, it shall be the one liable to refund the subject amount to its customers; and 5) deny the respective "Motions for Reconsideration" filed by *NPC* and *PSALM*.

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

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

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

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

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

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

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

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

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

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

On January 9, 2014, *MERALCO* received copies of the *ERC's* Comment and the Philippine Electric Power Operators Association's ("*PEPOA*") Comment-in-Intervention. On even date, *MERALCO* received an Order from the SC which directed the Petitioners in said case to implead the *PEMC* and [some] Suppliers with whom *MERALCO* has existing Power Supply Agreements ("*PSAs*"), namely, *Sem-Calaca Power Corporation*, *Masinloc Power Partners Corporation*, *Therma Luzon Inc.*, *San Miguel Energy Corporation*, *South Premiere Power Corporation*, and *Therma Mobile, Inc.*, as necessary parties to the case. Consequently, these additional respondents were required (i) to file

their respective Comments on the Petitions no later than January 20, 2014 and (ii) to attend the preliminary conference set on January 13, 2014, or to file, on or before January 10, 2014, the necessary manifestation should they desire to waive their right to participate in the scheduled oral arguments on January 21, 2014. Incidentally, the SC also denied in said Order the OSG's motion to be excused from filing Comment/s in behalf of the *ERC* and *DOE*. Accordingly, it was directed to file the necessary Comment/s and attend the preliminary conference.

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

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

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

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

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

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

In the meantime, on January 30, 2014, *MERALCO* filed an Urgent Motion with Manifestation with the *ERC*. *MERALCO* manifested that certain statements were made that there have been gross violations of *WESM* rules and regulations as well as protocols on generation offers and plant dispatch by certain *WESM* participants which affected the market clearing prices. *MERALCO* prayed for the issuance of an Order: (a) directing *PEMC* to conduct market re-runs or re-calculations of *WESM* transactions and dispatches, or determine substituted prices or undertake any other appropriate measures to determine and recalculate the true cost of electricity in the *WESM*, during the November to December 2013 supply months (*MERALCO*'s December 2013 to January 2014 billing months) under such rules or guidelines as the *ERC* may deem appropriate and (b) directing *MERALCO* to

subsequently recalculate its pass-through generation charges for the November to December 2013 supply months (*MERALCO's* December 2013 to January 2014 billing months) based on the proper applicable prices for transactions in the *WESM* during the aforementioned months as so determined by the *ERC* based on the results of the market re-runs and/or re-calculations. This re-run is without prejudice to such action or decision the *ERC* may take following compliance of its investigation on whether or not there were acts committed by electric industry participants during the subject period which constitute anti-competitive practices, market power abuse, violation of any law or rules and regulations, or any failure of market competition. *MERALCO* then filed an Urgent Ex-Parte Motion (to Set for Hearing and/or Resolve the Omnibus Motion) on February 5, 2014 praying that its Urgent Motion with Manifestation be immediately set for hearing and resolved. Both pleadings were noted by the *ERC* in its Order dated February 12, 2014.

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

ATTY. ISABELO JOSEPH P. TOMAS II, in his capacity as the Investigating Officer of the Investigatory Unit Constituted by the Honorable Commission pursuant to its Office Order No. 38, Series of 2013 dated December 26, 2013 v. Manila Electric Company (*MERALCO*) and Therma Mobile, Inc. (*TMO*)
ERC Case No. 2015-025 MC
Complaint dated May 9, 2015

Manila Electric Company v. Energy Regulatory Commission and Director Alfredo R. Vergara, Jr. and Engr. Nelson D. Canlas, in their capacity as the Investigating Officers of the Investigatory Unit of the Energy Regulatory Commission
CA-G.R. SP No. 152612
(consolidated with the Petitions filed by *TMO* and *APRI* docketed as CA-GR SP Nos. 152588 and 152613)
Petition filed on September 19, 2017

Energy Regulatory Commission v. Therma Mobile, Inc., Manila Electric Company, and AP Renewables, Inc.
G.R. Nos. 244449 and 244455-56

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The regulated prices shall be calculated based on the load weighted average of the ex-post nodal energy prices and meter quantity of the same trading interval that have not been

administered covering the period December 26, 2012 to September 25, 2013, subject to the payment to the oil-based plants of additional compensation to cover their full fuel and variable operating and maintenance costs, if warranted, following the manner and procedure for computing additional compensation under the Administered Price Determination Methodology.

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

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

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

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

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

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

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

13. SMEC, SPPC, SPDC, SMC Powergen and Petron v. ERC and
PEMC, SNAP-Magat and SNAP-Benguet v. ERC and PEMC
1590 v. ERC and PEMC
APRI v. ERC, Team Energy v. ERC and PEMC

Sem Calaca v. ERC and PEMC
MPPCL v. ERC
TLI v. ERC
TMO v. ERC
Northwind v. ERC
CA-GR SP No. 133506, 138056, 138105, 138120, 138121, 138151,
138188, 138223, 138272, 138470
Court of Appeals

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In a Manifestation dated February 2, 2016, *MERALCO* informed the *ERC* that it was constrained to implement four (4) of its proposed major *CAPEX* projects subject of this Application. On June 15, 2016, *MERALCO* received a copy of the *ERC* Decision dated April 12, 2016 which

partially approved *MERALCO's CAPEX program for RY 2016* amounting to ₱15.4 billion, subject to certain conditions. An intervenor has filed a Motion for Reconsideration of the Decision which is pending before the *ERC*. On July 25, 2016, *MERALCO* has filed its opposition to the Motion for Reconsideration. The *ERC* has yet to rule on the Motion for Reconsideration.

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

ERC Case No. 2016-017 RC

(Filed on March 8, 2016)

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

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

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

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

ERC Case No. 2016-161 RC

(Filed on August 15, 2016)

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

17. *In the Matter of the Application for Authority to Implement the Proposed Capital Expenditure (CAPEX) Program for RY 2018, with Prayer for Provisional Authority, Manila Electric Company, Applicant*
ERC Case No. 2017-027 RC
(Filed on April 3, 2017)

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

18. *In the Matter of the Application for Authority to Implement the Proposed Capital Expenditure (CAPEX) Program for RY 2019, with Prayer for Provisional Authority, Manila Electric Company, Applicant*
ERC Case No. 2018-032 RC
(Filed on April 30, 2018)

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

19. *In the Matter of the Application for Authority to Implement the Proposed Capital Expenditure (CAPEX) Program for RY 2020, with Prayer for Provisional Authority, Manila Electric Company, Applicant*
ERC Case No. 2019-050 RC
(Filed on July 1, 2019)

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

20. *In the Matter of the Application for Authority to Implement the Proposed Capital Expenditure (CAPEX) Program for RY 2021, with Prayer for Provisional Authority, Manila Electric Company, Applicant*
ERC Case No. 2020-028 RC
(Filed on September 28, 2020)

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

21. *In the Matter of the Application for Authority to Implement the Proposed Capital Expenditure (CAPEX) Program for RY 2022, with Prayer for Provisional Authority, Manila Electric Company, Applicant*
ERC Case No. 2021-060 RC
(Filed on July 27, 2021)

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

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

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

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

23. *MERALCO v. DOE and ERC*
Special Civil Action No. 4149-PSG
For: Petition for Declaratory Relief with Application for Temporary
Restraining Order and/or Writ of Preliminary Injunction
(Filed on May 27, 2016)

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

DOE v. RTC Pasig and MERALCO
G.R. No. 226800

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

ERC v. RTC Pasig and MERALCO
G.R. No. 225141

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

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

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

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

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

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

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

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

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

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

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

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

In the Matter of the Petition for the Adoption of the Proposed Issues Paper and Revised Rules for Setting Distribution Wheeling Rates for the 5th Regulatory Period of the First Entry Group under Performance Based Regulation, Manila Electric Company, Petitioner

ERC Case No. 2018-008 RM
Filed on December 21, 2018

Considering the approaching end of *MERALCO*'s 4th *RP* on June 30, 2019, *MERALCO* filed a Petition for the Adoption of the Proposed Issues Paper and Revised Rules for Setting Distribution Wheeling Rates for the 5th *RP* of the First Entry Group Under Performance Based Regulation on December 21, 2018. The *ERC* has yet to issue any order or set the case for hearing.

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

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

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

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

In a Notice dated 15 March 2021, the *ERC* posted the proposed Rules for Setting Distribution Wheeling Rates (*RDWR*) (2nd Draft), and Regulatory Reset for the July 2022 to June 2026 Fifth Regulatory Period for the First Entry Group of Privately Owned Distribution Utilities subject to

Performance Based Regulation, Issues Paper (2nd Draft) for comments of all interested parties. MERALCO submitted its comments to the draft.

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

26. *In the Matter of the Application for Approval of the Annual Revenue Requirement and Performance Incentive Scheme for the Fifth Regulatory Period (2023 to 2026) in Accordance With the Provisions of the Rules for Setting Distribution Wheeling Rates (RDWR), As Amended, With Prayer For Provisional Authority*
ERC Case No. 2022-029 MC
Docketed on March 16, 2022

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

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

In compliance with the provisions of the Public Service Act, on October 28, 2019, MERALCO filed an application, with prayer for provisional authority, for continuing authority to (a) issue bonds or other evidence of indebtedness; and (b) whenever necessary, to mortgage, pledge or encumber any of its property to any creditor in connection with its authority to issue bonds or any other evidence of long-term indebtedness. Hearings have been completed. On December 10, 2020, MERALCO submitted its Formal Offer of Evidence. On January 25, 2021, MERALCO filed a Manifestation with Urgent Motion for Resolution. MERALCO is awaiting further action of the ERC on the matter.

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

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

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

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

ERC Case No. 2020-001 SC

Energy Regulatory Commission

Show Cause Order received June 2, 2020

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

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

ERC Case No. 2020-106 SC

Energy Regulatory Commission

Show Cause Order received December 15, 2020

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

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

meeting to clarify *MERALCO*'s submission and discuss the Honorable Commission's initial review thereon on November 23, 2020. Similarly, the Honorable Commission informed *MERALCO* that it shall allow the submission of additional information as required during the meeting as well as answers to the clarificatory questions no later than five (5) business days from the date of the clarificatory meeting.

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

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

Management's Discussion and Analysis of Financial Position and Results of Operations

The following discussion and analysis of financial position and results of operations of Manila Electric Company ("*MERALCO*") and its subsidiaries, collectively referred to as the "*MERALCO Group*" should be read in conjunction with the audited consolidated financial statements as at December 31, 2021 and 2020 and for the years ended December 31, 2021, 2020 and 2019. The consolidated financial statements have been prepared in compliance with the Philippine Financial Reporting Standards ("*PFRSs*"). *PFRS* includes statements named *PFRS* and Philippine Accounting Standards, including Interpretations issued by the *PFRS* Council.

The financial information appearing in this report and in the accompanying audited consolidated financial statements is presented in Philippine peso, *MERALCO Group*'s functional and presentation currency, as defined under *PFRS*. All values are rounded to the nearest million pesos, except for earnings per share ("*EPS*") data. The Exchange rate used to translate U.S. dollars to Philippine peso in this report and in the accompanying audited consolidated financial statements is US\$1.00 to ₱51.00, the closing rate as at December 31, 2021 quoted through the Philippine Dealing System.

Financial Highlights and Key Performance Indicators

	As at December 31		Increase (Decrease)	
	2021	2020	Amount	%
Condensed Statements of Financial Position				
Total assets	₱483,482	₱390,267	₱93,215	24
Current assets	137,019	128,382	8,637	7
Cash and cash equivalents	55,007	50,912	4,095	8
Equity attributable to equity holders of the parent	95,204	79,237	15,967	20
Total debt	90,668	40,144	50,524	126
Current liabilities	161,570	142,601	18,969	13

	For the Years Ended December 31			% Change	
	2021	2020	2019	2021 vs. 2020	2020 vs. 2019
Condensed Statements of Income					
Revenues	₱318,547	₱275,304	₱318,315	16	(14)
Costs and expenses	289,208	254,313	287,076	14	(11)
Other income, net of expenses	3,656	1,424	676	157	111
Income before income tax	32,995	22,415	31,915	47	(30)
Net income	24,083	16,149	23,372	49	(31)
Net income attributable to equity holders of the parent	23,498	16,316	23,285	44	(30)
Core net income ¹	24,608	21,711	23,832	13	(9)
EPS attributable to equity holders of the parent	20.85	14.48	20.66	44	(30)
Core EPS ²	21.83	19.26	21.15	13	(9)

	For the Years Ended December 31			% Change	
	2021	2020	2019	2021 vs. 2020	2020 vs. 2019
Condensed Statements of Cash Flows					
Net cash provided by operating activities	43,181	29,872	42,176	45	(29)
Net cash provided by (used in)					
investing activities	(49,467)	2,776	(20,393)	(1,882)	(114)
Net cash provided by (used in) financing activities	10,861	(20,291)	(20,247)	(154)	—
Operational Data					
Number of customers (in thousands):					
Residential	6,839	6,575	6,339	4	4
Commercial	555	541	528	3	2
Industrial	11	11	11	—	—
Streetlight	5	5	5	—	—
Electricity sales volume (in GWh)	46,073	43,572	46,871	6	(7)
<u>System loss (in percentage) :</u>					
MERALCO	5.85	6.08	5.44	(4)	10
Clark Electric Distribution Corporation ("Clark Electric")	2.08	2.10	2.15	(1)	(2)

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

² Core net income divided by the outstanding common shares.

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

Financial KPI	Definition	For the Years Ended December 31		
		2021	2020	2019
Core EBITDA	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	44,581	35,287	38,026
Debt to Equity	$\frac{\text{Total debt}}{\text{Equity attributable to equity holders of the parent}}$	0.95	0.51	0.49
Current Ratio	$\frac{\text{Current assets}}{\text{Current liabilities}}$	0.85	0.90	0.92
Profit Margin	$\frac{\text{Net income attributable to equity holders of the parent}}{\text{Revenues}}$	7%	6%	7%
Return on Equity	$\frac{\text{Net income attributable to equity holders of the parent}}{\text{Equity attributable to equity holders of the parent}}$	25%	21%	28%
Asset Turnover	$\frac{\text{Revenues}}{\text{Average total assets}}$	73%	0.74	0.92

OVERVIEW

MERALCO is the Philippines' largest electric power distribution company, with franchise area covering 9,685 square kilometers. It provides power to almost 7.3 million customer accounts in 36 cities and 75 municipalities, which include Metro Manila, all of the provinces of Rizal, Cavite and Bulacan, and parts of the provinces of Pampanga, Batangas, Laguna and Quezon. Turnover of business establishments in the franchise area accounts for more than 50% of the country's Gross Domestic Product ("GDP").

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

- Power

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

Electricity distribution – This is principally electricity distribution and supply of power on a pass-through basis covering all captive customers in the *MERALCO* and Clark Electric Distribution Corporation ("*Clark Electric*") franchise areas in Luzon. Electricity distribution within the *MERALCO* franchise area accounts for approximately 55% of the power requirements of the country. *Clark Electric*'s franchise area covers Clark Special Economic Zone ("*CSEZ*") and the sub-zones.

Clark Electric, a 65%-owned subsidiary of *MERALCO*, holds the power distribution franchise for the *CSEZ* in Clark, Pampanga. The *Clark Electric* franchise area covers 320 square kilometers and serves 2,585 customer accounts as at December 31, 2021. *Clark Electric* is a registered private distribution utility with a franchise granted by Clark Development Corporation ("*CDC*") to own, operate and maintain a power distribution system and to distribute power exclusively within its franchise area, which includes the Clark Freeport Zone and the sub-zone. The Bases Conversion and Development Authority ("*BCDA*") confirmed that the power distribution franchise of *Clark Electric* within the entire *CSEZ* is until July 30, 2047.

Shin Clark Power Holdings, Inc. ("*Shin Clark*") is a consortium consisting of *MERALCO*, 60% and Axia Power Holdings Philippines Corporation (a wholly-owned subsidiary of Marubeni Corporation), KPIC Netherlands BV [a wholly-owned subsidiary of the Kansai Electric Power, Inc. ("*Kansai*")], and Chubu Electric Power Co., Inc. ("*Chubu*"), collectively holding 40%. *Shin Clark* manages the development, operation, and maintenance of the electric power distribution system in the 9,450-hectare New Clark City located within the Clark Special Economic Zone in the towns of Capas and Bamban, Tarlac, through a Joint Venture Agreement with the Bases Conversion and Development Authority ("*BCDA*"). As at February 28, 2022, the documents for the incorporation of the joint venture company with *BCDA* has been endorsed by the Governance Commission for government owned and controlled corporation and is awaiting approval and signature of the President of the Republic of the Philippines.

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

MERALCO PowerGen Corporation (“MGen”) owns 51% interest in San Buenaventura Power Ltd. Co. (“SBPL”) which operates a 455 MW (net) supercritical coal-fired plant in Mauban, Quezon. In 2021, it delivered a total of 3,234 GWh to MERALCO under an ERC-approved Power Supply Agreement (“PSA”).

Global Business Power Corporation (“GBPC”), a wholly owned subsidiary of MERALCO, is the largest independent power producer in the Visayas. GBPC owns 747 MW (net) of operating coal and diesel-fired power plants in the Visayas and Mindoro Island. GBPC also has a 50% interest in Alsons Thermal Energy Corporation (“ATEC”), which holds a 75% interest in Sarangani Energy Corporation (“Sarangani Energy”). Sarangani Energy operates a 2 x 105 MW (net) CFB plant in Maasim, Sarangani.

On June 30, 2021, GBPC broke ground for its 115 MWdc solar plant in Baras, Rizal. The plant is expected to start commercial operations in September 2022.

MGen also has a 28% indirect interest in PacificLight Power Pte Ltd. (“PacificLight Power”). In July 1, 2021, it acquired a 30% direct interest in PacificLight Power, increasing its effective ownership to 58%. PacificLight Power owns and operates a 2 x 400 MW (gross) combined cycle turbine power plant mainly fueled by liquefied natural gas (“LNG”) in Jurong Island, Singapore.

MGen is developing a 2 x 600 MW (net) coal-fired power plant in Atimonan, Quezon through its wholly-owned subsidiary, Atimonan One Energy, Inc. (“A1E”). A1E is currently assessing its next course of action following the unfortunate outcome of its participation in the Competitive Selection Process (“CSP”) conducted by MERALCO on January 27, 2021. In the meantime, advance site preparations and early engineering works are being done to meet the target operations date.

A1E is classified as a Committed Project of National Significance by the Department of Energy (“DOE”) and has the requisite Department of Environment and Natural Resources (“DENR”) approvals and permits. It is also recognized by the Board of Investments (“BOI”) as a registered Pioneer Project.

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

MGreen has 70% equity interest in Nortesol III, Inc. (“Nortesol”), a company engaged in the development, construction and operation of power plant and related facilities using renewable energy system and hybrid energy system. Nortesol is developing a 110 MWdc/90MWac floating solar facility in Laguna de Bay while awaiting the leasing policy from the Laguna Lake Development Authority (“LLDA”).

LagunaSol Corporation, a 100% owned subsidiary of MGreen was incorporated on September 24, 2020 to engage in the development, construction and operation of a power plant and related facilities using solar energy.

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

The *ERC* granted the following subsidiaries distinct *RES* licenses to operate as retail electricity suppliers within Luzon and Visayas: *Vantage*, a wholly owned subsidiary of *MERALCO*; *Solvre*, Inc. (“*Solvre*”), a wholly owned subsidiary of *MGen*; *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. On April 21, 2021, *Phoenix Power Solutions*, Inc. (“*Phoenix Power*”), a wholly owned subsidiary of *MERALCO*, was issued a *RES* license by the *ERC* while *Vantage RES* renewal is on-going. *Clarion Energy Management* Inc. (“*Clarion*”), a wholly owned subsidiary of *Clark Electric*, submitted the requirements for its *RES* licensing to *ERC*. As at February 28, 2022, the approval of its *RES* licensing is pending with the *ERC*. *Global Energy Supply Corporation* (“*GESC*”), a wholly owned subsidiary of *GBPC*, was issued a *RES* license by the *ERC* on September 12, 2011 to September 12, 2021. On September 10, 2021, the *RES* license of *GESC* was renewed for another five (5) years beginning September 13, 2021.

- Other Services

The other services segment is involved principally in electricity-related services, such as: electro-mechanical engineering, construction, consulting and related manpower services, e-transaction and bills collection, telecommunications services, rail-related operations and maintenance services, insurance and re-insurance, e-business development, power distribution management, energy systems management, harnessing renewable energy, electric vehicle and charging infrastructure solutions. These services are provided by *MIESCOR*, *Miescor Builders*, Inc. (“*MBI*”), and *Miescor Logistics*, Inc. (“*MLI*”) (collectively known as “*MIESCOR Group*”), *Corporate Information Solutions*, Inc. (“*CIS*”), *CIS Bayad Center*, Inc. (“*Bayad*”) and *Customer Frontline Solutions*, Inc. (“*CFSI*”) (collectively referred to as “*CIS Group*”), *eMeralco Ventures*, Inc. (“*e-MVI*”), *Paragon Vertical Corporation* (“*Paragon*”) and *Radius Telecoms*, Inc. (“*Radius*”) (collectively referred to as “*e-MVI Group*”), *MRail*, Inc. (“*MRail*”), *Comstech*, *eSakay*, Inc. (“*eSakay*”), *Lighthouse Overseas Insurance Limited* (“*LOIL*”), *Meralco Financial Services*, Inc. (“*Finserve*”), *Meralco Energy*, Inc. (“*MServ*”) and *MSpectrum*, Inc. (“*Spectrum*”).

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

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

RESULTS OF OPERATIONS

The tables below summarize the consolidated results of operations and the contribution of each business segment to *MERALCO Group's* revenues, costs and expenses, other income, and net income for the years ended December 31, 2021, 2020 and 2019.

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

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

For the Year Ended December 31, 2019				
	Power	Other Services	Inter-segment Transactions	Consolidated
	<i>(Amounts in millions)</i>			
Revenues	₱310,098	₱11,299	(₱3,082)	₱318,315
Costs and expenses	281,004	9,233	(3,161)	287,076
Other income (expense) - net	1,074	(319)	(79)	676
Net income attributable to equity holders of the parent	22,314	1,058	(87)	23,285

2021 compared with 2020

REVENUES

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

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

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

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

Power

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

Revenues of the power segment in 2021 was at ₱309,238 million, ₱41,292 million or 15% higher compared with 2020 mainly due to: (a) ₱23,203 million power generation revenues resulting from consolidation of *GBPC* beginning April 1, 2021, and (2) the higher energy sales volumes from electricity distribution and *RES*.

In 2021, *MERALCO's* average retail rate increased slightly by 4% to ₱8.24 per kWh from ₱7.96 per kWh due to higher pass-through charges. Generation and transmission charges, which accounted for 67% of the total retail price, went up by 7%. Feed-in-Tariff Allowance ("*FIT-All*") increased by 77% due to the implementation of a higher *FIT-All* rate of ₱0.0983 per kWh starting January 2021 from ₱0.0495 per kWh. Meanwhile, subsidies, taxes and other charges, which accounted for 14% of the retail price, were stable over the 12-month period.

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

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

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

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

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

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

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

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

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

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

Other Services

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

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

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

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

COSTS AND EXPENSES

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

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

Power

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

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

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

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

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

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

Contracted services amounted to ₱7,687 million, higher by ₱1,061 million compared with 2020. Contracted services include information system/IT services, cloud subscriptions, and customer-related expenses such as billings and collections, meter reading, and messengerial services. The increase was driven by the resumption of disconnecting services for customers with overdue accounts in 2021 resulting in higher collection and messengerial services. There was also an increase in maintenance activities for the distribution facilities amid easing quarantine restrictions.

Coal and fuel expenses pertain to costs incurred by the power generation companies for the nine months ended December 31, 2021, with the consolidation of *GBPC* beginning April 1, 2021. Other

cost and expense items of *GBPC* beginning April 1, 2021 are included in the consolidated costs and expenses for the year ended December 31, 2021.

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

Other Services

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

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

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

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

OTHER INCOME (EXPENSES)

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

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

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

Power

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

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

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

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

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

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

NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

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

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

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31, 2021	December 31, 2020	Increase (Decrease)	
			Amount	%
	<i>(Amounts in millions)</i>			
ASSETS				
Noncurrent Assets				
Utility plant and others	₱225,779	₱163,009	₱62,770	39
Investments in associates and interests in joint ventures	23,450	15,688	7,762	49
Investment properties	1,496	1,499	(3)	—
Deferred tax assets - net	27,226	28,943	(1,717)	(6)
Intangible assets	15,387	2,233	13,154	589

	December 31, 2021	December 31, 2020	Increase (Decrease)	
			Amount	%
Financial and other noncurrent assets	53,125	50,513	2,612	5
Total Noncurrent Assets	346,463	261,885	84,578	32
Current Assets				
Cash and cash equivalents	55,007	50,912	4,095	8
Trade and other receivables	45,013	58,120	(13,107)	(23)
Inventories	9,817	5,484	4,333	79
Financial and other current assets	27,182	13,866	13,316	96
Total Current Assets	137,019	128,382	8,637	7
Total Assets	₱483,482	₱390,267	₱93,215	24
EQUITY AND LIABILITIES				
Equity attributable to equity holders				
of the parent	₱95,204	₱79,237	₱15,967	20
Non-controlling interests	10,239	1,494	8,745	585
Total Equity	105,443	80,731	24,712	31
LIABILITIES				
Noncurrent Liabilities				
Interest-bearing long-term financial liabilities -				
net of current portion	52,720	14,809	37,911	256
Customers' deposits - net of current portion	30,901	29,844	1,057	4
Long-term employee benefits	10,257	15,327	(5,070)	(33)
Provisions	13,554	17,065	(3,511)	(21)
Refundable service extension costs -				
net of current portion	5,334	6,632	(1,298)	(20)
Deferred tax liabilities - net	5,722	316	5,406	1,711
Other noncurrent liabilities	97,981	82,942	15,039	18
Total Noncurrent Liabilities	216,469	166,935	49,534	30
Current Liabilities				
Notes payable	28,834	23,373	5,461	20
Trade payables and other current liabilities	119,056	111,261	7,795	14
Customers' refund	2,929	2,949	(20)	(1)
Income tax payable	1,637	3,056	(1,419)	(46)
Current portion of interest-bearing long-term				
financial liabilities	9,114	1,962	7,152	365
Total Current Liabilities	161,570	142,601	18,969	13
Total Liabilities	378,039	309,536	68,503	22
Total Liabilities and Equity	₱483,482	₱390,267	₱93,215	24

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

Utility Plant and Others

The ₱62,770 million increase in utility plant and others reflects the consolidation of GBPC's net property, plant and equipment amounting to ₱47,218 million as at December 31, 2021, and the completed and on-going construction of electric distribution-related facilities, and upgrade and major rehabilitation of existing electrical facilities and IT related assets, most of which represents regulated capital expenditures by ERC's definition, totaling to about ₱26,559 million, net of depreciation and amortization of ₱10,846 million for the year.

Investments in Associates and Interests in Joint Ventures

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

Deferred Tax Assets

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

Intangible Assets

Intangible assets from the acquisition of GBPC based on provisional purchase price allocation, accounted for ₱13,833 million, of the total of ₱15,837 million as of December 31, 2021.

Financial and Other Noncurrent Assets

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

Trade and Other Receivables

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

Inventories

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

Financial and Other Current Assets

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

Interest-bearing long-term financial liabilities

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

Long-term employee benefits

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

Provisions

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

Other Noncurrent Liabilities

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

Notes Payable

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

Trade Payables and Other Current Liabilities

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

2020 compared with 2019

REVENUES

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

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

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

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

Power

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

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

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

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

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

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

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

Consolidated energy sales volumes, which include volumes distributed by *Clark Electric* of 505 *GWh* were at 43,572 *GWh*, 7% lower compared with 2019 volume. With the easing of community

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

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

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

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

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

Other Services

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

COSTS AND EXPENSES

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

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

Power

The details of costs and expenses are summarized in the following table:

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

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

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

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

Contracted services include information system/IT services, cloud subscriptions, and customer-related expenses such as billings and collections, meter reading, and messengerial services. The increase in contracted services is due to the convenience fees by third party payments shouldered by *MERALCO* and increase in call center seats to handle customer concerns during the pandemic. This was offset by lower disconnection/reconnection services with the suspension of service disconnection through December 31, 2020.

Other expenses consist of business taxes and permits, provision for probable losses and expenses from claims, provision for expected credit losses, costs of materials, transportation, and other corporate expenses. The higher provision for expected credit losses were driven by uncollected

receivables as *DUs* were directed to extend payment terms and suspend disconnection of services.

Other Services

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

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

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

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

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

OTHER INCOME (EXPENSE)

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

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

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

Power

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

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

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

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

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

NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

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

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

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31, 2020	December 31, 2019	Increase (Decrease)	
			Amount	%
	<i>(Amounts in millions)</i>			
ASSETS				
Noncurrent Assets				
Utility plant and others	₱163,009	151,441	₱11,568	34
Investments in associates and interests in joint ventures	15,688	14,965	723	40
Investment properties	1,499	1,502	(3)	—
Deferred tax assets - net	28,943	23,440	5,503	(48)
Financial and other noncurrent assets	52,746	47,982	4,764	8
Total Noncurrent Assets	261,885	239,330	22,555	29
Current Assets				
Cash and cash equivalents	50,912	38,262	12,650	(14)
Trade and other receivables	58,120	32,608	25,512	3
Inventories	5,484	4,558	926	57
Financial and other current assets	13,866	42,261	(28,395)	103
Total Current Assets	128,382	117,689	10,693	9
Total Assets	₱390,267	₱357,019	₱33,248	22
EQUITY AND LIABILITIES				
Equity attributable to equity holders of the parent	₱79,237	84,230	(₱4,993)	2
Non-controlling interests	1,494	1,011	483	627
Total Equity	80,731	85,241	(4,510)	14
LIABILITIES				
Noncurrent Liabilities				
Interest-bearing long-term financial liabilities - net of current portion	14,809	12,745	2,064	263
Customers' deposits - net of current portion	29,844	28,247	1,597	3
Long-term employee benefits	15,327	8,882	6,445	22
Provisions	17,065	17,356	(291)	(11)
Refundable service extension costs - net of current portion	6,632	6,932	(300)	(77)
Deferred tax liabilities - net	316	84	232	1,361
Other noncurrent liabilities	82,942	69,971	12,971	12
Total Noncurrent Liabilities	166,935	144,217	22,718	30

Current Liabilities				
Notes payable	23,373	23,393	(20)	20
Trade payables and other current liabilities	111,261	93,680	17,581	14
Customers' refund	2,949	3,032	(83)	(1)
Income tax payable	3,056	2,341	715	(41)
Current portion of interest-bearing long-term financial liabilities	1,962	5,115	(3,153)	351
Total Current Liabilities	142,601	127,561	15,040	18
Total Liabilities	309,536	271,778	37,758	25
Total Liabilities and Equity	₱390,267	₱357,019	₱33,248	21

CHANGES IN FINANCIAL POSITION

On December 17, 2020, *MGen*, through *MGreen*, acquired 20% equity in *First Bulacan*, increasing *MGreen*'s equity interest in *First Bulacan* to 60%. As such, *MERALCO*'s consolidated statement of financial position as at December 31, 2020 included the consolidation of *First Bulacan*'s assets and liabilities. In 2019, *MERALCO* accounted for its 40% investment in *First Bulacan* using equity method of accounting.

Utility Plant and Others

The ₱11,568 million increase in utility plant and others reflects completed and on-going construction of electric distribution-related facilities, and upgrade and major rehabilitation of existing electrical facilities and *IT* related assets, totaling to about ₱19,937 million, net of depreciation and amortization of ₱8,065 million for the year. As at December 31, 2020, *First Bulacan*'s property, plant and equipment included in this account amounted to ₱2,582 million.

Investments in Associates and Interests in Joint Ventures

The movements in this account were (a) additional equity infusion of ₱466 million (b) equity in net earnings of ₱1,233 million largely coming from *SBPL*, and (c) dividends received of ₱476 million.

Deferred Tax Assets

The additional deferred tax assets mainly relate to provisions recognized in 2020.

Financial and Other Noncurrent Assets

The increase in other noncurrent assets was driven by investments in financial assets at *FVOCI* and additional under-recoveries of pass-through generation charges.

Cash and Cash Equivalents

Cash and cash equivalents were lower with the build-up of receivables until end of 2020.

Trade and Other Receivables

As *MERALCO* was directed to extend payment terms to its customers and suspend disconnection of services during the pandemic, significant amount of receivables remained outstanding at end of 2020. Provision for expected credit losses of ₱1.9 billion was also recognized in 2020.

Financial and Other Current Assets

Short-term investments and investments in debt securities at amortized cost were used to partially fund *MERALCO*'s operations and capital expenditures.

Interest-bearing Long-term Financial Liabilities

Interest-bearing long-term financial liabilities totaled ₱14,809 million as at December 31, 2020, ₱2,604 million higher than 2019. The increase in this account was attributed to long-term financial liabilities of *First Bulacan*.

Other Noncurrent Liabilities

Other noncurrent liabilities pertain to liabilities to customers equivalent to the value of customer-funded assets, generation and transmission charge over recoveries resulting from the lag in the billings and recovery from customers, and estimated liabilities for regulatory and tax matters, among others. Additional obligations were recognized in 2020.

2019 compared with 2018

REVENUES

The following table shows the composition of *MERALCO Group's* consolidated revenues for the years ended December 31, 2019 and 2018 by business segment.

	2019		2018		Increase/Decrease	
	Amount	%	Amount	%	Amount	%
(Amounts in millions)						
Power	₱310,098	97	₱295,389	97	₱14,709	5
Other services	11,299	4	11,373	4	(74)	(1)
Inter-segment transactions	(3,082)	(1)	(2,308)	(1)	(774)	34
Total	₱318,315	100	₱304,454	100	₱13,861	5

Consolidated electric revenues, which accounted for 97% of total revenues in 2019, increased by 5% as a result mainly of higher sales volume and higher pass-through generation charges.

Non-electric revenues, which accounted for 4% of consolidated revenues in 2019, consist largely of revenues from non-electric operating subsidiaries.

Power

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

MERALCO's average generation charge in 2019 was ₱5.22 per *kWh*, up by 2% compared with the ₱5.12 per *kWh* in 2018. Although *WESM* prices were higher resulting from higher tight supply conditions in Luzon grid from March to July in 2019, this was offset by lower fuel prices and peso appreciation due to reduction in Power Supply Agreement ("PSA") and Independent Power Producers ("IPP") charges. Year 2019 had 51 Yellow Alerts and 15 Red Alerts in Luzon compared with 7 Yellow Alerts in 2018.

Distribution revenues, which accounted for 23% of total electric revenues, increased by 6% mainly due to growth in energy sales volume and higher average distribution charge of ₱1.41 per *kWh* in 2019 from ₱1.40 per *kWh* in 2018.

MERALCO's 12-month moving average system loss ("SL") rate was 5.54% as at December 31, 2019. This is 1.71 percentage points below the revised SL regulatory cap of 7.25% promulgated under Resolution 20, Series of 2017 of the ERC. *Clark Electric's* 12-month moving average SL rate was at 2.15%, 5.10 percentage points below the regulatory cap and 0.62 percentage point lower than last year.

The following table summarizes the customer count as at December 31, 2019 and 2018 and the corresponding electric consumption per customer class for the years ended December 31, 2019 and 2018:

Customer Class	No. of Customers (in thousands)		Electricity Sales (in GWh)		% Change	
	2019	2018	2019	2018	No. of Customers	Electricity Sales
Residential	6,339	6,086	14,589	13,555	4	8
Commercial	528	514	18,483	17,463	3	6
Industrial	11	10	13,659	13,156	10	4
Streetlights	5	5	140	139	—	1
Total	6,883	6,615	46,871	44,313	4	6

Consolidated energy sales volume grew by 6% to 46,871, which includes volume distributed by *Clark Electric* of 585 GWh. The volume of *Clark Electric* on a standalone basis grew by 11% over 2018. The combined contributions of MERALCO and *Clark Electric* came from all customer sectors with consolidated residential volume finishing strongest with an 8% growth and providing a total of 14,589 GWh, accounting for 31% of total volume.

MERALCO's customer base grew 4% ending the year with a total of 6.9 million customer accounts for a net 268,000 new customers accounts from 6.6 million at the end of 2018. The combined contributions of MERALCO and *Clark Electric* came from all customer sectors with consolidated residential volume finishing strongest with an 8% growth. Residential volume growth was most notable in the provinces of Batangas, Quezon, Cavite, Bulacan and Pampanga. Average temperature for the year was slightly higher at 28.2°C (compared with 27.9°C in 2018) while inflation was at a low of 2.5%.

As at December 31, 2019, combined volume of MERALCO's local and affiliate RES entities within the franchise area grew 17% compared with 2018 as its customer count grew to 449. Together, the RES units have 43% of the market in terms of volume. Margins, however, are tighter as other RESs have continuously competed on price, fixing contracts over two (2) to three (3) years.

Other Services

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

(e) eSakay with its sales of e-vehicles to electric vehicles expansion enterprises, Makati-Mandaluyong route operations, and e-shuttle services.

COSTS AND EXPENSES

Consolidated costs and expenses for the year ended December 31, 2019 amounted to ₱287,076 million, higher by ₱11,064 million compared with ₱276,012 million in 2018. The following table shows the breakdown of consolidated costs and expenses for the years ended December 31, 2019 and 2018 by business segment:

	2019		2018		Increase	
	Amount	%	Amount	%	Amount	%
	<i>(Amounts in millions)</i>					
Power	₱281,004	98	₱268,962	98	₱12,042	4
Other services	9,233	3	9,405	3	(172)	(2)
Inter-segment transactions	(3,161)	(1)	(2,355)	(1)	(806)	34
Total	₱287,076	100	₱276,012	100	₱11,064	4

Power

The details of costs and expenses are summarized in the following table:

	2019		2018		Increase/Decrease	
	Amount	%	Amount	%	Amount	%
	<i>(Amounts in millions)</i>					
Purchased power	₱241,032	86	₱232,102	86	₱8,930	4
Salaries, wages and employee benefits	10,679	4	10,187	4	492	5
Depreciation and amortization	8,181	3	7,334	3	847	12
Contracted services	6,619	2	6,071	2	548	9
Others	14,493	5	13,268	5	1,225	9
Total	₱281,004	100	₱268,962	100	₱12,042	4

Purchased power accounted for 86% of the total costs and expenses for the year ended December 31, 2019 and 2018. All of the electricity distributed by *MERALCO* and *Clark Electric* were contracted through *PSAs* with generators and long-term Power Purchase Agreements (“PPA”) with *IPPs*. The balance was purchased from the *WESM*.

The purchased power cost in 2019 increased by 4% compared with 2018 due to (i) higher volume, and (ii) higher spot prices at *WESM* due to outages of a number of baseload plants and the strong demand particularly during peak hours, offset by the lower fuel prices due to reduction in *PSA* and *IPP* charges and peso appreciation. The average purchased power cost of *MERALCO* for the year ended December 31, 2019 was ₱5.70 per *kWh*.

Salaries, wages and employee benefits expense is higher by 5% as compared with the same period last year. The increase is attributed to the annual merit adjustment and 3% growth in manpower count.

Depreciation and amortization grew by 12% with the implementation and completion of emergency capital expenditures (“CAPEX”) to address customer and load growth requirements, improve service efficiency and customer experience, ensure network resiliency and hardening, and meet information technology (“IT”), security and safety requirements.

Contracted services amounted to ₱6,619 million, higher by ₱548 million compared with last year. Contracted services include information system/IT services, cloud subscriptions, and customer-related expenses such as billings and collections, meter reading, and messengerial services. The increase was driven by the growth in number of customer accounts.

Other expenses consist of business taxes and permits, provision for probable losses and expenses from claims, provision for doubtful accounts, costs of materials, transportation, and other corporate expenses.

Other Services

Costs and expenses of other services business segment for the year ended December 31, 2019 amounted to ₱9,233 million, 2% lower compared with ₱9,405 million in 2018.

	2019		2018		Increase/Decrease	
	Amount	%	Amount	%	Amount	%
	<i>(Amounts in millions)</i>					
Salaries, wages and employee benefits	₱3,534	38	₱3,047	32	₱487	16
Contracted services	1,937	21	2,066	22	(129)	(6)
Depreciation and amortization	549	6	493	5	56	11
Others	3,213	35	3,799	41	(586)	(15)
Total	₱9,233	100	₱9,405	100	(₱172)	(2)

Salaries, wages and employee benefits expense is higher by ₱487 million due to the increase in manpower count for new projects and project-hired personnel of *MIESCOR Group*, *MRail*, *CIS Group*, and *e-MVI*.

Decrease in contracted services by ₱129 million is consistent with the lower revenues generated by this segment.

Other expenses, which consisted mainly of materials, transportation and travel, rental and utility expenses, decreased by ₱586 million in 2019 due to lesser project completions of *MServ*.

OTHER INCOME (EXPENSES)

The following table shows the breakdown of other income, net of expenses, for the years ended December 31, 2019 and 2018 by business segment:

	2019	2018	Increase/Decrease	
			Amount	%
	<i>(Amounts in millions)</i>			
Power	₱1,074	₱2,199	(₱1,125)	(51)
Other services	(319)	(48)	(271)	565
Intersegment transaction	(79)	(48)	(31)	65
Total	₱676	₱2,103	(₱1,427)	(68)

Other income – net for the year ended December 31, 2019 is lower by ₱1,427 million compared with 2018 due to foreign exchange losses in 2019 as a result of the devaluation of peso against US dollars, and higher share in losses of associates and joint ventures, offset by higher interest yield from placements and lower interest and financial charges.

Power

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

	2019	2018	Increase/Decrease	
			Amount	%
	<i>(Amounts in millions)</i>			
Interest and other financial income	₱3,213	₱2,786	₱427	15
Interest and other financial charges	(1,477)	(1,934)	457	(24)
Equity in net losses of associates and joint ventures	(1,482)	(678)	(804)	119
Foreign exchange gains (losses)	(483)	1,103	(1,586)	(144)
Others	1,303	922	381	41
Total	₱1,074	₱2,199	(₱1,125)	(51)

Interest and other financial income in 2019 increased by ₱427 million due to higher yields of investments compared with 2018.

Interest and other financial charges decreased by ₱457 million in 2019 compared with 2018 due to : (i) accounting adjustments to recognize accretion of deemed interest in 2018, and (ii) lower interest bearing financial liabilities since holders of ₱8.7 billion of MERALCO's 7-Year fixed rate notes exercised their "Put Option" in February 2019. The decrease was partially offset by the higher re-pricing of interest in 2019.

The year ended December 31, 2019 resulted in foreign exchange losses due to appreciation of peso against the U.S. dollar. The exchange rate of U.S. dollar is ₱50.64 as at December 31, 2019 and ₱52.58 as at December 31, 2018.

NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The following table shows the breakdown of net income attributable to equity holders of the parent for the years ended December 31, 2019 and 2018 by business segment:

	2019		2018		Increase/Decrease	
	Amount	%	Amount	%	Amount	%
	<i>(Amounts in millions)</i>					
Power	₱22,314	96	₱21,701	94	₱613	3
Other services	1,058	5	1,401	6	(343)	(25)
Inter-segment transactions	(87)	(1)	(85)	—	(2)	2
Total	₱23,285	100	₱23,017	100	₱268	1

Net income attributable to equity holders of the parent increased by ₱268 million as a result of higher energy sales, improved performance of RES units and contribution of SBPL which began operations in October 2019.

LIQUIDITY AND CAPITAL RESOURCES

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

	For the Years Ended December 31		
	2021	2020	2019
	<i>(Amounts in millions)</i>		
<u>Cash Flows</u>			
Net cash provided by operating activities	₱43,181	₱29,872	₱42,176
Net cash provided by (used in)			
investing activities	(49,467)	2,776	(20,393)
Net cash used in financing activities	10,861	20,291	20,247
Net increase (decrease) in cash and cash equivalents	4,095	12,650	1,161
<u>Capital Expenditures</u>	27,237	20,558	19,985
	2021	2020	
	<i>(Amounts in millions)</i>		
<u>Capitalization</u>			
Interest-bearing long-term financial liabilities			
Current	₱9,114	₱1,962	
Noncurrent	52,720	14,809	
Notes payable	28,834	23,373	
Equity attributable to equity holders of the parent	95,204	79,237	
<u>Other Selected Financial Data</u>			
Total assets	483,482	390,267	
Utility plant and others	225,779	163,009	
Cash and cash equivalents	55,007	50,912	

Debt Financing

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

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

MERALCO's loan agreements require compliance with debt service coverage of 1.1 times calculated at specific measurement dates. The agreements also contain restrictions with respect to 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.

Cebu Energy Development Corporation ("*CEDC*"), Panay Energy Development Corporation ("*PEDC*") and Toledo Power Company ("*TPC*") are required to meet certain financial ratios. *CEDC*, *PEDC* and *TPC* shall maintain a debt-to-equity ratio not exceeding 70:30 at all times until full payment of the obligation. Also, *CEDC*, *PEDC* and *TPC* shall ensure that the core equity must be at least 30% of the total project cost at project completion date and shall at all times be equivalent to at least 30% of the sum of total outstanding loan under the facility and the core equity. Debt-equity ratio is the ratio of the total aggregate indebtedness for borrowed money of the borrower and the sum of its equity as of any date of determination. For *CEDC* and *PEDC*, core equity includes the equity, paid in equity of third parties provided that if the same is in the form of preferred redeemable shares, redemption must be at the option of the borrower and at terms no more favorable than subordinated loans, outstanding subordinated loans and outstanding shareholder advances of the sponsor to the borrower.

GBPC is required to maintain a debt-to-equity ratio not greater than 75:25 until full payment of the obligation. Also, *GBPC* is prohibited from entering into merger or consolidation, unless *GBPC* is the surviving entity.

As at December 31, 2021, the *MERALCO Group* is in compliance with all of the covenants of its loan agreements.

Equity Financing

As at December 31, 2021 and 2020, *MERALCO's* capital stock consists of: (Amounts in millions except par value and number of shares)

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

The balance of previously issued preferred shares which have been called for redemption amounted to ₱1,470 million and ₱1,472 million as at December 31, 2021 and 2020, respectively. Total unclaimed dividends amounted to ₱249 million as at December 31, 2021 and 2020. Interest is no longer accrued from the time such preferred shares were called for redemption

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

The following are the cash dividends declared on common shares in 2021, 2020 and 2019:

Declaration Date	Record Date	Payment Date	Dividend Per Share	Amount
(In millions)				
July 26, 2021	August 23, 2021	September 15, 2021	₱5.06	₱5,700
March 1, 2021	March 30, 2021	April 26, 2021	7.82	8,818
July 27, 2020	August 20, 2020	September 15, 2020	4.70	5,294
February 24, 2020	March 20, 2020	April 15, 2020	10.40	11,716
July 29, 2019	August 20, 2019	September 20, 2019	5.46	6,159
February 26, 2019	March 22, 2019	April 15, 2019	10.59	11,941

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.

On February 28, 2022, the BOD of MERALCO approved the declaration of cash dividends of ₱10.226 a share to all shareholders of record as at March 30, 2022, payable on April 26, 2022.

RISK FACTORS

The significant factors affecting MERALCO's financial position and results of operations are:

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

Regulated Rates and Cost Recoveries

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

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

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

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

After rate setting process for a *RP*, *MERALCO* goes through a rate verification process to set the *MAP* for each *RY* within the *RP*. In each of *RYS* 2012, 2013, 2014 and 2015, *MERALCO* filed for the respective *MAP* with the *ERC*. The *ERC* provisionally approved the *MAPs* for each of the *RY*. As at February 28, 2022, *MERALCO* is awaiting the final approval of the *ERC*.

On July 10, 2015, the *ERC* provisionally approved an interim average rate of ₱1.3810 per *kWh* (excluding efficiency adjustment) and the rate translation per customer class, which was reflected in the customer bills starting July 2015. *MERALCO* has completed the presentation of its evidence and is set to file its Formal Offer of Evidence (“*FOE*”) after the *ERC* has resolved pending motions. As at February 28, 2022, the *ERC*’s ruling on these motions remains pending.

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

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* sought clarification from the *ERC* on certain issues in the Resolution.

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 were asked to submit their respective comments on 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 preceding paragraph has been resolved. As at February 28, 2022, the *ERC* has yet to resolve *MERALCO*’s Omnibus Motion. In the meantime, on April 29, 2021, the *ERC* posted the proposed draft “Regulatory Asset Base Roll Forward Handbook for Privately Owned Electricity Distribution Utilities” (“*RAB Roll Forward Handbook*”) (2nd Draft) for comments of all interested parties. In December 2021, the *ERC* promulgated *ERC* Resolution No. 11, Series of 2021, which adopted the final *RAB Roll Forward Handbook*.

On December 21, 2018, *MERALCO* filed a Petition for the Adoption of the Proposed Issues Paper and Revised *RDWR* for the Fifth *RP* of the First Entry Group Under *PBR*. As at February 28, 2022, the *ERC* has yet to act on *MERALCO*’s Petition.

On June 13, 2019, the *ERC* posted the working drafts of the *RDWR* and “Regulatory Reset for the Fourth (4th) and Fifth (5th) *RP* for the First Entry Group of Privately Owned Distribution Utilities subject to Performance Based Regulations” Issues Paper. The Draft Rules and Issues Paper were works in progress by the technical staff that will be presented to the *ERC* together with the consolidated inputs from stakeholders. *MERALCO* and other stakeholders have submitted their respective comments and public consultations were held. Thereafter, on March 15, 2021, the *ERC* posted the *RDWR* (2nd Draft) and “Regulatory Reset for the Fifth Regulatory Period for the First Entry Group of Privately Owned Distribution Utilities subject to Performance Based Regulations” Issues Paper (2nd Draft) for comments of all parties. Under said rules, the timelines were modified such that the 4th *RP* or “Lapsed Period” would now cover the period from July 2016 to June 2022; while the 5th *RP* would cover the period from July 2022 to June 2026. *MERALCO* and other stakeholders submitted their respective comments and their counter-comments and/or counter-proposals to those submitted by the other stakeholders. Under *ERC* Resolution No. 10, Series of 2021, the *ERC* promulgated the *RDWR*. The deadline for filing the regulatory reset application is set on February 9, 2022. However, *MERALCO* requested for an additional period, or until March 11, 2022, within which to file its reset application. On February 17, 2022, the *ERC* granted the request of *MERALCO* but with no further extension.

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

Pending the issuance by the *ERC* of the final rules to govern 3rd and 4th *RP* and subsequent regulatory period, the approved *MAP* for *RY* 2015 was used beginning *RY* 2016. On February 18, 2016, December 29, 2016, May 17, 2018 and July 5, 2019, *Clark Electric* filed with the *ERC* its proposed *CAPEX* program for *RYs* 2016, 2017, 2018 and 2019, respectively. *Clark Electric* applied for an approval to implement the *CAPEX* in order to continue meeting the electricity requirements of its current and future customers, improve the flexibility, reliability and stability of its distribution network as well as improve customer service. Manifestations as emergency projects were submitted to the *ERC* on October 9, 2019 covering most of the applied *CAPEX* Projects for *RYs* 2016, 2017 and 2018. As at February 28, 2022, the application is pending approval by the *ERC*.

There is no assurance that the regulatory environment in the Philippines will remain consistent or open. Issuance of proposed new (or changes in existing) rules, laws, resolutions, policies may adversely affect *MERALCO's* and *Clark Electric's* financial position and results of operations. Developments in other regulated utility businesses may affect electricity distribution utility similarly.

Recovery of Development Investments and New Businesses

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

- 2 x 600 MW (net) coal-fired power plant in Atimonan Quezon
- 110 MWdc/90MWac floating solar facility in Laguna de Bay
- 115 MWdc solar plant in Baras, Rizal

MERALCO also has investments in the following associates which have ongoing power plant development or have incurred significant development costs:

- Redondo Peninsula Energy, Inc. ("*RP Energy*") for the construction and operation of a power plant in the Subic Bay Freeport Zone.
- *Greenenergy* for the development of a 40 MWac solar power plant in Cordon, Isabela
- Pure Meridian Hydropower Corporation ("*Pure Meridian*") for the development of mini-hydroelectric power projects
- Nuevo Solar Energy Corporation ("*NSEC*") for the development of 65MWac solar energy project in Currimao, Ilocos Norte

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

Sales Volume and Philippine Economic Conditions

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

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

Continued work-from-home and remote learning set-ups amid granular lockdowns pushed residential sales volume to grow 3% to 16,913 GWh from 16,488 GWh year-on-year, although slowdown was noted in the second half of 2021 as temperature dropped to 26.6°C, the lowest recorded in the last five (5) years. The increased mobility of vaccinated individuals also reduced residential sales volume.

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

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

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

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

Power Supply and Demand Management

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

Below is the summary of MERALCO and Clark Electric's electricity suppliers and the respective amounts of power purchased for the years ended December 31, 2021, 2020 and 2019. The details of the relevant IPPs and PSAs are disclosed and discussed in Note 30 to the consolidated financial statements:

The amounts of purchased power costs including transmission and ancillary charges for the years ended December 31, 2021, 2020 and 2019, follow:

	2021	2020	2019
		<i>(Amounts in millions)</i>	
First Gas Power Corporation	₱51,164	₱43,659	₱54,781
National Grid Corporation of the Philippines ("NGCP")	34,539	37,230	35,724
South Premiere Power Corporation ("SPPC")	25,643	24,166	31,903
Independent Electricity Market Operator of the Philippines Inc. ("IEMOP")	21,721	14,523	27,084
Quezon Power (Philippines) Limited Company ("QPPL")	16,289	13,990	17,032
SBPL	15,973	12,902	4,950
San Miguel Energy Corporation ("SMEC")	15,535	16,639	19,971
AC Energy Philippines, Inc. ("AC Energy")	10,790	9,023	—
First NatGas Power Corp.	9,309	8,456	12,855
Masinloc Power Partners Co. Ltd. ("MPPCL")	8,522	8,056	12,998
Sem-Calaca Power Corporation ("Sem-Calaca")	4,933	3,650	5,172
First Gen Hydro Power Corporation	2,507	723	—
PEDC	2,264	1,812	1,788
Therma Luzon, Inc. ("TLI")	2,219	7,033	12,178

	2021	2020	2019
	(Amounts in millions)		
Southwest Luzon Power Generation Corporation	1,982	34	903
Solar Philippines Tarlac Corporation	425	338	–
Therma Mobile, Inc. (“TMO”)	–	516	1,928
Millenium Energy, Inc.	–	307	500
Others	1,100	1,363	1,365
	₱224,915	₱204,420	₱241,032

Given the challenges in the energy sector which include Malampaya gas restriction, increasing fuel indices especially in light of the ongoing Ukraine-Russia conflict, Indonesia coal export ban (that has since been lifted, but could recur depending on Indonesian national policy and its local coal supply concerns), plant outages due to delayed preventive maintenance, and other forced plant outages, there is a projected tightening of the power supply-demand situation in the country and for the RES business.

Power supply may not be adequate to meet the rising demand (especially during the summer and election season) as the economy re-opens and businesses ramp up, which may lead to red alerts and load curtailment scenarios. Adequacy of power supply is critical to ensure reliable service to critical COVID-19 facilities and the 2022 National Elections facilities.

MERALCO and *Clark Electric* as distribution utilities and the *RES* business’ ability to generate revenues could be disrupted if the electricity suppliers are not able to generate the power needed. The power generation business is likewise affected by the increasing fuel prices particularly for supply contracts which have fixed fuel rate arrangement vis-à-vis pass through fuel arrangement.

Competition

With the effectivity of the *DOE* circulars on Competitive Selection Process (“CSP”) and its amendments and revisions since it was published in 2018, the procurement of *PSA* by *MERALCO*’s power generation business has become increasingly competitive. While the objective of the CSP is to promote competition and greater private sector participation in the provision of adequate generation capacity to meet the demand in the captive market, the power generation business of *MERALCO* may not be able to provide the most competitive bid which may adversely affect its financial condition and results of operations.

On February 9, 2018, the *DOE* published *DOE* Circular 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” (“*2018 DOE Circular*”). Upon effectivity of the *2018 DOE Circular*, all prospective *PSAs* in grid and off-grid areas shall be procured through CSP. The CSP under the *2018 DOE Circular* involves publication of invitation to bid, pre-bid conference, bid evaluation, and pre-/post-qualification of winning bidder.

On October 14, 2021, the *DOE* published a *DOE* Circular entitled “Amending Certain Provisions of and Supplementing [the *2018 DOE Circular*] on the Competitive Selection Process in the Procurement by the Distribution Utilities of Power Supply Agreement for the Captive Market” (“*2021*”).

Revised CSP Circular”). The *2021 Revised CSP Circular* mainly improved the procedural process and flow prescribed under the *2018 DOE Circular* and, most importantly, introduced an alternative mode of CSP – a competitive challenge for unsolicited proposals (“*USP*”), if the *USP* offers a new technology and does not exceed 25% of the distribution utility’s peak demand for the year of the *USP*’s required commercial operations minus any capacity previously procured through *USP* for commercial operations in the same year.

New technology is defined under the *2021 Revised CSP Circular* as referring to “a technology that is novel or a novel use or arrangement of existing technology that has not yet been commercially operating or applied in the country upon effectivity of the Circular. Such technology, whether in whole or in part, is compliant to international test standards in the power generation industry.”

Under the *2021 Revised CSP Circular*, each CSP shall be completed within seven (7) months from the time of the publication of the Invitation to Bid until filing of the *PSA* to the *ERC*.

ELECTRIC POWER INDUSTRY DEVELOPMENTS AND UPDATES

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

OTHER QUANTITATIVE AND QUALITATIVE DISCLOSURES

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

On March 31, 2021, *MGen* completed the acquisition of the combined 86% interests of Metro Pacific Investments Corporation (“*Metro Pacific*”) through Beacon Powergen Holdings Inc. (“*BPHI*”), and JG Summit Holdings, Inc. (“*JG Summit*”) in *GBPC* for a total consideration of ₱32,575 million, net of adjustments in accordance with the terms of the respective Share Purchase Agreements (“*SPA*”). The consideration is payable in installments based on the following schedule: 60% upon closing, 20% after six (6) months and the remaining 20% after 18 months.

Prior to the acquisition, *MGen* owned 14% of *GBPC*.

The Philippine Competition Commission (“*PCC*”) confirmed on February 9, 2021, that the proposed transaction qualifies as an internal restructuring and thus, does not require further approval by the *PCC*.

As of December 31, 2021, ₱6,515 million of the consideration is outstanding and due in September 2022.

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

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

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 *DOE* required that *MERALCO* enter into a long-term supply contract with the *NPC*.

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

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

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

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

The mediation resulted in the signing of a Settlement Agreement ("*SA*") between the parties on July 15, 2003. The *SA* was approved by the respective *BODs* of *NPC* and *MERALCO*. The net settlement amount of ₱14,320 million was agreed upon by *NPC* and *MERALCO* and manifested before the *ERC* through a Joint Compliance dated January 19, 2006. The implementation of the *SA* is subject to the approval of the *ERC*.

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

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

Review on Certiorari with the SC. *MERALCO's* Comment was filed on October 29, 2012. Subsequently, a Decision dated December 11, 2013 was rendered by the First Division of the SC denying the Petition for Review on Certiorari by the OSG and affirming the Decision promulgated by the CA on October 14, 2011.

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

2. Sucat-Araneta-Balintawak Transmission Line

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

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

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

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

This case remains pending and is still at the pre-trial stage. During the pre-trial stage, *Plaintiffs* filed a Manifestation stating that they are pursuing the deposition of a supposed expert in electromagnetic field through oral examination without leave of court in late January or early February 2016 or on such date as all the parties may agree amongst themselves at the Consulate Office of the Philippines in Vancouver, Canada. *NPC* and intervenors filed their Opposition and Counter-Manifestation. Intervenor *NGCP* filed a Motion to Prohibit the Taking of the Deposition of the said expert. Intervenor *MERALCO* intends to file its Comment/Opposition in due course. As at February 28, 2022, *MERALCO* is awaiting further action of the SC on the matter.

3. RPT Assessments

Several Local Government Units ("*LGUs*") assessed *MERALCO* for deficiency *RPT* on certain assets. The assets include electric transformers, distribution wires, insulators, and poles, collectively referred to as *TWIP*. Of these *LGUs*, 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 *LGUs* are pending with their respective administrative bodies or government offices.

In 2016, *MERALCO* began the process of settlement with the affected *LGUs*. *MERALCO* has filed for the recovery of the resulting *RPT* payments to certain *LGUs* from customers in the relevant areas with the *ERC* and will file for similar recovery for succeeding payments.

In *ERC* Resolution No. 2, Series of 2021, or the Rules on Recovery of Pass-Through Taxes (Real Property, Local Franchise, and Business Taxes) of *DUs*, the *ERC* approved a revised mechanism for the recovery of real property taxes. For *DUs* under *PBR*, the rules shall apply to the recovery of real property taxes of machineries only until the next regulatory reset process when the real property taxes would be excluded from the financial building blocks in the annual revenue requirement. However, the said rules did not cover the recovery of payments of real property taxes for the years before the promulgation of the rules.

MERALCO has filed for recovery of such *RPT* paid in accordance with the rules promulgated by the *ERC*. For recovery of real property taxes for the years before the promulgation of the rules, *MERALCO* intends to recover the same in accordance with the rules as may be promulgated by the *ERC* to address the regulatory reset process for the lapsed period.

On July 6, 2021, Private Electric Power Operators Association ("*PEPOA*") filed a Petition for rule-making proposing to amend certain provisions of *ERC* Resolution No. 02, Series of 2021 on the recovery of pass-through local taxes consisting of real property taxes ("*RPT*"), local franchise taxes ("*LFT*"), and business tax. Among the main points raised by *PEPOA* is that: (i) the local taxes (*RPT*, *LFT* and business tax) levied by *LGUs* on years prior to the Resolution's issuance (ie. tax arrearages) should be fully recoverable as pass-through costs, and (ii) the *RPT* assessed by *LGUs* on assets located outside the *DU*'s franchise area but are used to provide public service within the franchise area should also be fully recoverable as pass-through costs. *MERALCO* submitted its

comments on September 15, 2021 and the public consultations were conducted by the *ERC* on September 28, 2021 and October 12, 2021. As at February 28, 2022, the Petition is pending with the *ERC*.

4. *LFT* Assessments of Municipalities

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

5. *SC* Decision on Unbundling Rate Case

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

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

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

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

On June 21, 2011, the *ERC* maintained and affirmed its findings and conclusions in its Decision dated March 20, 2003 and Order dated May 30, 2003. The *ERC* stated that the *COA* recommendation to apply disallowances under *PBR* to rate unbundling violates the principle against retroactive rate-making. An intervenor group filed a *MR* of the said Order. On September 5, 2011, *MERALCO* filed its comment on the intervenor's *MR*. On February 4, 2013, the *ERC* denied the intervenor's *MR*. The intervenor filed a Petition for Review before the *CA* and *MERALCO* filed its comment thereon on May 29, 2014. In compliance with the *CA*'s directive, *MERALCO* filed its Memorandum in August 2015. In a Resolution dated September 29, 2015, the *CA* declared the case submitted for decision. In a Decision dated February 29, 2016, the *CA* dismissed the Petition for Review and affirmed the orders dated June 21, 2011 and February 4, 2013 of the *ERC*.

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

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

MERALCO, the other *DUs* and the *ERC* filed their respective motions for reconsideration which are pending before the SC. Two (2) new *DUs* filed their respective motions for leave to intervene and to file their motions for reconsideration. As at February 28, 2022, the case is pending before the SC.

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

2021 Capital Expenditure Requirements (<i>in millions</i>)	
Electric capital projects	₱17,845
Non-electric projects and other capitalized items	6,375
Total capital expenditures	₱24,220

MERALCO has a *BOD*-approved capital expenditure budget of ₱24,220 million for the year ended December 31, 2021, of which about 74% represents planned expenditures for the electric capital projects of the power distribution business. The capital expenditure budget shall address requirements in areas with large concentration of core customers, correct normal deficiencies in the system, stretch loading limits of *MERALCO* facilities and initiate practical and cost-effective projects to correct system deficiencies. *MERALCO* subsidiaries’ capital expenditure budget for 2021 mainly covers the requirements of *A1E*’s development of its 2 x 600 MW coal-fired power plant in Atimonan Quezon; expansion of *Radius* to new areas and segments; and evolvement of *Bayad* into a full-service fintech company.

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

1. Retail Competition

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

On March 31, 2014, the *ERC* issued a Resolution on the Withdrawal of the Rules on Customer Switching and the Retention of the Code of Conduct for Competitive Retail Market Participants. On the same date, *ERC* also issued a Resolution adopting the Rules on the Establishment of Customer Information by the Central Registration Body ("*CRB*") and Reportorial Requirements, mandating all *DUs* to submit to the *ERC* and *CRB* information on end-users with (i) monthly average peak demand of at least one (1) *MW* for the preceding 12 months; and (ii) monthly average peak demand of 750 *kW* but not greater than 999 *kW*. The *ERC* will use these information as basis for issuance of 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 a Department Circular "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, the *ERC* filed a Petition for Certiorari and Prohibition with prayer for *TRO* and/or *WPI* before the *SC*, which asserted that *RTC-Pasig* has no jurisdiction to take cognizance of *MERALCO's* Petition, citing Sec. 78 of the *EPIRA*. A similar petition was subsequently filed by the *DOE* before the *SC*.

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

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

On November 24, 2016, the *ERC* promulgated a resolution moving the contestability date of end users with an average monthly peak demand of at least one (1) *MW* from December 31, 2016 to February 26, 2017. On January 17, 2017, *MERALCO*, through its counsel, received an *SC* Resolution dated December 5, 2016, which consolidated the *SC DOE* Petition with the *SC ERC* Petition. The same resolution also denied the Motion for Partial Reconsideration filed by *MERALCO*.

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

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

Implementation of *RCOA* for *RES* in the Philippine Electric Power Industry. The *DOE* Circulars became effective on December 24, 2017.

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

On December 22, 2017, *MERALCO* wrote *ERC* and *DOE* to seek guidance on the impact of the *DOE* Circulars in the light of the *TRO* issued by the *SC*. On January 17, 2018, the *DOE* responded that there is no legal impediment to the implementation of the *DOE* Circulars but it defers to the *OSG* for guidance on the legal aspect of the issuances. As at February 28, 2022, the *ERC* has yet to respond to *MERALCO*'s letter.

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

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

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

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

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

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

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

In an Order dated March 4, 2013, the *ERC* approved the methodology proposed by *MERALCO* and *PEMC* in computing the double charged amount on line losses by deducting 2.98% from the *NPC-TOU* amount. Accordingly, the *ERC* determined that the computed double charge amount to be collected from *NPC* is ₱5.2 billion, covering the period November 2006 to August 2012 until actual cessation of the collection of the 2.98% line loss charge in the *NPC-TOU* rates imposed on *MERALCO*. In this regard, *NPC* was directed by the *ERC* to refund said amount by remitting to *MERALCO* the equivalent amount of ₱73.9 million per month until the over-recoveries are fully refunded. In the said Order, the *ERC* likewise determined that the amount to be collected from the successor generating companies ("SGCs") is ₱4.7 billion. Additionally, *MERALCO* was directed to file a petition against the following SGCs: *MPPCL*, Aboitiz Power Renewables, Inc. ("*APRI*"), *TLI*, *SMEC* and *Sem-Calaca*, within 30 days from receipt thereof, to recover the line loss collected by them. On April 19, 2013, *MERALCO* filed a Motion for Clarification with the *ERC* regarding the directives contained in the March 4, 2013 Order. On April 30, 2013 and May 8, 2013, *PSALM* and *NPC*, respectively, filed motions seeking reconsideration of the March 4, 2013 Order. *MERALCO* filed a motion seeking for an additional 15 days from its receipt of the *ERC*'s Order resolving its Motion for Clarification, within which to file its Petition against the SGCs.

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

On September 12, 2013, *MERALCO* filed a Manifestation with Motion with the *ERC* seeking approval of its proposal to offset the amount of ₱73.9 million per month against its monthly remittances to *PSALM*. *PSALM* and *NPC* filed their comments *Ad Cautelam* and Comment and Opposition *Ad Cautelam*, respectively, on *MERALCO*'s Manifestation with Motion. On November 4, 2013, *MERALCO* filed its reply. As at February 28, 2022, *MERALCO*'s Manifestation with Motion is pending resolution by the *ERC*.

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

On February 3, 2014, *MERALCO* filed a Comment with Opposition to the Application for *TRO* or Writ of Preliminary Injunction dated January 30, 2014. *PEMC* filed a Comment and Opposition Re: Petition for Certiorari with Urgent *TRO* and/or Writ of Preliminary Mandatory Injunction dated January 6, 2014. On June 4, 2014, the CA issued a Resolution declaring that *PSALM* is deemed to have waived the filing of a Reply to the comment and opposition of *MERALCO* and *PEMC* and directing the parties to submit their simultaneous memoranda within 15 days from notice. On December 1, 2014, the CA issued a decision dismissing the Petition for Certiorari filed by *PSALM* against the *ERC*, *MERALCO* and *PEMC* and affirming the *ERC*'s ruling on the refund of the ₱5.2 billion of transmission line losses double charged by *PSALM* and *NPC*. On January 30, 2015, *PSALM* filed its *MR* on the December 1, 2014 Decision of the CA. *MERALCO* has filed its Opposition to the *MR*. In a Resolution dated August 11, 2015, the CA denied *PSALM*'s *MR*. On October 27, 2015, *MERALCO* received *PSALM*'s Petition for Review with the SC. The Petition has been given due course and the parties have filed their respective memoranda. As at February 28, 2022, *MERALCO* is still awaiting further action of the SC on the Petition.

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

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

On October 8, 2013, *MERALCO* received the *SGCs* Manifestation and Motion, which sought, among other things, the cancellation of the scheduled initial hearing of the case, including the submission of the parties respective Pre-trial Briefs, until the final resolution of the *SGC*'s Joint Motion to Dismiss. On October 11, 2013, *MERALCO* filed its pre-trial brief. On October 14, 2013, *MERALCO* filed its Opposition to the *SGC*'s Manifestation and Motion. On October 24, 2013, *MERALCO* received the *SGC*'s Reply to its Comment on the Joint Motion to Dismiss. On October 29, 2013, *MERALCO* filed its Rejoinder. Thereafter, the *SGC*'s filed their Sur-Rejoinder dated November 4, 2013. As at February 28, 2022, the Joint Motion to Dismiss is pending resolution by the *ERC*.

4. *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. On July 1, 2020, *MERALCO* received the *SC* Resolution dated March 11, 2020, affirming the *CA* decision that upheld *ERC*'s order directing that the *WESM* settlement price for the 3rd and 4th billing months be set at *NPC-TOU* rates. Entry of Judgment has been rendered and the resolution has become final and executory on October 14, 2020.

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

On June 2, 2009, *MERALCO* filed a Petition for Dispute Resolution against *NPC* and *PSALM* with respect to *NPC*'s imposition of premium charges for the alleged excess energy it supplied to *MERALCO* covering the billing periods May 2005 to June 2006. The premium charges amounting to ₱315 million during the May-June 2005 billing periods have been paid but are the subject of a protest by *MERALCO*, and premium charges of ₱318 million during the November 2005, February 2006 and April to June 2006 billing periods are being disputed and withheld by *MERALCO*. *MERALCO* believes that there is no basis for the imposition of the premium charges. The hearings on this case have been completed. As at February 28, 2022, the Petition is pending resolution by the *ERC*.

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

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

On December 19, 2013, several party-list representatives of the House of Representatives filed a Petition against *MERALCO*, *ERC* and *DOE* before the *SC*, questioning the *ERC* clearance granted to *MERALCO* to charge the resulting price increase, alleging the lack of hearing and due process. It also sought for the declaration of the unconstitutionality of the *EPIRA*, which essentially declared the generation and supply sectors competitive and open, and not considered public utilities. A similar petition was filed by a consumer group and several private homeowners' associations challenging also the legality of the *AGRA* that the *ERC* had promulgated. Both petitions prayed for the issuance of *TRO*, and a Writ of Preliminary Injunction.

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

which the Petitions will be deemed submitted for resolution of the SC. *MERALCO* complied with said directive and filed its Memorandum on said date.

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

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

On March 3, 2014, the *ERC* issued an Order voiding the Luzon *WESM* prices during the November and December 2013 supply months on the basis of the preliminary findings of its Investigating Unit (“*IU*”) that these are not reasonable, rational and competitive, and imposing the use of regulated rates for the said period. *PEMC* was given seven (7) days upon receipt of the Order to calculate these regulated prices and implement the same in the revised *WESM* bills of the concerned *DUs* in Luzon. *PEMC*’s recalculated power bills for the supply month of December 2013 resulted in a net reduction of the December 2013 supply month bill of the *WESM* by ₱9.3 billion. Due to the pendency of the *TRO*, no adjustment was made to the *WESM* bill of *MERALCO* for the November 2013 supply month. The timing of amounts to be credited to *MERALCO* is dependent on the reimbursement of *PEMC* from associated generator companies. However, several generating companies, including *MPPCL*, *SN Aboitiz Power, Inc.*, *Team (Philippines) Energy Corporation*, *PanAsia Energy, Inc.* (“*PanAsia*”), and *SMEC*, have filed *MRs* questioning the Order dated March 3, 2014. *MERALCO* has filed a consolidated comment to these *MRs*. In an Order dated October 15, 2014, the *ERC* denied the *MRs*. The generating companies have appealed the Orders with the *CA*. *MERALCO* has filed a motion to intervene and a comment in intervention. The *CA* consolidated the cases filed by the generation companies. In a Decision dated November 7, 2017, the *CA* set aside *ERC* Orders dated March 3, 2014, March 27, 2014, May 9, 2014 and October 15, 2014 and declared the orders null and void. The Decision then reinstated and declared valid *WESM* prices for the November and December 2013 supply months. *MERALCO* and the *ERC* have filed their respective motions for reconsideration. Several consumers also intervened in the case and filed their respective motions for reconsideration. In a Resolution dated March 29, 2019, the *CA* denied the motions for reconsideration and upheld its Decision dated November 7, 2017.

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

In view of the pendency of the various submissions before the *ERC* and mindful of the complexities in the implementation of the *ERC*’s Order dated March 3, 2014, the *ERC* directed *PEMC* to provide the market participants additional 45 days to comply with the settlement of their respective adjusted *WESM* bills. In an Order dated May 9, 2014, the parties were then given an additional non-extendible

period of 30 days from receipt of the Order within which to settle their *WESM* bills. However, in an Order dated June 6, 2014 and acting on an intervention filed by Angeles Electric Corporation, the *ERC* deemed it appropriate to hold in abeyance the settlement of *PEMC*'s adjusted *WESM* bills by the market participants.

On April 22, 2014, the *SC* extended indefinitely the *TRO* issued on December 23, 2013 and February 18, 2014 and directed generating companies, *NGCP* and *PEMC* not to collect from *MERALCO*. As at February 28, 2022, the *SC* has yet to resolve the various petitions filed against *MERALCO*, *ERC*, and *DOE*.

7. *ERC* Investigating Unit (“*IU*”) Complaint

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

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

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

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

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

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

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

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

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

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

The *ERC* has elevated the matter to the *SC*. *MERALCO*, *TMO* and *APRI* have all filed their respective manifestations before the *SC*. As at February 28, 2022, *MERALCO* is awaiting further action by the *SC* on the matter.

In the meantime, the *ERC* called for a conference on March 26, 2021 in order to discuss updates and developments regarding the case. On April 14, 2021, *MERALCO* filed an Urgent Motion Ad Cautelam to Suspend Proceedings in view of the pendency of the case before the *SC*. The *ERC* then issued an Order dated August 13, 2021, setting the pre-trial conference on August 27, 2021. *MERALCO* filed a Manifestation and Urgent Omnibus Motion Ad Cautelam to (A) Resolve the Urgent Motion Ad Cautelam to Suspend Proceedings dated April 14, 2021 and (B) Cancel the August 27, 2021 Pre-Trial Conference dated August 20, 2021. The pre-trial conference proceeded on August 27, 2021. However, the *ERC* stated that, after the pre-trial conference and before the case can proceed with trial on the merits, the *ERC* will first resolve *MERALCO*'s motions. The *ERC* also issued an open court order denying the motion of the *ERC IU* that the case be resolved through the submission of the position papers and other supporting documents. The *ERC IU* filed a Motion for Reconsideration to which *MERALCO* filed an opposition. As at February 28, 2022, *MERALCO* is awaiting further action by the *ERC* on the matter.

8. *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* had 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, *PSALM* terminated the said Agreement. *SPPC* filed a complaint at the *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 *MRs* 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 a *MR* dated November 6, 2015 of the Order admitting *MERALCO*'s intervention. *RTC-Mandaluyong* issued an Order dated June 27, 2016 denying the *MRs*. *PSALM* elevated these orders to the *CA* through a Petition for Certiorari. In a Resolution 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-Mandaluyong*.

On July 26, 2019, *PSALM* filed a Petition for Certiorari to assail the September 24, 2018 Order and April 29, 2019 Order of the *RTC* which directed *PSALM* to respond to *SPPC*'s interrogatories and submit certain documents. *PSALM* subsequently filed an Amended Petition on March 14, 2020. In a Resolution dated June 17, 2020, the *CA* directed the respondents to file their comment to the Amended Petition. *MERALCO* filed its Compliance with Motion to Drop Party-Respondent on July 13, 2020. In a Resolution dated February 1, 2021, the *CA* granted *MERALCO*'s motion.

In the meantime, on February 14, 2020, *MERALCO* filed its Motion to Withdraw as *MERALCO* no longer possessed any legal interest in the subject matter of the case as its *PSA* with *SPPC* subject of the dispute already expired. While *PSALM* has no objection to *MERALCO*'s withdrawal from the case, *SPPC* requested for time to file its comment. In an Order dated July 20, 2020, the *RTC* granted *MERALCO*'s Motion to Withdraw.

9. *Ombudsman Case Against Directors*

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

September 21, 2018 praying that the Ombudsman issue a writ of execution to implement the *Resolution* dated May 18, 2018 which directed the Commission on Audit to conduct an audit. As at February 28, 2022, there has been no further action by the Ombudsman in this case. There has also been no action by the Commission on Audit on this matter.

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

10. Overpayment of Income Tax related to SC Refund

Following the SC's final ruling that directed *MERALCO* to refund affected customers ₱0.167 per kWh for billings made from February 1994 to April 2003, the *ERC* approved the release of the refund in four (4) phases. On December 18, 2015, *MERALCO* filed a Motion seeking the *ERC*'s approval for the continuation of the implementation of the refund to eligible accounts or customers under Phases I to IV, three (3) years from January 1, 2016 or until December 31, 2018. In said Motion, *MERALCO* likewise manifested to the *ERC* that, in order to give eligible customers, the opportunity to claim their refund, and, so as not to disrupt the SC Refund process, *MERALCO* shall continue implementing the refund even after the December 2015 deadline, until and unless the *ERC* directs otherwise. In its Order dated December 18, 2019, the *ERC* granted *MERALCO*'s Motion and authorized *MERALCO* to continue with the implementation of the SC Refund to eligible accounts or customers under Phases I to IV until June 30, 2019 and submit a proposed scheme on how the unclaimed refund will be utilized for purposes of reducing the distribution rates of customers. On February 18, 2019, *MERALCO* filed a Partial Compliance with Manifestation and Motion. On March 8, 2019, *MERALCO* filed a Compliance with Manifestation and Motion. On July 12, 2019, *MERALCO* filed its Compliance with Manifestation informing the *ERC* that on July 1, 2019, *MERALCO* deposited all the unclaimed amounts of the SC Refund as of June 30, 2019 in a separate bank account. *MERALCO* further manifested in said Compliance that it shall continue with the processing of the refund claims of eligible customers and should the refund claims of these customers be evaluated to be valid, *MERALCO* shall, for the benefit of the customers, withdraw the refund amount from the bank account, release the same to the concerned customers and accordingly inform the *ERC* of the refunds paid. On September 10, 2019, *MERALCO* filed an Urgent Manifestation and Motion with respect to the Order dated December 19, 2018 of the *ERC*. The *ERC* has yet to rule on the Urgent Manifestation and Motion by *MERALCO*. In its letter dated July 23, 2020, *MERALCO* informed the *ERC* of the updated balance of the SC Refund. As at February 28, 2022, *MERALCO* continues to process the refund claims of eligible customers.

In the meantime, in a letter dated February 3, 2021, the *ERC* informed *MERALCO* that it will be undertaking an audit and verification of *MERALCO*'s refunds, which included *MERALCO*'s SC refund. As at February 28, 2022, the audit has been completed and *MERALCO* is awaiting further action of the *ERC* on the matter.

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

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

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

Seasonality of Operations and Growth Drivers

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

The electricity sales of *MERALCO* and *Clark Electric* exhibit a degree of quarterly seasonality. The *kWh* sales in the first quarter is lower than the average of the year as this period is characterized by cooler temperature and softer consumer demand following heightened consumer spending in the last quarter of the year. The second quarter is marked by higher than average *kWh* sales, except in 2020 when the country was hit by the COVID 10 pandemic. This is due to a number of factors, including: increased consumption of households and commercial establishments due the summer season; increased production of industries to replenish stocks and in preparation for the opening of classes; and, heightened construction activity to take advantage of the sunny weather. In the third quarter of the year, manufacturing industries that cater to the export market have their peak production schedule at this time as they rush to meet shipping deadlines to foreign markets. Industries catering to the domestic market are also now starting production in preparation for the Christmas season. Lastly, the fourth quarter performance is about the average of the year. Industrial production winds down while households and commercial establishments also cut down on their cooling loads. Given this perspective on the seasonality of *kWh* sales, a higher proportion of the *MERALCO's* and *Clark Electric's* revenues are earned on the second half of the year. Aside from the quarterly seasonal pattern, *kWh* sales on a year-on-year basis adjust as a result of a number of factors. Sales of electricity normally increase in periods of economic growth, low inflation and electricity rates, and in periods of high temperatures over extended period of time, e.g. the "*El Niño*" episodes.

The following table sets forth *MERALCO Group* quarterly sales in *GWh* for the year ended December 31, 2021 and 2020.

Period	2021	2020
First Quarter	10,473	10,879
Second Quarter	12,190	10,260
Third Quarter	11,735	11,400
Fourth Quarter	11,675	11,033
Total	46,073	43,572

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

The *kWh* sales of *MERALCO* declined in the 2nd quarter of 2020 due to the onset of the *COVID-19* pandemic wherein community quarantine was implemented resulting to limited business activities of commercial and industrial customers. Business activities started to recover in the latter part of the year.

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

The Management is not aware of any known trends, demands, commitments, events or uncertainties that may deem potentially have a material impact on *MERALCO* Group's liquidity as at December 31, 2021, other than those already disclosed in this report and in the consolidated financial statements.

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

Listed hereunder are *MERALCO*'s five (5) major subsidiaries namely *Clark Electric*, *MGen*, *MIESCOR*, *e-MVI* and *CIS*. The following table summarizes their key financial performance and indicators as at and for the years ended December 31, 2021 and 2020.

Financial Highlights and Ratios¹ of Major Subsidiaries
As at and for the Year Ended December 31, 2021 and 2020
(Amounts in million pesos except for financial ratios and % change)

	Clark Electric			MGen			MIESCOR			e-MVI			CIS		
	2021 65%	2020 65%	% change	2021 100%	2020 100%	% change	2021 99%	2020 99%	% change	2021 100%	2020 100%	% change	2021 100%	2020 100%	% change
Condensed Statements of Financial Position															
Total assets	₱3,378	₱3,222	5	₱119,124	₱26,937	342	₱7,176	₱5,564	29	₱4,271	₱3,426	25	₱3,122	₱2,872	(20)
Current assets	1,433	1,441	(1)	20,227	2,052	886	6,385	4,951	29	1,155	1,986	(42)	3,089	3,827	(19)
Cash and cash	1,017	941	8	9,194	641	1,334	840	477	76	679	1,509	(55)	1,389	1,376	1
Equity	2,145	1,983	8	39,253	22,647	73	1,657	1,123	48	2,704	2,559	6	932	901	3
Total debt ²	—	—	—	48,578	2,622	1,753	683	729	(6)	—	—	—	—	—	—
Current liabilities	408	703	71	21,471	1,011	2,024	4,797	4,131	16	1,449	722	101	2,172	3,060	(29)
Financial Ratios															
Debt-to-equity ratio	—	—	—	1.24	0.12	969	0.41	0.65	(37)	—	—	—	—	—	—
Current ratio	3.51	2.05	71	0.94	2.03	(54)	1.33	1.20	11	0.80	2.75	(71)	1.42	1.25	14
Condensed Statements of Income															
Revenues	2,537	2,407	5	18,486	—	—	5,074	4,130	23	1,506	1,447	4	1,880	1,722	9
Costs and expenses	2,295	2,175	6	17,977	3,381	432	4,713	3,835	23	1,197	794	51	1,747	1,678	4
Net income (loss)	231	243	(5)	2,001	(2,352)	(185)	110	129	(15)	255	465	(45)	37	(50)	(174)
Financial Ratios															
Profit margin	9.1%	10.1%	(10)	10.8%	—	—	2.2%	3.1%	(31)	16.9%	32.1%	(47)	2.0%	(2.9%)	(168)
Return on equity	10.8%	12.3%	(12)	5.1%	(10.4%)	(149)	6.6%	11.5%	(42)	9.4%	18.2%	(48)	4.0%	38.8%	(90)
Asset turnover	0.77	0.91	(15)	0.25	—	—	0.80	0.87	(8)	0.39	0.56	(30)	0.52	0.63	(16)

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

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

ANNEX – Aging of Trade and Other Receivables

As at December 31, 2021

(Amounts in millions)

	T o t a l	1 - 30 days	31 - 60 days	61 - 90 days	Over 90 days
Trade receivables	₱42,998	₱26,929	₱2,013	₱1,471	₱12,585
Other trade receivables	3,814	969	251	182	2,412
Gross trade receivables	46,812	27,898	2,264	1,653	14,997
Non-trade receivables	4,125	3,263	77	16	769
Total receivables	50,937	31,161	2,341	1,669	15,766
Allowance for doubtful accounts	(5,924)	(93)	(273)	(808)	(4,750)
Net receivables	₱45,013	₱31,068	₱2,068	₱861	₱11,016

MARKET INFORMATION

The principal market where *MERALCO*'s common equity is traded in the Philippine Stock Exchange. The quarterly high and low sales prices for the fiscal years 2021 and 2020 and first quarter 2022 are as follows:

FROM	TO	HIGH	LOW
01/01/22	03/31/22	₱380.80	₱295.20
10/01/21	12/31/21	307.00	286.00
07/01/21	09/30/21	263.20	298.00
04/01/21	06/30/21	285.40	270.20
01/01/21	03/31/21	338.60	261.20
10/01/20	12/31/20	315.00	269.20
07/01/20	09/30/20	283.00	254.00
04/01/20	06/30/20	294.80	220.40
01/01/20	03/31/20	318.80	189.70

As of March 31, 2022, the share price of *MERALCO* is ₱373.60.

Holders

As at March 31, 2022, Company has 41,638 stockholders.

Top 20 Stockholders as of March 31, 2022

	STOCKHOLDER NAME	NUMBER OF SHARES	PERCENT
1	Beacon Electric Asset Holdings, Inc.	394,059,235.00	34.96%
2	JG Summit Holdings, Inc.	333,189,397.00	29.56%
3	PCD Nominee Corporation - Filipino	140,609,1704.00	12.48%
4	Metro Pacific Investments Corporation	118,364,807.00	10.50%
5	PCD Nominee Corporation - Non-Filipino	56,565,448.00	5.02%
6	First Philippine Holdings Corporation	44,382,436.00	3.94%
7	Mantes Corporation	2,486,427.00	0.22%
8	Lucio W. Yan	403,208.00	0.04%
9	Charlotte Cua Cheng	314,534.00	0.03%
10	Albert Ferreros Del Rosario and/or Margaret Gretchen De Venecia Del Rosario	291,140.00	0.03%
11	Avesco Marketing Corporation	284,427.00	0.03%
12	B. P. Insurance Agency, Inc.	281,079.00	0.02%
13	Makati Supermarket Corporation	240,308.00	0.02%
14	Albert Ferreros Del Rosario and/or Margaret Gretchen De Venecia Del Rosario	182,500.00	0.02%
15	Laarni Nieman Enriquez	164,388.00	0.01%
16	Jose Ignacio A. Carlos	161,687.00	0.01%
17	Antonino T. Aquino and/or Evelina S. Aquino	133,855.00	0.01%
18	AGIKIK CORPORATION	120,100.00	0.01%
19	BP Insurance Agency, Inc.	116,730.00	0.01%
20	Raul Joseph Concepcion	112,431.00	0.01%

Dividends

Following are the cash dividends declared by *MERALCO's BOD* in favor of *MERALCO* common shares for the two (2) most recent years ended December 31, 2020 and 2021:

YEAR	RATE PER SHARE	RECORD DATE	PAYMENT DATE
2021	₱ 7.824	03/25/2021	04/26/2021
	5.057	08/18/2021	09/15/2021
2020	₱ 10.395	03/17/2020	04/15/2020
	4.697	08/17/2020	09/15/2020

On February 28, 2022, the *BOD* of *MERALCO* approved the declaration of cash dividends of ₱10.226 a share to all shareholders of record as at March 30, 2022, payable on April 26, 2022.

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

MERALCO strictly implements its dividend policy, approved by the *BOD*, in 2010, which prescribes the regular payment of dividends equivalent to fifty percent (50%) of consolidated core net income for the year, which may be supplemented by a special dividend determined on a "look-back" basis. In 2021, *MERALCO* paid cash dividend of ₱15.283 per share to all its shareholders.

Recent Issuance of Securities Constituting an Exempt Transaction

None.

Corporate Social Responsibility

In 2021, *MERALCO*'s corporate social responsibility initiatives focused on providing electricity access to unenergized families, off-grid schools, livelihood centers, and communities affected by calamities. It also continued to support frontline institutions directly addressing the COVID-19 pandemic and marginalized communities severely affected by its social and economic impacts.

Driven by its corporate value of "*malasakit*" (solicitude), *MERALCO* not only provided excellent service and reliable power to its customers, but also implemented social development programs that resulted in a meaningful impact on people, prosperity, and the planet.

Through the household electrification advocacy, the Company assisted 7,509 low-income families in its franchise area to obtain access to the distribution grid. The 11-year old advocacy brings together the Company's business centers and network sectors, the local government, the beneficiaries, and its corporate foundation to collectively resolve technical, legal, and financial hurdles making electrification challenging in far-flung villages, as well as in informal settlements and relocation sites.

Outside the grid, *MERALCO* bridges the technology gap in remote, far-flung schools through the school electrification advocacy program. It makes electricity available in remote public schools through solar photovoltaic (PV) technology. Sixteen (16) schools in Eastern Samar, Negros Oriental, Bohol, and South Cotabato benefited from the program during the year.

Anchored on *MERALCO*'s sustainability strategy, electrification program of One Meralco Foundation ("*OMF*") electrification program was expanded to include community livelihood. In South Cotabato, 36 T'boli women weavers benefited from the donation of solar home lighting kits, replacing gas lamps and candles as their light source as they weave their t'nalak (traditional T'boli fabric) during the night and early morning, which are the ideal times when the abaca fiber is less brittle. Similarly, in Lamitan, Basilan, a 1.2-kilowatt solar photovoltaic system was installed at a community livelihood center where Yakan indigenous women showcase and market their traditional, hand-woven fabric, and pass on this knowledge to younger generations.

In partnership with One Million Lights Philippines, *OMF* distributed 600 solar headlamps to fishermen in 12 coastal villages in El Nido, Palawan. A follow-up initiative called “Light Up, Pilipinas” was launched in December. It raised ₱1.83 million from *MERALCO* employees and customers to provide solar lamps to indigenous communities, mobile vendors, fishermen, and forest rangers across the country in 2022.

Following the success of its pilot reforestation project in San Miguel, Bulacan, *MERALCO* brought its “One for Trees” program to Mindanao through a partnership with Xavier Science Foundation. It is now helping a Manobo community re-establish their ancestral forest, which they lost to excessive commercial logging in the 1950s. It also continued to nurture more than 90,000 trees planted in the last two years at the GreenEarth Heritage Foundation in Bulacan, and established a nursery of more than 200,000 saplings for planting in 2022.

Throughout the year, the Company implemented 232 community relations projects. These include donation of computers and peripheral devices to local government offices, police precincts, and public schools, helping automate their workflows.

MERALCO also donated 360 bicycles to the “Bike for Livelihood” project benefiting essential and frontline workers in Pasig, Manila, Quezon City, San Juan, and Malabon; and provided financial assistance to the families of soldiers who died when a C-130 plane of the Philippine Air Force crashed in Jolo, Sulu in July.

In celebration of Teachers’ Month, *MERALCO* recognized the heroism of teachers through the “Teacher Frontliner” campaign. More than 2,800 teachers in 82 public schools received a specially-designed bag containing a face mask, face shield, and hand sanitizer to protect them from the COVID-19 virus as they continued to work during the pandemic. The project was funded by employee donations worth ₱1.6M.

As the country entered the second year of the pandemic, *MERALCO* continued to support government frontliners, health workers, and vulnerable sectors of society. It donated personal protective equipment to healthcare frontliners, PNP personnel, youth at risk, and marginalized families. It also served 13,988 meals for almost 3,000 frontliners in five hospitals for 12 days. This was implemented with companies and corporate foundations in the MVP group. Thousands of food packages were also given out to wage earners who lost their job during the enhanced community quarantine in March and August.

In support of community pantries, *MERALCO*’s corporate foundation procured more than two tons of fresh vegetables from small-scale farmers and donated these to 37 community pantries, benefiting 6,917 families. A one-million peso grant was also given to the Tanging Yaman Foundation to provide rice and fresh vegetables to parishes providing support to the homeless and marginalized.

In support of the government’s vaccination drive, *MERALCO*, through *OMF*, donated 40,325 doses of Moderna vaccines to six local governments. It also supported the manpower requirements of Quezon City’s vaccination program.

The Company was also responsive to the needs of communities affected by calamities in its

franchise area and beyond. More than eight thousand families (8,922) affected by fires, floods, and typhoons benefited from relief operations, providing food and hygiene kits. Outside its franchise area, *MERALCO* lent a hand to provinces hit by Typhoon Odette in December. It deployed its power restoration teams and equipment to help local electric distributors immediately repair damaged facilities in Cebu, Bohol, Surigao, and Siargao. One hundred fifty-five engineers, linemen, and support crew worked with local electric cooperatives to help restore power in the affected areas paving the way for faster recovery from the disaster.

To help local governments address the immediate needs of typhoon victims, the Company also delivered 33 generator sets to Bohol, Surigao City, Dinagat, and Surigao del Norte. The typhoon devastated electric distribution lines and left these provinces in total blackout for months. The generator sets were vital in powering up evacuation centers and restoring the water supply.

At home, the Company continued its annual tradition of recognizing the academic excellence of dependents of its employees through the MVP Academic Achievement Awards. The program celebrated its 11th year virtually, honoring 210 awardees and 95 top achievers. It received a record-breaking 830 nominations.

MERALCO employees not only pursued excellence but also embraced the corporate values of “*malasakit*” and “*bayanihan*.” Throughout the year, they contributed to the work of Meralco’s foundation through volunteerism and donations. In 2021, they raised ₱ 4.86 million to fund various *OMF* initiatives.

One Meralco Foundation is honored to be recognized by esteemed institutions here and abroad such as the International Business Awards, the Philippine Quill Awards by the International Association of Business Communicators-Philippines, and the Anvil Awards by the Public Relations Society of the Philippines. These achievements could not have been made possible without the support of our leaders, advocacy partners, and volunteers, as well as the trust of our stakeholders in the community.

As the country begins to move forward from the pandemic, *MERALCO* remains committed to helping especially marginalized and underserved communities take the leap onward through electrification and other interventions that enable equitable and inclusive development -- and it all starts with “*Malasakit*.”

Compliance with Leading Practices on Corporate Governance

MERALCO, as a Philippine publicly listed company (“*PLC*”), is in full compliance with the rules and regulations of the Securities and Exchange Commission (“*SEC*”), the Philippine Stock Exchange (“*PSE*”), the Philippine Dealing and Exchange Corporation (“*PDEX*”) and all other rules and regulations for the development of the Philippine capital market.

As a testament to the *Company’s* good corporate governance, the Institute of Corporate Directors (“*ICD*”), acting as the domestic ranking body of the ASEAN Capital Markets Forum (“*ACMF*”) for the ASEAN Corporate Governance Scorecard (“*ACGS*”), recognized *MERALCO* as one of the top Philippine *PLCs*. *MERALCO* was awarded with Four Golden Arrows for its remarkable governance structure, programs and practices in the 2020 *ACGS* assessment wherein Meralco attained a score of 110.33.

Pursuant to the governance principle of transparency, *MERALCO* fully complied with the *SEC* and *PSE*'s reportorial requirements on corporate governance, including:

1. The 2021 Certification by the Compliance Officer of *MERALCO*'s full compliance with the Revised Manual of Corporate Governance. No deviations from the Manual transpired.
2. Certification of Board attendance, reports involving financial statements, disclosure of material information and events, clarifications on specific news articles concerning *MERALCO*, and trainings attended by Board members and key officers on corporate governance.
3. Disclosure requirements on direct and indirect ownership of securities under the Securities Regulation Code, and the reporting of trading transactions of directors and concerned officers of *MERALCO* by the Compliance Officer not later than the following day after the required event or transaction. There has been no case of insider trading involving directors and management of *MERALCO*.

Annual Corporate Governance Performance Assessments

The Company continues to strengthen policies and programs in accordance with best corporate governance practices aligned with the recommendations under the *SEC*'s 2017 Code of Corporate Governance for Publicly-Listed Companies, the Integrated Annual Corporate Governance Scorecard (I-ACGR) and the ASEAN Corporate Governance Scorecard ("ACGS").

MERALCO's Performance in the field of corporate governance was assessed and found to be exemplary in the ACGS which evaluates the level of CG practices of Philippine *PLCs* vis-à-vis regional and international standards and best practices. This was conducted by the *ICD* in cooperation with *SEC* and *PSE*.

Continuing Education for the Board and Senior Management

Corporate governance education continues with orientations and trainings for the Board and Senior Management. In fulfillment of the requirements of the Company's Revised Manual of Corporate Governance, the *ERC* Resolution No. 1, Series of 2004, *SEC* Memo Circular No. 19, Series of 2016, the Directors, together with the Senior Management, attended the 16th Annual Corporate Governance Enhancement Session (ACGES) on September 17 and November 12, 2021 entitled "Becoming Obsessed with the Customer" and "Agile Leadership: A Conversation with Ms. Anna Wintour." The ACGES covers four (4) hours of governance training and was accredited by the *SEC*. A Corporate Governance Webinar on Whistleblowing entitled, "An Insider's Guide to Workplace Whistleblowing Investigations: Building the Process in Your Company" was also conducted for the Company's Senior Management on October 20, 2021.

Continuing Policy Formulation

With the creation of a Corporate Governance Office ("CGO") in *MERALCO* in 2010, several corporate policies and programs were implemented such as the Revised Manual of Corporate Governance, Revised Code of Ethics, Policy on Blackout Period/Restriction on Trading of Shares, Policy on Solicitation and Acceptance of Gifts, "Be Right" Open Communication (integrated whistle-blowing) Policy, Conflict of

Interest, Related Party Transactions Policy, Suppliers Business Conduct, and Social Media Policy among others. In compliance with the recommendations under the *I-ACGR*, *MERALCO* adopted an Anti-Bribery and Corruption Policy which formalizes its stand against corrupt practices and specifies in detail the prohibition against corporate gift-giving to public and private individuals or entities that constitutes bribery or corruption. The Board also adopted and made available, at the option of a shareholder, an established Alternative Dispute Resolution (“*ADR*”) mechanism to resolve intra-corporate disputes in an amicable and effective manner as provided in the Revised Manual of Corporate Governance.

To reinforce board independence and pursuant to the recommendation under ASEAN Corporate Governance Scorecard and the *SEC*’s Code of Corporate Governance for *PLCs*, the Board appointed Independent Director (“*ID*”), Ret. Chief Justice Artemio V. Panganiban, as the Lead Independent Director. The Charter of the Board of Directors was also drafted to sets the Board’s purposes, authority, duties, and responsibilities, structure and procedures. The Board Charter also included the provision for guidelines on Board Meetings through Teleconferencing and Videoconferencing.

Following developments in governance policies and practices that are aligned with the recommendations under the Code of Corporate Governance for *PLCs*, the *I-ACGR*, and the ASEAN Corporate Governance Scorecard, *MERALCO* also introduced amendments to existing policies such as the Related Party Transactions Policy. Amendment of the Related Party Transactions Policy was made to include the defined thresholds for disclosure and approval of related party transactions and the treatment for de minimis transactions. Existing governance policies of the company are also continuously reviewed to align with developments in regulations and governance best practices.

Corporate Governance Advocacies and Outlook

Believing that corporate governance is about shining a light through the whole organization, *MERALCO* has institutionalized the Be Right Open Communication Policy in the corporate culture, which has paved the way to an extensive good governance awareness program for its internal stakeholders. CG orientations for its new employees and roadshows for its directors, officers, employees, and suppliers are regularly held, and online CG policy information campaigns are periodically issued. *MERALCO* has also enhanced its CG compliance monitoring through a unique online HR Express Corporate Governance Facility where employees can file their annual CG commitment, conflict-of-interest disclosures and gift registry.

MERALCO is in the process of embedding CG policies and programs in its business responsibility unit through its line leadership to make the full transition from compliance to a culture of good governance from Top Management to the ranks in the Company in pursuit of sustainability of relationships with and interests of all stakeholders.

MERALCO also ensures that the governance structure and policies of subsidiaries and affiliates are aligned with its current standards. The Company aided them in the review and drafting of their own Corporate Governance manuals, policies, codes, and best practices.

MERALCO believes that it is necessary to maintain a culture of good governance by utilizing innovative ways in reaching out to its stakeholders in these challenging times. In line with this, the Company introduced its enhanced Stockholders Electronic Registration and Voting Express (*SERVE*). *SERVE* allows the Company’s stockholders to cast their votes online and participate in the Annual

Stockholders' Meeting ("ASM") via remote communication. This also allows the stockholders to send their questions and clarifications regarding other agenda items.

The Company also provided online learning modules to its employees in January 2021 to strengthen the awareness of all employees on the governance policies promulgated by the Board. This provided an accessible platform that helped ensure that employees are continuously updated on the best practices in corporate governance.

In pursuit of further improvements in the discipline of governance, *MERALCO* is also actively involved with national and international CG advocates and organizations such as the *ICD*, and the Good Governance Advocates and Practitioners of the Philippines ("*GGAPP*"). The Company participates in best practice and knowledge-sharing events organized by these organizations with CG practitioners, *BOD* and Senior Management, as unified by their CG principles and philosophy that responsible professionals yield ethical companies and ultimately, economically sustainable businesses.

For a full discussion on the Corporate Governance practices and achievements of *MERALCO*, please refer to the Company website: www.meralco.com.ph.

SEC Form 17-A

A COPY OF THE COMPANY'S ANNUAL REPORT ON SEC FORM 17-A WILL BE PROVIDED WITHOUT CHARGE TO EACH PERSON UPON WRITTEN REQUEST OF ANY SUCH PERSON ADDRESSED TO:

**THE OFFICE OF THE CORPORATE SECRETARY
LOPEZ BUILDING, ORTIGAS AVENUE, BRGY. UGONG
PASIG CITY**

SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in the City of Pasig on April 20, 2022.

MANILA ELECTRIC COMPANY

April 20, 2022

A handwritten signature in black ink, appearing to read 'Simeon Ken R. Ferrer', is written over the printed name.

SIMEON KEN R. FERRER
Corporate Secretary

SEC Form 17-Q

A COPY OF THE COMPANY'S SEC FORM 17-Q FOR THE FIRST QUARTER OF 2022 WILL BE PROVIDED WITHOUT CHARGE TO EACH PERSON UPON WRITTEN REQUEST OF ANY SUCH PERSON ADDRESSED TO:

**THE OFFICE OF THE CORPORATE SECRETARY
LOPEZ BUILDING, ORTIGAS AVENUE, BRGY. UGONG
PASIG CITY**

MANILA ELECTRIC COMPANY

Management's Discussion and Analysis of Financial Position and Results of Operations

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

The financial information appearing in this report and in the accompanying unaudited interim consolidated financial statements is presented in Philippine peso, *MERALCO Group*'s functional and presentation currency, as defined under *PFRS*. All values are rounded to the nearest million pesos, except for earnings per share (“*EPS*”) data. The exchange rate used to translate U.S. dollars to Philippine peso in this report and in the accompanying unaudited interim consolidated financial statements is US\$1.00 to ₱51.74, the closing rate as at March 31, 2022 quoted through the Philippine Dealing System.

Financial Highlights and Key Performance Indicators

			Increase (Decrease)	
	March 31, 2022 (Unaudited)	December 31, 2021 (Audited)	Amount	%
Condensed Statements of Financial Position				
Total assets	₱502,123	₱483,482	₱18,641	4
Current assets	145,999	137,019	8,980	7
Cash and cash equivalents	58,034	55,007	3,027	6
Equity attributable to equity holders of the parent	89,254	95,204	(5,950)	(6)
Total debt	86,049	90,668	(4,619)	(5)
Current liabilities	182,635	161,570	21,065	13
	Unaudited			
	Three Months Ended March 31 2022	2021	Increase (Decrease) Amount	%
Condensed Statements of Income				
Revenues	₱85,905	₱64,712	₱21,193	33
Costs and expenses	80,837	55,304	25,533	46
Other income, net of expenses	2,040	707	1,333	189
Income before income tax	7,108	10,115	(3,007)	(30)
Net income	5,659	4,357	1,302	30
Net income attributable to equity holders of the parent	5,564	4,334	1,230	28
EPS attributable to equity holders of the parent	4.94	3.85	1.09	28
Condensed Statements of Cash Flows				
Net cash provided by operating activities	12,226	11,908	318	3
Net cash used in investing activities	(5,513)	(18,848)	13,335	(71)
Net cash provided by (used in) financing activities	(3,652)	19,116	(22,768)	(119)
Operational Data				
Number of customers (in thousands):				
Residential	6,888	6,644	244	4
Commercial	559	545	14	3
Industrial	11	11	—	—
Streetlight	5	5	—	—
Electricity sales volume (in <i>GWh</i>)	11,069	10,473	596	6
<u>System loss (in percentage):</u>				
<i>MERALCO</i>	6.02	6.14	(0.12)	(2)
Clark Electric Distribution Corporation (“ <i>Clark Electric</i> ”)	2.01	2.08	(0.07)	(3)

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

Financial KPI	Definition	March 31, 2022 (Unaudited)	December 31, 2021 (Audited)
Debt to Equity	$\frac{\text{Total debt}}{\text{Equity attributable to equity holders of the parent}}$	0.96	0.95
Current Ratio	$\frac{\text{Current assets}}{\text{Current liabilities}}$	0.80	0.85
		Unaudited Three Months Ended March 31 2022 2021	
Core EBITDA	<i>CCNI</i> 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	8,956	12,021
Profit Margin	$\frac{\text{Net income attributable to equity holders of the parent}}{\text{Revenues}}$	6%	7%
Return on Equity	$\frac{\text{Net income attributable to equity holders of the parent}}{\text{Equity attributable to equity holders of the parent}}$	6%	6%
Asset Turnover	$\frac{\text{Revenues}}{\text{Average total assets}}$	17%	15%

OVERVIEW

MERALCO is the Philippines' largest electric power distribution company, with franchise area covering 9,685 square kilometers. It provides power to almost 7.3 million customer accounts in 36 cities and 75 municipalities, which include Metro Manila, all of the provinces of Rizal, Cavite and Bulacan, and parts of the provinces of Pampanga, Batangas, Laguna and Quezon. Turnover of business establishments in the franchise area accounts for more than 50% of the country's Gross Domestic Product ("GDP").

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

- **Power**

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

Electricity distribution – This is principally electricity distribution and supply of power on a pass-through basis covering all captive customers in the *MERALCO* and Clark Electric Distribution Corporation ("*Clark Electric*") franchise areas in Luzon. Electricity distribution within the *MERALCO* franchise area accounts for approximately 55% of the power requirements of the country. *Clark Electric*'s franchise area covers Clark Special Economic Zone ("*CSEZ*") and the sub-zones.

Clark Electric, a 65%-owned subsidiary of *MERALCO*, holds the power distribution franchise for the *CSEZ* in Clark, Pampanga. The *Clark Electric* franchise area covers 320 square kilometers and serves 2,680 customer accounts as at March 31, 2022. *Clark Electric* is a registered private distribution utility with a franchise granted by Clark Development Corporation ("*CDC*") to own, operate and maintain a power distribution system and to distribute power exclusively within its franchise area, which includes the Clark Freeport Zone and the sub-zone. The Bases Conversion and Development Authority ("*BCDA*") confirmed that the power distribution franchise of *Clark Electric* within the entire *CSEZ* is until July 30, 2047.

Shin Clark Power Holdings, Inc. ("*Shin Clark*") is a consortium consisting of *MERALCO*, 60% and Axia Power Holdings Philippines Corporation (a wholly-owned subsidiary of Marubeni Corporation), KPIC Netherlands BV [a wholly-owned subsidiary of the Kansai Electric Power, Inc. ("*Kansai*")], and Chubu Electric Power Co., Inc. ("*Chubu*"), collectively holding 40%. *Shin Clark* manages the development, operation, and maintenance of the electric power distribution system in the 9,450-hectare New Clark City located within the Clark Special Economic Zone in the towns of Capas and Bamban, Tarlac, through a Joint Venture Agreement with the Bases Conversion and Development Authority ("*BCDA*"). As at April 25, 2022, the documents for the incorporation of the joint venture company with *BCDA* has been submitted to the Securities and Exchange Commission ("*SEC*") and is awaiting approval.

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

MERALCO PowerGen Corporation ("*MGen*") owns 51% interest in San Buenaventura Power Ltd. Co. ("*SBPL*") which operates a 455 *MW* (net) supercritical coal-fired plant in Mauban, Quezon.

Global Business Power Corporation ("*GBPC*"), a wholly owned subsidiary of *MERALCO*, is the largest independent power producer in the Visayas. *GBPC* owns 747 *MW* (net) of operating coal and diesel-fired power plants in the Visayas and Mindoro Island. *GBPC* also has a 50% interest in Alsons Thermal Energy Corporation ("*ATEC*"), which holds a 75% interest in Sarangani Energy Corporation ("*Sarangani Energy*"). *Sarangani Energy* operates a 2 x 105 *MW* (net) *CFB* plant in Maasim, Sarangani.

On June 30, 2021, *GBPC* broke ground for its 115 *MWdc* solar plant in Baras, Rizal. The plant is expected to start commercial operations in September 2022.

MGen also has a 28% indirect interest in PacificLight Power Pte Ltd. ("*PacificLight Power*"). In July 1, 2021, it acquired a 30% direct interest in PacificLight Power, increasing its effective ownership to

58%. *PacificLight Power* owns and operates a 2 x 400 MW (gross) combined cycle turbine power plant mainly fueled by liquefied natural gas (“LNG”) in Jurong Island, Singapore.

MGen is developing a 2 x 600 MW (net) coal-fired power plant in Atimonan, Quezon through its wholly-owned subsidiary, Atimonan One Energy, Inc. (“*AIE*”). *AIE* is currently assessing its next course of action following the unfortunate outcome of its participation in the Competitive Selection Process (“*CSP*”) conducted by *MERALCO* on January 27, 2021. In the meantime, advance site preparations and early engineering works are being done to meet the target operations date.

AIE is classified as a Committed Project of National Significance by the Department of Energy (“*DOE*”) and has the requisite Department of Environment and Natural Resources (“*DENR*”) approvals and permits. It is also recognized by the Board of Investments (“*BOP*”) as a registered Pioneer Project.

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

MGreen has 70% equity interest in *Nortesol III, Inc.* (“*Nortesol*”), a company engaged in the development, construction and operation of power plant and related facilities using renewable energy system and hybrid energy system. *Nortesol* is developing a 110 MWdc/90MWac floating solar facility in Laguna de Bay while awaiting the leasing policy from the Laguna Lake Development Authority (“*LLDA*”).

LagunaSol Corporation, a 100% owned subsidiary of *MGreen* was incorporated on September 24, 2020 to engage in the development, construction and operation of a power plant and related facilities using solar energy.

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

The *ERC* granted the following subsidiaries distinct *RES* licenses to operate as retail electricity suppliers within Luzon and Visayas: *Vantage*, a wholly owned subsidiary of *MERALCO*; *Solvre, Inc.* (“*Solvre*”), a wholly owned subsidiary of *MGen*; *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. On April 21, 2021, *Phoenix Power Solutions, Inc.* (“*Phoenix Power*”), a wholly owned subsidiary of *MERALCO*, was issued a *RES* license by the *ERC* while *Vantage RES* renewal is ongoing. *Clarion Energy Management Inc.* (“*Clarion*”), a wholly owned subsidiary of *Clark Electric*, submitted the requirements for its *RES* licensing to *ERC*. As at April 25, 2022, the approval of its *RES* licensing is pending with the *ERC*. *Global Energy Supply Corporation* (“*GESC*”), a wholly owned subsidiary of *GBPC*, was issued a *RES* license by the *ERC* on September 12, 2011 to September 12, 2021. On September 10, 2021, the *RES* license of *GESC* was renewed for another five (5) years beginning September 13, 2021.

- Other Services

The other services segment is involved principally in electricity-related services, such as: electro-mechanical engineering, construction, consulting and related manpower services, e-transaction and bills collection, telecommunications services, rail-related operations and maintenance services, insurance and re-insurance, e-business development, power distribution management, energy systems management, harnessing renewable energy, electric vehicle and charging infrastructure solutions. These services are provided by *MIESCOR*, Miescor Builders, Inc. (“*MBI*”), and Miescor Logistics, Inc. (“*MLI*”) (collectively known as “*MIESCOR Group*”), Corporate Information Solutions, Inc. (“*CIS*”), CIS Bayad Center, Inc. (“*Bayad*”) and Customer Frontline Solutions, Inc. (“*CFSP*”) (collectively referred to as “*CIS Group*”), eMeralco Ventures, Inc. (“*e-MVI*”), Paragon Vertical Corporation (“*Paragon*”) and Radius Telecoms, Inc. (“*Radius*”) (collectively referred to as “*e-MVI Group*”), MRail, Inc. (“*MRail*”), *Comstech*, eSakay, Inc. (“*eSakay*”), Lighthouse Overseas Insurance Limited (“*LOIL*”), Meralco Financial Services, Inc. (“*Finserve*”), Meralco Energy, Inc. (“*MServ*”) and MSpectrum, Inc. (“*Spectrum*”).

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

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

RESULTS OF OPERATIONS

The tables below summarize the consolidated results of operations and the contribution of each business segment to *MERALCO Group's* revenues, costs and expenses, other income, and net income for the three months ended March 31, 2022 and 2021.

Unaudited				
For the Three Months Ended March 31, 2022				
	Power	Other Services	Inter-segment Transactions	Consolidated
	<i>(Amounts in millions)</i>			
Revenues	₱83,272	₱3,568	(₱935)	₱85,905
Costs and expenses	78,929	2,688	(780)	80,837
Other income (expense) - net	2,004	44	(7)	2,041
Net income attributable to equity holders of the parent	5,194	466	(96)	5,564

Unaudited				
For the Three Months Ended March 31, 2021				
	Power	Other Services	Inter-segment Transactions	Consolidated
	<i>(Amounts in millions)</i>			
Revenues	₱62,484	₱2,821	(₱593)	₱64,712
Costs and expenses	53,707	2,195	(598)	55,304
Other income (expense) - net	740	(28)	(5)	707
Net income attributable to equity holders of the parent	3,937	419	(22)	4,334

2022 compared with 2021

REVENUES

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

Unaudited						
For the Three Months Ended March 31						
	2022		2021		Increase/Decrease	
	Amount	%	Amount	%	Amount	%
	<i>(Amounts in millions)</i>					
Power	₱83,272	97	₱62,484	97	₱20,788	33
Other services	3,568	4	2,821	4	747	26
Inter-segment transactions	(935)	(1)	(593)	(1)	(342)	58
Total	₱85,905	100	₱64,712	100	₱21,193	33

Consolidated revenues rose by 33% to ₱85,905 million from ₱64,712 million with the growth in power generation contribution, uptick in energy sales, and increase in pass-through charges. On March 31, 2021, *MGen* acquired an additional 86% equity in *GBPC*, increasing *MGen's* equity interest in *GBPC* to 100%. As such, *MERALCO's* consolidated revenues for the three months ended March 31, 2021 does not include *GBPC's* revenues.

Non-electric revenues, which accounted for 4% of consolidated total revenues, grew by 26% due to increase in business activities of subsidiaries following more relaxed quarantine restrictions and business expansion initiatives.

Power

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

Revenues of the power segment in 2022 was at ₱83,272 million, ₱20,788 million or 33% higher compared with 2021 mainly due to higher pass-through charges on account of the unprecedented increase in global fuel prices.

MERALCO’s average retail rate increased by 14% to ₱8.89 per *kWh* from ₱7.82 per *kWh* as generation charges, which accounted for about 59% of total retail rate, went up by 21%. Transmission charges, comprising 9% of the retail rate, also increased by 9%.

The rate increase was mitigated by the ₱0.1064 per *kWh* average refund of distribution over-recoveries, which was implemented by *MERALCO* following the order of the Energy Regulatory Commission (“*ERC*”) in March 2022. This refund was intended to expand its coverage to include the December 2020 to December 2021 period. This is in addition to the ₱0.1528 per *kWh* refund of distribution over-recoveries for the period July 2015 to November 2020, which is currently being implemented as ordered by the *ERC* in February 2021. With these, the average effective distribution rate charged to customers by *MERALCO* was at ₱1.33 per *kWh* for the first quarter of 2021.

MERALCO’s 12-month moving average (“*12-MMA*”) system loss at end-March was at 6.02%, a 0.12 percentage point improvement compared with 6.14% in 2021 as a result of sales approaching pre-pandemic mix and system loss management initiatives. *Clark Electric Distribution Corporation*’s 12-MMA system loss was at 2.01% as at March 2022.

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

Customer Class	No. of Customers (in thousands)		Electricity Sales (in GWh)		% Change	
	2022	2021	2022	2021	No. of Customers	Electricity Sales
Residential	6,888	6,644	3,808	3,616	4	5
Commercial	559	545	3,781	3,560	3	6
Industrial	11	11	3,443	3,261	–	6
Streetlights	5	5	37	36	–	3
Total	7,463	7,205	11,069	10,473	4	6

Consolidated distribution utility energy sales volumes in the first quarter rose to 11,069 *GWh* from 10,473 *GWh* in the same period last year following the easing of pandemic-related restrictions and higher temperatures.

National Capital Region (“*NCR*”) and parts of Cavite, Laguna, Batangas, Rizal and Quezon (“*CALABARZON*”) were placed under the least restrictive Alert Level 1 in March 2022, driving power demand in Luzon that peaked at 11,654 *MW* on March 23, 2022, exceeding the actual peak demand in 2021. *MERALCO* peak demand for the first quarter of 2022 was at 7,816 *MW*, 10% higher than the previous year.

In terms of the sales mix, residential sales accounted for 35%, while commercial and industrial sales accounted for 34% and 31%, respectively.

While demand in the residential segment continued to normalize with increased mobility due to higher vaccination rate, the continuing hybrid work arrangements and home-based learning set-up, as well as the relatively warmer temperatures pushed residential sales volume to grow 5% to 3,808 *GWh* from 3,616 *GWh*.

Commercial sales volumes likewise went up to 3,781 *GWh* from 3,560 *GWh* amid the increase in economic activities. Demand in the real estate and education sectors posted growth as schools began hybrid face-to-face classes. Full operation of retail, restaurants, and hospitality sectors also contributed to the higher commercial sales volumes.

With the more relaxed restrictions, growth in industrial sales volumes was sustained, increasing to 3,443 *GWh* from 3,261 *GWh*. Growth mainly came from the semiconductor, cement, food and beverage, plastics, and chemical packaging industries.

Meanwhile, consolidated customer count grew at a steady 4% to 7.46 million at end-March 2022 from 7.21 million in the same period last year. Energization of new customers for both ordinary service and project-covered applications recovered, as local government units and developers cleared backlogs and normalized operations.

Other Services

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

Revenues of *Bayad* increased in the first three months of 2022 due to higher volume of bills payment transactions handled, load top-up and remittances. *Bayad* also added 27 new billers, bringing its total number of serviced billers to 505 as of end-March 2022. Launched in January 2021, the *Bayad* App recorded over 220,500 downloads and executed ₱73 billion in bills payment transactions. Meanwhile, *Bayad* Online recorded 53,211 registered users since its commercial launch in December 2020.

Radius recorded ₱427.9 million consolidated revenues for the first quarter of 2022 versus ₱337.6 million compared with the same period last year. With the establishment of its capability to manage end-to-end broadband operations, *Radius*’ RED Fiber for Business ended the first quarter of 2022 with 37,012 subscribers in Metro Manila, Rizal, Bulacan, Cavite Laguna, Cebu and Clark in Pampanga.

MIESCOR, the engineering and construction arm of *MERALCO*, and its subsidiaries contributed ₱36.0 million to *MERALCO*’s *CCNI* in the first quarter of 2022 as revenues grew by 13% to ₱1.4 billion driven by its Engineering, Procurement and Construction (“*EPC*”) and telecoms contracts.

COSTS AND EXPENSES

Consolidated costs and expenses for the three months ended March 31, 2022, amounted to ₱80,837 million, higher by ₱25,533 million compared with ₱55,304 million in 2021. The following table shows the breakdown of consolidated costs and expenses by business segment:

	Unaudited					
	For the Three Months Ended March 31					
	2022		2021		Increase/Decrease	
	Amount	%	Amount	%	Amount	%
<i>(Amounts in millions)</i>						
Power ¹	₱78,929	98	₱53,707	97	₱25,222	47
Other services	2,688	3	2,195	4	493	22
Inter-segment transactions	(780)	(1)	(598)	(1)	(182)	30
Total	₱80,837	100	₱55,304	100	₱25,533	46

Power

Costs and expenses of power segment for the three months ended March 31, 2022 amounted to ₱78,929 million, 47% higher compared with ₱53,707 million in 2021. The details of costs and expenses are summarized in the following table:

	Unaudited					
	For the Three Months Ended March 31					
	2022		2021		Increase/Decrease	
	Amount	%	Amount	%	Amount	%
<i>(Amounts in millions)</i>						
Purchased power	₱61,551	78	₱47,482	89	₱14,069	30
Salaries, wages and employee benefits	3,112	4	2,864	5	248	9
Depreciation and amortization	3,130	4	1,913	4	1,217	64
Contracted services	1,760	2	1,619	3	141	9
Coal and fuel	3,466	4	–	1	3,466	–
Others	5,910	7	(171)	-	6,081	(3,556)
Total	₱78,929	100	₱53,707	100	₱25,222	47

Purchased power accounted for 78% and 89% of the total costs and expenses for the three months ended March 31, 2022 and 2021, respectively. All of the electricity distributed by *MERALCO* and *Clark Electric* are mostly contracted through *PSAs* with generators and long-term Power Purchase Agreements (“*PPA*”) with Independent Power Producers (“*IPP*”), with any uncontracted volume sourced from the Wholesale Electricity Spot Market (“*WESM*”).

Purchased power cost (“*PPC*”) increased by 30% to ₱61,551 million from ₱47,482 million due to higher cost of power caused by the spike in global fuel prices, as well as by the increase in the *WESM* prices as a result of tight supply conditions and higher average capacity on outage in Luzon. The average Malampaya natural gas price also increased to US\$8.71 per *GJ* during the quarter versus US\$6.26 per *GJ* the previous year. The Malampaya gas supply restrictions, which began in March 2021, forced suppliers to use more expensive alternative fuel. The depreciation of the peso against the US dollar to ₱51.74 at the end of March this year from ₱48.53 as of end-March last year also contributed to the higher *PPC*.

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

¹*Ibid.*

Other Services

Costs and expenses of other services business segment for the three months ended March 31, 2022 amounted to ₱2,688 million, 22% higher compared with ₱2,195 million in 2021.

Unaudited						
For the Three Months Ended March 31						
	2022		2021		Increase/Decrease	
	Amount	%	Amount	%	Amount	%
<i>(Amounts in millions)</i>						
Salaries, wages and employee benefits	₱1,074	40	₱928	42	₱146	16
Contracted services	570	21	398	18	172	43
Depreciation and amortization	149	6	137	6	12	9
Others	895	33	732	33	163	22
Total	₱2,688	100	₱2,195	100	₱493	22

The increase in the cost and expenses of other business segment was driven mainly by higher business activities for the three months ended March 31, 2022 compared with the same period in 2021.

OTHER INCOME (EXPENSES)

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

Unaudited				
For the Three Months Ended March 31				
	2022	2021	Increase/Decrease	
			Amount	%
<i>(Amounts in millions)</i>				
Power ²	₱2,004	₱740	₱1,264	171
Other services	44	(28)	72	(257)
Intersegment transactions	(7)	(5)	(2)	40
Total	₱2,041	₱707	₱1,334	189

Other income, net of expenses for the three months ended March 31, 2022 increased by ₱1,334 million mainly due to higher share in the net earnings of associates and joint ventures and foreign exchange gain recorded with the depreciation of Philippine peso against the U. S. dollar in 2021, offset by lower yield from investments and higher interest and other financial charges and higher interest and financial charges due to GBPC's consolidation in March 31, 2021.

²Ibid.

Power

Breakdown of other income (expenses) of power segment are as follow:

Unaudited				
For the Three Months Ended March 31				
	2022	2021	Increase/Decrease	
			Amount	%
	(Amounts in millions)			
Interest and other financial income	₱413	₱472	(₱59)	(13)
Interest and other financial charges	(998)	(439)	(559)	127
Equity in net earnings of associates and joint ventures	2,105	294	1,811	616
Foreign exchange gains	220	62	158	255
Others	264	351	(87)	(25)
Total	₱2,004	₱740	₱1,264	171

Interest and other financial income declined by ₱59 million in 2022 with lower interest rates on peso and dollar placements during the period.

Interest and other financial charges increased by ₱559 million due to additional loans obtained in March 2021 to fund the acquisition of *GBPC*, and consolidation of *GBPC* and subsidiaries' interest expense beginning April 1, 2021. Interest expense and other financial charges for the period ended March 31, 2021 do not include interest expense of *GBPC* and subsidiaries.

The higher equity in net earnings of associates and joint ventures was attributed to the net income contribution of *SBPL* and *PacificLight*.

Foreign exchange gains increased due to the depreciation of Philippine peso against the U.S. dollar. The exchange rate of U.S. dollar is ₱51.74 as at March 31, 2022 (₱51.00 as at December 31, 2021) compared with is ₱48.53 as at March 31, 2021 (₱48.02 as at December 31, 2020)

NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The following table shows the breakdown of net income attributable to equity holders of the parent by business segment:

Unaudited						
For the Three Months Ended March 31						
	2022		2021		Increase/Decrease	
	Amount	%	Amount	%	Amount	%
<i>(Amounts in millions)</i>						
Power	₱5,194	93	₱3,937	91	₱1,257	32
Other services	466	8	419	10	47	11
Inter-segment transactions	(96)	(2)	(22)	(1)	(74)	(336)
Total	₱5,564	100	₱4,334	100	₱1,230	28

Net income attributable to equity holders of the parent increased by ₱1,230 million due to higher volume of energy sold this period compared to the same period last year and increase in contribution from its power generation business.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	March 31, 2022 Unaudited	December 31, 2021 Audited	Increase (Decrease) Amount %	
	(Amounts in millions)			
ASSETS				
Noncurrent Assets				
Utility plant and others	₱228,625	₱225,779	₱2,846	1
Investments in associates and interests in joint ventures	25,800	23,450	2,350	10
Investment properties	1,495	1,496	(1)	–
Deferred tax assets - net	28,021	27,226	795	3
Intangible assets	15,103	15,387	(284)	(2)
Financial and other noncurrent assets	57,080	53,125	3,955	7
Total Noncurrent Assets	356,124	346,463	9,661	3
Current Assets				
Cash and cash equivalents	58,034	55,007	3,027	6
Trade and other receivables	49,242	45,013	4,229	9
Inventories	10,006	9,817	189	2
Financial and other current assets	28,717	27,182	1,535	6
Total Current Assets	145,999	137,019	8,980	7
Total Assets	₱502,123	₱483,482	₱18,641	4
EQUITY AND LIABILITIES				
Equity attributable to equity holders of the parent	₱89,254	₱95,204	(₱5,950)	(6)
Non-controlling interests	10,244	10,239	5	–
Total Equity	99,498	105,443	(5,945)	(6)
LIABILITIES				
Noncurrent Liabilities				
Interest-bearing long-term financial liabilities - net of current portion	52,102	52,720	(618)	(1)
Customers' deposits - net of current portion	30,982	30,901	81	–
Long-term employee benefits	10,926	10,257	669	7
Provisions	14,073	13,554	519	4
Refundable service extension costs - net of current portion	5,285	5,334	(49)	(1)
Deferred tax liabilities - net	5,639	5,722	(83)	(1)
Other noncurrent liabilities	100,983	97,981	3,002	3
Total Noncurrent Liabilities	219,990	216,469	3,521	2
Current Liabilities				
Notes payable	28,471	28,834	(363)	(1)
Trade payables and other current liabilities	142,521	119,056	23,465	20
Customers' refund	2,926	2,929	(3)	–
Income tax payable	3,241	1,637	1,604	98
Current portion of interest-bearing long-term financial liabilities	5,476	9,114	(3,638)	(40)
Total Current Liabilities	182,635	161,570	21,065	13
Total Liabilities	402,625	378,039	24,586	7
Total Liabilities and Equity	₱502,123	₱483,482	₱18,641	4

Utility Plant and Others

The ₱2,846 million increase in utility plant and others reflects the completed and on-going construction of electric distribution-related facilities, and upgrade and major rehabilitation of existing electrical facilities and IT related assets, most of which represents regulated capital expenditures by *ERC*'s definition, totaling to about ₱5,731 million, net of depreciation and amortization of ₱2,851 million for the period.

Investments in Associates and Interests in Joint Ventures

For the three months ended March 31, 2022, there were (a) additional investments in associates and joint ventures of ₱226 million and (b) recognition of equity in net earnings of ₱2,115 million.

Financial and Other Noncurrent Assets

The higher balance of this account is mainly attributed to the additional under recoveries of pass through charges resulting from increasing generation and transmission charges recognized during the period.

Trade and Other Receivables

The increase in trade and other receivables balance was mainly driven by higher *kwh* sales and average retail rate per *kwh* in March 2022 compared with December 2021. The average retail rate in March 2022 is ₱8.89 per *kwh* compared with ₱8.26 per *kwh* in December 2021.

Financial and Other Current Assets

There were additional investments in debt securities at amortized cost made during the first quarter of 2022.

Interest-bearing long-term financial liabilities

In the first quarter of 2022, *PEDC* paid its bank loans of ₱4,288 million.

Long-term employee benefits

The increase in this account is due to the long-term employee benefits expense recognized during the period.

Provisions

Provisions represents the net settlement, reversals and adjustments made during the year.

Other Noncurrent Liabilities

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

Trade Payables and Other Current Liabilities

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

Income Tax Payable

Income tax payable as of March 31, 2022 included the amounts due as of December 31, 2021 and that for the first quarter of 2022.

2021 compared with 2020

REVENUES

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

	Unaudited					
	For the Three Months Ended March 31					
	2021		2020		Increase/Decrease	
	Amount	%	Amount	%	Amount	%
<i>(Amounts in millions)</i>						
Power ³	₱62,484	97	₱67,911	97	(₱5,427)	(8)
Other services	2,820	4	2,689	4	131	5
Inter-segment transactions	(593)	(1)	(571)	(1)	(22)	4
Total	₱64,711	100	₱70,029	100	(₱5,318)	(8)

Consolidated electric revenues, representing 97% of total revenues, declined by 8% as a result of the combined effects of (a) lower sales volume as compared with the same period last year, and (b) lower pass through generation charges resulting from decrease in average fuel prices.

Non-electric revenues, which accounted for 4% of consolidated revenues, increased by 5% due to higher volume of bills payment transactions, load top-up and remittances of *Bayad*.

Power

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

Gross revenues for the three (3) months ended March 31, 2021 was at ₱62,484 million, 8% lower than the ₱67,911 million in 2020 mainly due to the lower volumes distributed and overall lower generation and transmission pass-through charges. Generation and other pass-through components as a percentage of total electricity revenues was slightly lower at 77% in 2021 (78% in 2020) mainly due to the appreciation of the peso vis-à-vis the U.S. dollar and the overall lower gas prices, although offset by the higher prices at the *WESM*. For the first quarter of 2021, average electric revenues exclusive of taxes and pass-through universal charges was at ₱6.72 per *kWh* compared with ₱6.97 per *kWh* in 2020.

MERALCO's 12-month moving average system loss ("SL") rate was at 6.14% as at March 31, 2021, higher than that of 2020 mainly due to the shift in customer mix to residential customers which have higher technical losses as power is served at the secondary voltage level. The *SL* regulatory cap stood at 7.00% including 1.00% assumed typical sub-transmission and substation technical losses. *Clark Electric's* 12-month moving average *SL* rate was at 2.17%, 0.05 percentage point lower than in 2020.

The following table summarizes the customer count as at March 31, 2021 and 2020 and the corresponding energy sales volume per customer class for the three months ended March 31, 2021 and 2020:

Customer Class	No. of Customers		Electricity Sales		% Change	
	<i>(in thousands)</i>		<i>(in GWh)</i>		No. of Customers	Electricity Sales
	2021	2020	2021	2020		
Residential	6,588	6,387	3,616	3,366	3	7
Commercial	541	531	3,560	4,343	2	(18)
Industrial	11	11	3,262	3,135	—	4
Streetlights	5	4	35	35	25	—
Total	7,145	6,933	10,473	10,879	3	(4)

³*Ibid.*

Consolidated energy sales volume declined by 4% to 10,473 *GWh*, which include volume distributed by *Clark Electric* of 128 *GWh*. The volume of *Clark Electric* on a standalone basis decreased by 6.3% compared with 2020. The combined contributions of *MERALCO* and *Clark Electric* came from all customer sectors with consolidated residential volumes accounting for 35% of total volume, providing a total of 3,366 *GWh* growth.

Overall customer count grew at a steady 4% to 7.2 million for a total year-on-year addition of more than 249 thousand net new accounts with residential, commercial and commercial segments growing at 3%, 2% and 1%, respectively.

Combined commercial sales volumes were at 34% of the total in 2021 compared with 40% in 2020 with total volume at 3,560 *GWh* or 18% lower. Commercial volumes from the retail and recreation sectors showed some improvements during 1Q2021 as mobility was eased for supermarkets and pharmacies, until prior to the re-imposition of General Community Quarantine (“*GCQ*”) towards the end of March 2021. Recovery of business of hotels, restaurants and education sectors is not expected until further easing in community restrictions, which is expected only when herd immunity is achieved.

The share of Industrial volumes was at 31%, representing 3,261 *GWh* in the first quarter of 2021, two (2) percentage points higher than the share during the same period in 2020. Industrial sales volumes bounced back, reflecting a 4% quarter-on-quarter growth with the increased demand for (i) steel and cement as the Government “Build Build Build” (“*BBB*”) projects are being fast-tracked; and (ii) essential goods, primarily that of food and beverages to provide for a consumption-driven economy; and (iii) semiconductor components with the increasing use of gadgets for *WFH* arrangements, online distance learning (“*ODL*”) and telecommuting.

Other Services

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

COSTS AND EXPENSES

Consolidated costs and expenses for the three months ended March 31, 2021 amounted to ₱55,304 million, lower by ₱11,911 million compared with ₱67,215 million in 2020. The following table shows the breakdown of consolidated costs and expenses by business segment:

	Unaudited					
	For the Three Months Ended March 31					
	2021		2020		Increase/Decrease	
	Amount	%	Amount	%	Amount	%
	<i>(Amounts in millions)</i>					
Power ⁴	₱53,707	97	₱65,753	98	(₱12,046)	(18)
Other services	2,195	4	2,041	3	154	8
Inter-segment transactions	(598)	(1)	(579)	(1)	(19)	3
Total	₱55,304	100	₱67,215	100	(₱11,911)	(18)

⁴*Ibid.*

Power

Costs and expenses of power segment for the three months ended March 31, 2021 amounted to ₱53,707 million, 18% lower compared with ₱65,753 million in the same period in 2020. The details of costs and expenses are summarized in the following table:

Unaudited						
For the Three Months Ended March 31						
	2021		2020		Increase/Decrease	
	Amount	%	Amount	%	Amount	%
	<i>(Amounts in millions)</i>					
Purchased power	₱47,482	88	₱51,824	79	(₱4,342)	(8)
Salaries, wages and employee benefits	2,864	5	2,845	4	19	1
Depreciation and amortization	1,913	4	1,942	3	(29)	(1)
Contracted services	1,619	3	1,485	2	134	9
Others	(171)	—	7,657	12	(7,828)	(102)
Total	₱53,707	100	₱65,753	100	(₱12,046)	(18)

Purchased power accounted for 88% and 79% of the total costs and expenses for the three months ended March 31, 2021 and 2020, respectively. All of the electricity distributed by *MERALCO* and *Clark Electric* are contracted through *PSAs* with generators and long-term Power Purchase Agreements (“*PPA*”) with Independent Power Producers (“*IPP*”). The balance was purchased from the *WESM*.

The purchased power cost in 2021 decreased by 8% compared with 2020 due to lower pass-through generation charge with the (i) overall lower fuel costs (US\$ 6.26 per Giga Joule (“*GJ*”) of oil-indexed Malampaya gas in 2020 versus US\$ 7.51 per *GJ* in 2020); and (ii) appreciation of the peso versus the US\$ (₱48.53:US\$1 as at March 31, 2021 versus ₱50.68:US\$1 at end March 2020).

Contracted services amounted to ₱1,169 million, higher by ₱134 million compared with last year. Contracted services include information system/IT services, cloud subscriptions, and customer-related expenses such as billings and collections, meter reading, and messengerial services. The increase was driven by the resumption of disconnecting services for customers with overdue accounts in 2021 resulting in higher collection and messengerial services.

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

Other Services

Costs and expenses of other services business segment for the three months ended March 31, 2021 amounted to ₱2,195 million, 8% higher compared with ₱2,041 million in the same period in 2020.

Unaudited						
For the Three Months Ended March 31						
	2021		2020		Increase/Decrease	
	Amount	%	Amount	%	Amount	%
<i>(Amounts in millions)</i>						
Salaries, wages and employee benefits	₱928	42	₱905	44	₱23	3
Contracted services	398	18	484	24	(86)	(18)
Depreciation and amortization	137	6	138	7	(1)	(1)
Others	732	34	514	25	218	42
Total	₱2,195	100	₱2,041	100	₱154	8

Salaries, wages and employee benefits expense is higher by ₱23 million due to the additional personnel in *MIESCOR* and *Radius* for their new businesses/projects.

Decrease in contracted services by ₱86 million is due to higher sub-contracted costs for Engineering, Procurement and Construction projects for *MIESCOR* in same period in 2020.

Other expenses consisted mainly of materials, transportation and travel, taxes, rental and utility expenses.

OTHER INCOME (EXPENSE)

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

Unaudited				
For the Three Months Ended March 31				
	2021	2020	Increase/Decrease	
			Amount	%
<i>(Amounts in millions)</i>				
Power ⁵	₱740	₱969	(₱229)	(24)
Other services	(28)	(6)	(22)	367
Intersegment transactions	(5)	(8)	3	(38)
Total	₱707	₱955	(₱248)	(26)

Other income – net for the three months ended March 31, 2021 is lower by ₱248 million compared with 2020 due mainly to lower yield of investments and higher interest and other financial charges in 2021.

⁵*Ibid.*

Power

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

Unaudited				
For the Three Months Ended March 31				
	2021	2020	Increase/Decrease	
			Amount	%
	(Amounts in millions)			
Interest and other financial income	₱472	₱769	(₱297)	(39)
Interest and other financial charges	(439)	(386)	(53)	14
Equity in net earnings of associates and joint ventures	294	302	(8)	(3)
Foreign exchange gains	62	68	(6)	(9)
Others	351	216	135	63
Total	₱740	₱969	(₱229)	(24)

Interest and other financial income declined by ₱297 million due to lower placements for the first quarter of 2021 and lower yields of investments resulting.

NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The following table shows the breakdown of net income attributable to equity holders of the parent by business segment:

Unaudited						
For the Three Months Ended March 31						
	2021		2020		Increase/Decrease	
	Amount	%	Amount	%	Amount	%
<i>(Amounts in millions)</i>						
Power ⁶	₱3,937	91	₱2,204	84	₱1,733	79
Other services	419	10	449	17	(30)	(7)
Inter-segment transactions	(22)	(1)	(34)	(1)	12	(35)
Total	₱4,334	100	₱2,619	100	₱1,715	66

Net income attributable to equity holders of the parent is higher by ₱1,715 million compared with the same period last year due to lower *kWh* sales. The net income attributable to equity holders of the parent in 2020 included the impairment loss recognized on *MERALCO* group's advances to FPM Power Holdings Limited ("*FPM Power*") amounting to ₱2.7 billion.

⁶*Ibid.*

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	March 31, 2021 (Unaudited)	December 31, 2020 (Audited)	Increase (Decrease) Amount %	
	(Amounts in millions)			
ASSETS				
Noncurrent Assets				
Utility plant and others	₱206,918	₱163,009	₱43,909	27
Investments in associates and interests in joint ventures	16,803	15,688	1,115	7
Investment properties	1,499	1,499	–	–
Deferred tax assets - net	24,757	28,943	(4,186)	(14)
Financial and other noncurrent assets	65,841	52,746	13,095	25
Total Noncurrent Assets	315,818	261,885	53,933	21
Current Assets				
Cash and cash equivalents	63,011	50,912	12,099	24
Trade and other receivables	50,965	58,120	(7,155)	(12)
Inventories	7,379	5,484	1,895	35
Financial and other current assets	22,232	13,866	8,366	60
Total Current Assets	143,587	128,382	15,205	12
Total Assets	₱459,405	₱390,267	₱69,138	18
EQUITY AND LIABILITIES				
Equity attributable to equity holders of the parent	₱74,524	₱79,237	(₱4,713)	(6)
Non-controlling interests	6,977	1,494	5,483	367
Total Equity	81,501	80,731	770	1
LIABILITIES				
Noncurrent Liabilities				
Interest-bearing long-term financial liabilities - net of current portion	34,385	14,809	19,576	132
Customers' deposits - net of current portion	30,436	29,844	592	2
Long-term employee benefits	17,198	15,327	1,871	12
Provisions	14,283	17,065	(2,782)	(16)
Refundable service extension costs - net of current portion	4,744	6,632	(1,888)	(28)
Deferred tax liabilities - net	82	316	(234)	(74)
Other noncurrent liabilities	91,918	82,942	8,976	11
Total Noncurrent Liabilities	193,046	166,935	26,111	16
Current Liabilities				
Notes payable	45,347	23,373	21,974	94
Trade payables and other current liabilities	123,212	111,261	11,951	11
Customers' refund	2,919	2,949	(30)	(1)
Income tax payable	3,940	3,056	884	–
Current portion of interest-bearing long-term financial liabilities	9,440	1,962	7,478	29
Total Current Liabilities	184,858	142,601	42,257	381
Total Liabilities	377,904	309,536	68,368	30
Total Liabilities and Equity	₱459,405	₱390,267	₱69,138	22

On March 31, 2021, *MGen* acquired 86% equity in *GBPC*, increasing *MGen*'s equity interest in *GBPC* to 100%. As such, *MERALCO*'s unaudited consolidated statement of financial position as at March 31, 2021 included the consolidation of *GBPC*'s assets and liabilities.

Utility Plant and Others

The ₱43,909 million increase in utility plant and others reflects the consolidation of *GBPC*'s property, plant and equipment amounting to ₱41,718 million as at March 31, 2021, and the completed and on-going construction of electric distribution-related facilities, and upgrade and major rehabilitation of existing electrical facilities and IT related assets, totaling to about ₱4,099 million, net of depreciation and amortization of ₱1,882 million in the first quarter of 2021.

Investments in Associates and Interests in Joint Ventures

The increase in this account was due to the combined effects of the additional investments in associates and joint ventures amounting to ₱664 million and equity in net earnings amounting to ₱293 million.

Deferred Tax Assets

On March 26, 2021, the *CREATE* bill, with vetoed provisions, was signed into law by the President as Republic Act No. 11534 and reduced the current corporate income tax rate to 25% from 30% effective July 1, 2020. The reduction of corporate income tax rate resulted in lower deferred tax assets as at March 31, 2021 compared with December 31, 2020.

Financial and Other Noncurrent Assets

Financial and other noncurrent assets as at March 31, 2021 included ₱13,554 million intangible assets resulting from the acquisition of *GBPC*, subject to ongoing review of the purchase price allocation.

Cash and Cash Equivalents

Cash and cash equivalents as at March 31, 2021 included cash and cash equivalents of *GBPC* amounting to ₱9,731 million.

With the *ERC* approval of the ₱13.9 billion refund of distribution over-recoveries in February 2021, the effective distribution rate recognized as revenue by *MERALCO* was at Pesos 1.3789 per *kWh*. Meanwhile, cash collections are net of refund of ₱0.1575 per *kWh* for the month of March or an equivalent ₱541 million.

For the first three (3) month of 2021, *MERALCO* has refunded to its customers ₱1.3 billion covering transmission, system loss, lifeline subsidy, and senior citizen discount over-recoveries and collected from its customers ₱0.3 billion for generation cost under-recoveries, for a net cash refund of ₱ 1.0 billion across all customers.

Trade and Other Receivables

In January 2021, *MERALCO* started implementing disconnection of services to customers with overdue accounts. This resulted in the increase in collections from customers and decrease in the outstanding trade and other payables accounts as at March 31, 2021.

Inventories

Inventories as at March 31, 2021 included inventories of *GBPC* amounting to ₱2,197 million.

Financial and Other Current Assets

Additional investments were made during the period resulting in the increase in investments in debt securities at amortized cost as at March 31, 2021.

Interest-bearing long-term financial liabilities

Interest-bearing long-term financial liabilities as at March 31, 2021 included *GBPC*'s current and noncurrent portion of interest-bearing long-term financial liabilities amounting to ₱7,533 million and ₱19,582 million, respectively.

Long-term employee benefits

The increase in this account is due to the long-term employee benefits expense recognized during the period. As at March 31, 2021, this account included *GBPC*'s long-term employee benefits amounting to ₱1,055 million.

Provisions

The decrease in provisions represents the net settlement, reversals and adjustments made during the first quarter of 2021.

Other Noncurrent Liabilities

Other noncurrent liabilities pertain to estimated liabilities for regulatory and tax matters, among others. Increase was due to additional obligations recognized during the first quarter of 2021.

Notes Payable

On March 31, 2021, MERALCO and MGen drew a five (5) year term loan amounting to ₱4,999 million and a ₱17,000 million bridge loan, respectively, to cover the first installment of the GBPC purchase price.

Trade Payables and Other Current Liabilities

Trade payables and other current liabilities as at March 31, 2021 included the following: (a) dividend payable of ₱8,818 million resulting from the declaration of dividends on March 1, 2021; (b) GBPC's trade payables and other current liabilities amounting to ₱7,151 million.

LIQUIDITY AND CAPITAL RESOURCES

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

	Unaudited	
	For the Three Months Ended March 31	
	2022	2021
<u>Cash Flows</u>		
Net cash provided by operating activities	₱12,226	₱11,908
Net cash used in investing activities	(5,513)	(18,848)
Net cash provided by (used in) financing activities	(3,652)	19,116
Net increase in cash and cash equivalents	3,061	12,176
<u>Capital Expenditures</u>	5,969	4,242
	March 31, 2022	December 31, 2021
	(Unaudited)	(Audited)
	<i>(Amounts in millions)</i>	
<u>Capitalization</u>		
Interest-bearing long-term financial liabilities		
Current	₱5,476	₱9,114
Noncurrent	52,102	52,720
Notes payable	28,471	28,834
Equity attributable to equity holders of the parent	89,254	95,204
<u>Other Selected Financial Data</u>		
Total assets	502,123	483,482
Utility plant and others	228,625	225,779
Cash and cash equivalents	58,034	55,007

Debt Financing

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

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

MERALCO's loan agreements require compliance with debt service coverage of 1.1 times calculated at specific measurement dates. The agreements also contain restrictions with respect to 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.

Cebu Energy Development Corporation ("*CEDC*"), Panay Energy Development Corporation ("*PEDC*") and Toledo Power Company ("*TPC*") are required to meet certain financial ratios. *CEDC*, *PEDC* and *TPC* shall maintain a debt-to-equity ratio not exceeding 70:30 at all times until full payment of the obligation. Also, *CEDC*, *PEDC* and *TPC* shall ensure that the core equity must be at least 30% of the total project cost at project completion date and shall at all times be equivalent to at least 30% of the sum of total outstanding loan under the facility and the core equity. Debt-equity ratio is the ratio of the total aggregate indebtedness for borrowed money of the borrower and the sum of its equity as of any date of determination. For *CEDC* and *PEDC*, core equity includes the equity, paid in equity of third parties provided that if the same is in the form of preferred redeemable shares, redemption must be at the option of the borrower and at terms no more favorable than subordinated loans, outstanding subordinated loans and outstanding shareholder advances of the sponsor to the borrower.

GBPC is required to maintain a debt-to-equity ratio not greater than 75:25 until full payment of the obligation. Also, *GBPC* is prohibited from entering into merger or consolidation, unless *GBPC* is the surviving entity.

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

Equity Financing

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

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

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

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

The following are the cash dividends declared on common shares for the three months ended March 31, 2022 and 2021:

Declaration Date	Record Date	Payment Date	Dividend Per Share	Amount (In millions)
February 28, 2022	March 30, 2022	April 26, 2022	₱10.23	₱11,526
March 1, 2021	March 30, 2021	April 26, 2021	7.82	8,818

The *BOD*-approved dividend policy of *MERALCO* consists of (i) regular cash dividends equivalent to 50% of *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.

OTHER QUANTITATIVE AND QUALITATIVE DISCLOSURES

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

Not Applicable

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

2022 Capital Expenditure Requirements (in millions)

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

MERALCO has a *BOD*-approved capital expenditure budget of ₱57,105 million for the year ending December 31, 2022, of which about 42% is for planned power generation projects and 35% represents planned expenditures for the electric capital projects of the power distribution business. Power generation projects consist of *AIE*’s development of its 2 x 600 *MW* coal-fired power plant in Atimonan, Quezon, and solar power plants including 45 *MWac* in Cordon, Isabela, 75 *MWac* in Baras, Rizal and 64 *MWac* in Ilocos Norte. The distribution utility capital expenditure budget shall address the requirements in areas with large concentration of core customers, correct normal deficiencies in the system, stretch loading limits of *MERALCO* facilities and initiate practical and cost-effective projects to correct system deficiencies. *MERALCO* subsidiaries’ capital expenditure budget for 2022 mainly covers the requirements of expansion of *Radius* to new areas and segments; and replacement and additional equipment of *MIESCOR Group* to support its growing business.

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

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

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

Seasonality of Operations and Growth Drivers

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

The electricity sales of *MERALCO* and *Clark Electric* exhibit a degree of quarterly seasonality. The *kWh* sales in the first quarter is lower than the average of the year as this period is characterized by cooler temperature and softer consumer demand following heightened consumer spending in the last quarter of the year. The second quarter is marked by higher than average *kWh* sales, except in 2020 when the country was hit by the COVID 10 pandemic. This is due to a number of factors, including: increased consumption of households and commercial establishments due the summer season; increased production of industries to replenish stocks and in preparation for the opening of classes; and, heightened construction activity to take advantage of the sunny weather. In the third quarter of the year, manufacturing industries that cater to the export market have their peak production schedule at this time as they rush to meet shipping deadlines to foreign markets. Industries catering to the domestic market are also now starting production in preparation for the Christmas season. Lastly, the fourth quarter performance is about the average of the year. Industrial production winds down while households and commercial establishments also cut down on their cooling loads. Given this perspective on the seasonality of *kWh* sales, a higher proportion of the *MERALCO's* and *Clark Electric's* revenues are earned on the second half of the year. Aside from the quarterly seasonal pattern, *kWh* sales on a year-on-year basis adjust as a result of a number of factors. Sales of electricity normally increase in periods of economic growth, low inflation and electricity rates, and in periods of high temperatures over extended period of time, e.g. the “*El Niño*” episodes.

MERALCO Group sales in *GWh* for the three months ended March 31, 2022 and 2021 are 11,069 and 10,473, respectively.

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

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

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

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

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

Financial Highlights and Ratios⁷ of Major Subsidiaries
As at and for the Three Months Ended March 31, 2022 and 2021
(Amounts in million pesos except for financial ratios and % change)

	<i>Clark Electric</i>			<i>MGen</i>			<i>MIESCOR</i>			<i>e-MVI</i>			<i>CIS</i>		
	2022	2021	% <u>change</u>	2022	2021	% <u>change</u>	2022	2021	% <u>change</u>	2022	2021	% <u>change</u>	2022	2021	% <u>change</u>
Percentage of ownership	65%	65%		100%	100%		99%	99%		100%	100%		100%	100%	
<u>Condensed Statements of Financial Position</u>															
Total assets	₱3,539	₱3,186	11	₱122,222	₱102,751	19	₱7,324	₱4,728	55	₱4,276	₱3,771	13	₱3,896	₱3,048	28
Current assets	1,443	1,395	3	20,282	20,249	—	6,538	4,080	60	960	1,947	(51)	3,663	2,887	27
Cash and cash equivalents	1,016	1,021	—	8,926	10,293	(13)	752	366	105	331	1,412	(77)	1,725	1,230	40
Equity	2,105	2,024	4	41,942	25,830	62	1,712	1,157	48	2,782	2,652	5	925	927	—
Total debt ⁸	—	—	—	44,058	46,668	(6)	648	704	(8)	—	—	—	—	—	—
Current liabilities	587	614	(4)	22,075	39,337	(44)	4,925	3,271	51	1,380	952	45	2,874	2,084	38
<u>Financial Ratios</u>															
Debt-to-equity ratio	—	—	—	1.05	1.81	(42)	0.38	0.61	(38)	—	—		—	—	—
Current ratio	2.46	2.27	8	0.92	0.51	78	1.33	1.25	6	0.70	2.05	(66)	1.27	1.39	(8)
<u>Condensed Statements of Income</u>															
Revenues	667	545	22	6,078	—	—	1,406	1,244	13	428	338	27	486	467	4
Costs and expenses	605	493	23	6,178	138	4377	1,352	1,148	18	338	227	49	448	424	6
Net income (loss)	60	46	30	1,317	313	321	46	34	35	72	93	(23)	—	25	(100)
<u>Financial Ratios</u>															
Profit margin	9.0%	8.4%	7	21.7%	—	—	3.3%	2.7%	20	16.9%	32.1%	(39)	0.0%	5.4%	(100)
Return on equity	2.9%	2.3%	25	3.1%	1.2%	(149)	2.7%	2.9%	(9)	9.4%	18.2%	(26)	0.0%	2.7%	(100)
Asset turnover	0.20	0.17	17	0.05	—	—	0.23	0.26	(10)	0.39	0.56	(14)	0.14	0.18	(22)

⁷ The manner of computing the financial ratios for subsidiaries is the same with that of MERALCO's as presented in *Financial Highlights and Key Performance Indicators*.

⁸ Total Debt is composed of notes payable and interest-bearing long-term financial liabilities, current and non-current portions.

LIST OF ACTS OF THE MERALCO BOARD

MAY 25, 2021 – MARCH 28, 2022

MAY 25, 2021

- ❖ Approval of the Minutes of Previous Meeting (April 26, 2021)
- ❖ Approval of Credit Facilities with China Banking Corporation
- ❖ Approval of Supply Contract in Excess of ₱50 Million
- ❖ Approval of Equity Funding MERALCO PowerGen Corporation (MGen) for the acquisition of Petronas International Power Corporation's 30% stake in PacificLight Power Pte. Ltd.
- ❖ Approval of Equity Funding Vantage Energy as working capital

MAY 25, 2021 (Annual Stockholders' Meeting)

- ❖ Approval of the Minutes of Stockholders' Meeting Held in 2020 (*Resolution 2020-1*)
- ❖ Approval of the 2020 Audited Financial Statements (*Resolution 2020-2*)
- ❖ Ratification of the Acts, Resolutions, and Deeds of the Board of Directors and Management from the Annual Stockholders' Meeting Held on May 26, 2020 up to May 25, 2021 (*Resolution 2020-3*)
- ❖ Election of Directors for ensuing year (*Resolution 2020-4*)
- ❖ Appointment of External Auditors (*Resolution 2020-5*)

MAY 25, 2021 (Organizational Meeting)

- ❖ Election of Chairman and Vice Chairman of the Board
- ❖ Appointment of Officers
- ❖ Designation of Members of the Board Committees
- ❖ Approval of Schedule of Regular Board Meetings

JUNE 28, 2021

- ❖ Approval of the Minutes of Previous Regular Board and Organizational Meetings (both held on May 25, 2021)
- ❖ Approval of Supply Contracts in Excess of ₱50 Million
- ❖ Approval of Renewal of Directors and Officers Liability Insurance Policy with MPioneer Insurance
- ❖ Approval of Equity Call by AF Payments, Inc.

JULY 26, 2021

- ❖ Approval of the Minutes of the Previous Regular Board Meeting (June 28, 2021)
- ❖ Declaration of Interim Cash Dividend of ₱5.057/share to all common stockholders of record as at August 23, 2021 and payable on September 15, 2021
- ❖ Approval of Supply Contracts in Excess of ₱50 Million
- ❖ Approval of Equity Funding to MIESCOR for its Common Tower Infrastructure Business
- ❖ Approval of Business Separation and Unbundling Plan (BSUP) Submission to Energy Regulatory Commission
- ❖ Approval/Designation of Authorized Representative for Association of the Electricity Supply Industry of East Asia and the Western Pacific (AESIEAP) Team Philippines
- ❖ Approval of Authorization for Quezon Power Ltd. (QPPL) to Renew Foreshore Lease Agreement and Philippine Ports Authority (PPA) Permit to Operate Extensions

AUGUST 27, 2021

- ❖ Approval of the Minutes of Previous Meetings (July 26, 2021)
- ❖ Approval of Credit Facilities with:
 - 1. BDO Unibank, Inc.
 - 2. Bank of the Philippine Islands
- ❖ Ratification of the Executive Committee's Approval for the Emergency Power Supply Agreements with Masinloc Power Partners Co. Ltd, (MPPL) and Global Business Power (GBP)
- ❖ Approval of Supply Contracts in Excess of ₱50 Million
- ❖ Approval of Authorization to Participate in Power Sector Assets and Liabilities Management (PSALM) Paco-Manila (Isla De Provisor) Property Acquisition
- ❖ Approval of Update in the Representatives/Signatories for Submission of Energy Regulatory Commission (ERC) Required Reports
- ❖ Approval of Representatives/Signatories for Retail Competition and Open Access

SEPTEMBER 27, 2021

- ❖ Approval of the Minutes of Previous Meetings (August 27, 2021)
- ❖ Approval of Credit Facilities with:
 - 1. Rizal Commercial Banking Corporation (RCBC)
 - 2. Security Bank Corporation (SBC)
- ❖ Approval of Supply Contract in Excess of ₱50 Million
- ❖ Approval of Renewal of Building, Machinery & Equipment (BME) Insurance with MPioneer
- ❖ Approval of Power Supply Agreement of MPower with Nuevo Solar Energy Corporation
- ❖ Approval of Appointment of Security Bank to Issue a Standby Letter of Credit for PSALM Security Deposit to Comply with Contract for the Supply of Electric Energy (CSEE)
- ❖ Approval of Authorization for Meridian Power Ventures Limited to enter into a Share Purchase Agreement with TG Energy Solutions for the disposal of share in PDS Ghana
- ❖ Approval of Employment Extension for Mr. Roberto R. Almazora as Head of MPower
- ❖ Approval of Recommended Collective Bargaining Agreement (CBA) Package to Supervisory Union (First Line Association of Meralco Supervisory Employees or FLAMES)

OCTOBER 25, 2021

- ❖ Approval of the Minutes of Previous Meetings (September 27, 2021)
- ❖ Approval of Supply Contract in Excess of ₱50 Million

NOVEMBER 26, 2021

- ❖ Approval of the Minutes of Previous Meetings (October 25, 2021)
- ❖ Acceptance of the Notice of Award issued to, and authorize the signing of the PSA with, the Winning Power Supplier, Panay Energy Development Corporation (PEDC) for the 70 MW baseload capacity for contract period ending January 25, 2037
- ❖ Ratification of the Executive Committee's Approval on the Partnership of MIESCOR and Stonepeak and the Submission of Non-binding Bid for the Sale and Leaseback (SLB) Tender for PLDT/Smart Towers
- ❖ Ratification of the Executive Committee's Confirmation and Approval of the Third-Party Bids and Awards Committee (TPBAC) Report on the Completeness Review of Unsolicited Proposals (USPs).
- ❖ Approval of Supply Contract in Excess of ₱50 Million
- ❖ Approval of Renewal of Standby Letter of Credit (SBLC) Under the Sponsor Support Agreement for the PacificLight Power Refinancing on behalf of MPG Philippine Holdings Inc. from Mizuho Bank Ltd.
- ❖ Approval of Renewal of Wholesale Electricity Spot Market (WESM) Surety Bond
- ❖ Approval of the Amendment in the Capital Infusion to MIESCOR Builders Inc. (MBI) to fund equipment and tools requirement for construction and maintenance projects
- ❖ Board Resolutions for the Appointment of Corporate Nominees and Authorized Signatories of MERALCO to the Baguio Country Club Corporation
- ❖ Amendment to the Board Resolution on Authorized Signatories for the Stock Transfer Agreement with Rizal Commercial Banking Corporation
- ❖ Approval of 2022 Schedule of MERALCO Board, Organizational and Annual Stockholders' Meeting

DECEMBER 13, 2021

- ❖ Approval of the Minutes of Previous Meetings (November 26, 2021)
- ❖ Approval of the Executive Committee's Approval of the Third-Party Bids and Awards Committee (TPBAC) Recommendations for Terra Solar Unsolicited Proposal for 850MW Mid-merit Requirement starting 2026
- ❖ Approval of Supply Contract in Excess of ₱50 Million
- ❖ Approval of the Purchase of San Ildefonso, Bulacan Property for the Development of San Ildefonso Substation
- ❖ Approval of Rank Conferment of several MERALCO Officers
- ❖ Approval of Special Christmas Bonus

FEBRUARY 7, 2022 (in lieu of January 2022)

- ❖ Approval of the Minutes of Previous Regular Board Meeting (December 13, 2021)
- ❖ Approval of Supply Contract in Excess of ₱50 Million
- ❖ Approval of Renewal of Insurance for Transmission and Distribution (T&D) Assets, Meter Assets, Engineering Electronic Equipment (EEE) and Comprehensive General Liability (CGL) with MPioneer and other insurers
- ❖ Approval of Renewal of National Grid Corporation of the Philippines (NGCP) Surety Bond through Prudential Guarantee Assurance Inc. (PGAI)
- ❖ Approval of the Capital Call for Asian Eye Institute, Inc.
- ❖ Board Resolutions Authorizing Signatories/Representatives for Green Energy Option Program
- ❖ Board Resolutions on the Conduct of 2022 Annual Stockholders Meeting (ASM)
- ❖ Board Resolutions on the Appointment of Corporate Assignee to the Manila Southwoods Gold & Country Club, Inc.

FEBRUARY 28, 2022

- ❖ Approval of the Minutes of Previous Meeting (February 7, 2022)
- ❖ Approval of 2021 Audited Financial Statements
- ❖ Approval of Declaration of ₱10.226/share Final Cash Dividend to all common stockholders at record date of March 30, 2022, payable on April 26, 2022
- ❖ Approval of Supply Contract in Excess of ₱50 Million
- ❖ Approval of the Purchase of a 5,629 sqm lot in Brgy. Paliparan, Dasmarinas, Cavite for Two (2) 83 MVA substation
- ❖ Approval of Funding for MGreen's Equity in Nuevo Solar Energy Corporation (NSEC)
- ❖ Approval of Delegation of Authority to Approve Definitive Power Supply Agreement between MPower and Therma Luzon, Inc. (TLI) for a 100 MW Capacity
- ❖ Approval of Cash Advance from MPower to Vantage Energy for Settlement of Independent Electricity Market Operator of the Philippines (IEMOP)'s Wholesale Electricity Spot Market (WESM) Billing
- ❖ Approval of 2021 Annual Bonus Plan and Variable Incentive Plan Payout
- ❖ Approval of 2022 Merit Increase Budget
- ❖ Approval of Regular Employment Extension of Atty. William S. Pamintuan as Chief Legal Counsel, Assistant Corporate Secretary, Compliance Officer and Head of Legal Office and Corporate Governance Office
- ❖ Approval of MERALCO Human Rights Policy
- ❖ Board Resolutions on the Appointment of Corporate Assignee to Wack Wack Golf & Country Club

MARCH 28, 2022

- ❖ Approval of the Minutes of Previous Meeting (February 28, 2022)
- ❖ Approval of Credit Facilities with Security Bank Corporation
- ❖ Approval of Nominees to the 11-seat MERALCO Board of Directors
- ❖ Approval of Supply Contract in Excess of ₱50 Million
- ❖ Approval of Renewal of Cybersecurity Insurance Policy

- ❖ Approval of MERALCO Advance to Bridge Panay Energy Development Corporation Debt Financing
- ❖ Approval of the Conduct of MERALCO Annual Stockholders' Meeting at the MERALCO Multipurpose Hall.

ANNEX C: REQUIREMENTS AND PROCEDURE FOR ELECTRONIC VOTING IN ABSENTIA AND PARTICIPATION VIA REMOTE COMMUNICATION

I. ELECTRONIC VOTING IN ABSENTIA

1. Certificated stockholders of Manila Electric Company ("the Company") as of March 4, 2022 ("Stockholders") may exercise their right to vote on the agenda items in the 2022 Annual Stockholders' Meeting (ASM) through electronic voting in absentia. Electronic voting in absentia affords the Stockholders an opportunity to vote during the ASM without being physically present during the meeting.
2. The exercise of this right is subject to successful registration with the Company's Stockholders Electronic Registration and Voting Express (SERVE) platform found at <https://company.meralco.com.ph/corporate-governance/SERVE>. The registration will run from **May 2 to May 25, 2022** beyond which, no Stockholders will be allowed electronically vote in absentia or participate in the ASM by remote communication.
3. To register, SERVE will require the Stockholder to create a Log In Account and provide the items enumerated below to prove his/her identity and right to vote and participate in the ASM:
 - a. Stockholder number
 - b. Name
 - c. Complete address
 - d. E-mail address;
 - e. Contact number
 - f. Digital copy of the front and back portions of the Stockholder's two (2) valid government-issued photo IDs (in JPG format); and
 - g. Secretary's Certificate and proxy for corporate stockholders

The Company reserves its right to require additional personal data or documents to ensure the identity and right to vote of the Stockholder. At all time, the right of the Stockholder to the privacy of his/her personal data as provided in the Data Privacy Act shall be ensured.

4. The abovementioned data will be validated by the Company not later than three (3) business days from the Stockholder's receipt of an electronic mail acknowledging his/her registration.
5. Upon successful registration, the Stockholder, or his/her proxy, will be given access to SERVE where he/she can cast his/her votes during the ASM. The stockholder will be required to log-in to his Account and his/her successful log-in shall be considered in the determination of quorum in the ASM.
6. All agenda items indicated in the Notice of the Meeting will be set out in the digital absentee ballot and the registered Stockholder, or his/her proxy, may vote as follows:

- a. For items other than the election of Directors, registered Stockholder, or their proxy, will have the options to vote "For," "Against," or "Abstain." The vote is considered cast for all the registered Stockholder's shares.
 - b. For the election of Directors, the registered Stockholder, or his/her proxy, may vote for all nominees or cumulate his vote for one or some of the nominees provided that the total number of allowable votes will not exceed the number of shares multiplied by the number of Board seats (Number of Shares x 11 Directors= Number of Voting Shares).
7. Once the registered Stockholder, or his/her proxy, has finished voting on the Agenda items, he/she can proceed to submit his/her electronic ballot by clicking the 'Submit' button. The Stockholder, or his/her proxy, will then be redirected to an online webpage containing a summary of the votes cast. After the electronic ballot has been submitted, the registered Stockholder may no longer make any change.
8. The integrity and secrecy of votes shall be protected. As such, all votes received will be tabulated by SERVE and validated by the Office of the Corporate Secretary and auditors. Inspectors from an independent third party appointed by the Board will also be present to validate the results. The Corporate Secretary shall report the results of voting during the meeting.

II. PARTICIPATION VIA REMOTE COMMUNICATION

1. Only the Stockholders, or their proxies, who have successfully registered with, and have logged in to, SERVE may be given access to the ASM Live Portal, a livestream video service that will allow Stockholders to participate, or their proxies, in the ASM.
2. The Company will provide mechanisms to ensure that stockholders have opportunity to participate including the opportunity to hear and read the discussion substantially.
3. All questions and clarifications on the agenda items may be raised through SERVE.
4. Requests for access to the recorded webcast of the ASM may be sent to stockholder.affairs@meralco.com.ph.

Draft

MINUTES OF THE ANNUAL MEETING OF STOCKHOLDERS OF THE MANILA ELECTRIC COMPANY HELD ON MAY 25, 2021 AT THE LOPEZ BUILDING, ORTIGAS AVENUE, PASIG CITY

CALL TO ORDER

The Company's 58th Annual Stockholders' Meeting was called to order at 10:10 a.m. on May 25, 2021 by the Chairman of the Board, Mr. Manuel V. Pangilinan, who presided over the same at the Company's principal office at Lopez Bldg., Ortigas Ave., Brgy. Ugong, Pasig City, Metro Manila. The Corporate Secretary, Atty. Simeon Ken R. Ferrer, took the minutes of the meeting.

Due to the corona virus pandemic and for the safety of the stockholders, the 2021 Annual Stockholders' Meeting was conducted virtually. Stockholders who have successfully registered online from May 10 to 21, 2021 were able to participate through remote communication using the Stockholder's Electronic Registration and Voting Express or SERVE platform found at the Company's website, <https://company.meralco.com.ph/corporate-governance/SERVE>. There were over two hundred sixty (260) stockholders and guests who were able to view the proceedings virtually.

The Chairman addressed the stockholders and requested that given the level of complexity and the time needed to resolve questions on customer service, dividend delivery, invitations to, or notice of, the Annual Stockholders' Meeting and other operational matters, all stockholders with concerns or questions on these were advised to email them with their contact details to stockholder.affairs@meralco.com.ph.

The Chairman introduced the other members of the Board of Directors, namely: Ms. Anabelle L. Chua, and Atty. Ray C. Espinosa, who were physically present at the MERALCO Theater, and Messrs. James L. Go, Frederick D. Go, Lance Y. Gokongwei, Elpidio L. Ibañez, Jose Ma. K. Lim, Pedro E. Roxas, Victorico P. Vargas, and retired Chief Justice Artemio V. Panganiban, who joined by way of live streaming.

Atty. Ray C. Espinosa also serves as the Company's President and Chief Executive Officer while retired Chief Justice Artemio V. Panganiban, an Independent Director, serves as the Chairman of the Audit Committee.

Also introduced were the Chief Finance Officer, Ms. Betty C. Siy-Yap, the Corporate Secretary, Atty. Simeon Ken R. Ferrer, and the Assistant Corporate Secretary, Atty. William S. Pamintuan. Other corporate officers and executives of the company, as well as the Company's external auditors, Sycip Gorres Velayo and Co. (SGV & Company), who also joined the meeting via remote communication were likewise acknowledged.

Upon successful online registration, stockholders were provided with access to the Company's SERVE platform, which allowed them to vote electronically on the matters passed upon in the meeting and to elect the Company's Board of Directors for fiscal year 2021-2022.

The proposed Resolutions for the meeting were contained in the Definitive Information Statement, a copy of which was uploaded in the MERALCO's website, www.meralco.com.ph so as to make the same accessible to all stockholders and was published in the Business World on-line edition on April 16, 2021 and disclosed to the Philippine Stock Exchange on April 28, 2021. This practice is in line with the Company's commitment to good governance and its desire to encourage broader participation of its stockholders in deciding fundamental matters involving the Company.

Thereafter, the Secretary read the ground rules and voting procedure to be observed during the meeting to ensure the conduct of fair, orderly, and efficient proceedings. Following

are the points highlighted to the stockholders who joined via remote communications and who will be voting in absentia:

- a) Certificated stockholders of the Company as of March 5, 2021 may exercise their right to vote on the agenda items in the 2021 Annual Stockholders' Meeting through electronic voting.
- b) Stockholders or their proxies, who have successfully registered were given access to the Annual Stockholders' Meeting Live Portal, a livestream video service that allows the Stockholders or their proxies to participate and vote electronically on the matters to be passed upon in the Annual Stockholders' Meeting and to elect the Company's Board of Directors.
- c) The Company's Assistant Corporate Secretary, Atty William S. Pamintuan will read the questions received during the Question and Answer portion which will take place before we take up "Other Business", if any, Item No. 10 of the Agenda. Management will reply to questions not taken up during the meeting via email.
- d) As indicated in the Notice and in the electronic ballot, there are five (5) resolutions proposed for adoption by the stockholders of this meeting. Each proposed resolution will be shown on the screen as the same is being taken up.

For voting procedure, the Company's class of outstanding shares entitles the holder to one vote for one share. The affirmative vote of the stockholders representing at least a majority of the outstanding and voting shares shall be needed to pass and approve each proposed resolution unless the law provides otherwise.

For the election of directors, stockholders are allowed to elect directors individually or to cumulate their votes. Election of directors shall be by plurality of votes.

Upon online registration, the stockholders were provided access to the Company's SERVE platform, which allows them to cast their vote electronically.

All votes received were automatically uploaded in the system and tabulated by the Office of the Corporate Secretary and results thereof shall be validated by the auditing firm, Reyes Tacandong & Co., which was duly appointed by the Board to act as such for the 2021 Annual Stockholders' Meeting.

As each item in the agenda is taken up, the Secretary will report on the votes received and tabulated as of 9:00 a.m. today. The minutes will, however, reflect the final tally of votes.

SERVICE OF NOTICE

The Secretary reported that, on April 28, 2021, written notice of the meeting was served to all stockholders of record as of March 5, 2021. Stockholders who have provided their email address were furnished a copy of the Notice through electronic mail. The Notice was also published in the Business World on-line edition on April 16, 2021 and posted in the Company's website at www.meralco.com.ph. The notices were released through various means prior to the annual stockholders meeting in accordance with the Revised Corporation Code, Securities Regulation Code, By-Laws of the Company, and the internal guidelines for participation in meetings via remote communications and for voting in absentia, which are embodied in the Company's Definitive Information Statement as approved by the Securities and Exchange Commission (SEC).

The rationale and explanation for each agenda item which required shareholders' approval were provided in the notice of this meeting.

DETERMINATION OF QUORUM

The Secretary reported and certified that there was a quorum for the meeting, as stockholders who own or hold over 903,195,366 shares or 80.13% of the 1,127,098,705 issued and outstanding common shares of the Company entitled to vote, were represented in person, by proxy or through remote communication.

**APPROVAL OF THE MINUTES OF
STOCKHOLDERS' MEETING HELD IN 2020**

The Chairman submitted for approval the Minutes of the Annual Stockholders Meeting held on May 26, 2020. Copies of the minutes have been made available during office hours at the Office of the Corporate Secretary and posted in the Company's website within twenty-four

(24) hours from the conduct of such meeting. The minutes are also reflected in the Definitive Information Statement submitted to the SEC.

The Secretary moved to dispense with the reading of the Minutes of the Annual Stockholders' Meeting held on May 26, 2020 and to approve the same since copies of the Minutes have previously been made available.

The Minutes were approved by stockholders representing more than a majority of the total voting shares, present and represented at the meeting, as detailed in the following table:

VOTES	NUMBER OF VOTES CAST (1 share = 1 vote)	PERCENTAGE OF VOTING
1. Approved	903,102,455	80.12%
2. Against	-	0.00%
3. Abstained	5,222	0.00%

The following resolution was thus adopted and approved as Resolution 2021-1:

“RESOLVED, that the Stockholders of the Corporation hereby approve the Minutes of the Annual Stockholders' Meeting held on May 26, 2020.”

<p>REPORT OF THE PRESIDENT AND CHIEF EXECUTIVE OFFICER</p>

The President and Chief Executive Officer, Atty. Ray C. Espinosa, presented his report to the stockholders quoted hereunder as follows:

“To our MERALCO Stockholders,

Good morning and thank you for joining us for the 2021 Annual Stockholders' Meeting. It is my fervent wish that all of you are keeping safe and well.

While the year 2020 will be generally remembered as the deadly year of COVID-19, it will be remembered here in Meralco as the year of courage, self-sacrifice and “*malasakit*” to keep the lights on.

Our frontline personnel braved the virus to serve the needs of our customers and to keep the power on to help us in the fight against this unseen deadly enemy.

Amid the bleak environment, Meralco's key operating metrics continued to reflect the reliability and resilience of our systems, infrastructure, and workforce, allowing us to deliver significant Financial Results for 2020.

Our Core Net Income reached PhP 21.7 billion in 2020, close to 9% lower than the PhP 23.8 billion in 2019, while Reported Net Income stood at PhP 16.3 billion.

Core EBITDA was PhP 35.3 billion, compared with PhP 38.0 billion in 2019, and Core Earnings Per Share was PhP 19.26.

Cash Dividends amounted to PhP 15.09 per share, as we maintained a healthy dividend yield of 5%.

Meralco's share price at the last trading day of 2020 was PhP 292 per share.

We ended 2020 with strong liquidity and a healthy cash position. Stockholders Equity stood at PhP 79.2 billion, while total Borrowings reached PhP 40.1 billion, 3% below the 2019 level of PhP 41.2 billion. Cash and Cash Equivalents increased by 33% to P50.9 billion compared with PhP 38.3 billion in 2019, resulting in a Debt to EBITDA ratio of 1.3.

Despite the challenging business environment marked by a 9-year low GDP of (-)9.5%, three major typhoons, and business disruptions brought about by the virus, Meralco remained strong and committed. Guided by our drive for excellence, we continued to create and deliver value across our five growth platforms.

In 2020, we strengthened the core distribution utility.

Consolidated energy sales was 43,572 GWh, 7% lower than the 2019 level. Sales volumes skewed toward the Residential sector as lockdown and quarantine restrictions necessitated work-from-home and online distance learning arrangements, thereby limiting mobility. Residential volume, which accounted for 38% of total energy sales in 2020, grew by 13%.

Commercial sales volume went down by 20% in 2020 compared with 2019, with hotels and retail trade companies hardest hit as foot traffic to malls, hotels, and other retail establishments significantly declined.

While Industrial volume was also lower by 11% on a full-year basis, we started seeing gradual recovery towards the end of 2020 as manufacturers started to operate. Consumer demand drove Semiconductor production, and government efforts to catch up on infrastructure projects helped Construction sector.

Despite the economic slowdown, evidenced by the lower peak demand of 7,614 MW, Meralco's energization efforts remained unhampered as we powered more customers amid the pandemic. Our customer base grew 4% and surpassed the 7 million mark before the end of 2020.

We powered more homes, with Residential customers nearing 6.6 million accounts, posting a growth of 4%.

We also powered more businesses as our Commercial and Industrial customer bases rose by 3% and 1%, respectively.

And we powered more lives as we held firm to our commitment to energize communities leading to an electrification rate of 99.94% in our franchise area—an improvement over 2019's 99.59%.

Meralco also delivered excellent service performance. For the 13th consecutive year, Meralco outperformed the prescribed regulatory system loss cap recording a System Loss level of 6.08%.

We also attained high system reliability performance, posting all-time best levels on Power Interruption Frequency and Power Interruption Duration, while maintaining rewards level on Time to Connect Customers.

We achieved these by building a robust, reliable, and resilient distribution network supported by the highly efficient management of our capital expenditures which reached PhP 20.8 billion, 3% higher than in 2019.

With 2020 behind us, we now look forward to building a better normal in 2021. And indeed, the first few months of the year show evidence of recovery and healthy growth. Through April 2021, energy sales grew by 3% and net system input by 2%, compared with the same period last year. Likewise, we continue to energize more customers as shown by the year-to-date customer count growth rate of 4%.

The bravery and "*malasakit*" of all our employees, especially our linemen, business center and field personnel who courageously went onsite daily, allowed us to ensure the provision of energy to essential industries, and to millions of Filipinos under community quarantine. The health and well-being of our people, therefore, became our imperative.

To ensure our employees' utmost safety at work, we conducted regular COVID-19 testing, provided personal protective equipment (PPEs) to our front-liners, and launched an online portal called Code Light Bot to help track our people's daily health and work status.

We also installed air quality monitoring sensors in strategic locations across our facilities and safely managed and disposed all COVID-related waste, ensuring #healthwithoutharm.

For a majority of our workforce, we encouraged remote-working arrangements through the use of digital collaboration tools to lessen their heroic exposure, and by extension, that of their families.

As the challenges brought about by the pandemic grew, our employees' spirit of volunteerism and "*malasakit*" also swelled. At the height of community quarantine in 2020, we received a surge of customer concerns and inquiries.

To address these with speed and urgency, Operation Brotherhood was set in motion. More than 1,000 employees volunteered to resolve pending customer questions and concerns, and with this unified effort, the backlogs in social media, voice calls, and emails were all cleared in a month's time, a remarkable achievement.

Furthermore, we launched two important fund-raising programs, A-Day-to-Give and Share-A-Leave. Through these programs, the Meralco family banded together to provide financial assistance for daily wage earners of our third-party contractors unable to work during the lockdown. Employees pledged a portion of their salary and relinquished a portion of their paid leaves, thereby raising close to PhP 28 million.

As the health crisis escalated, your Company responded with compassion to help lighten the load for our customers by providing needed bill relief and by ensuring continuous service. We invoked the force majeure provisions of our Power Supply Agreements to lessen generation charges, translating to PhP 2.4 billion in savings to our customers.

Meralco also suspended the implementation of the Guaranteed Minimum Billing Demand or GMBD charge starting March 2020 to ease the payment burden of our business customers. A total of PhP 3.2 billion was saved, benefiting nearly 95,000 business owners and establishments.

To encourage customers to use online platforms for bills payment, we shouldered convenience fees charged by third-party payment gateway partners amounting to PhP 75 million for 1.9 million Meralco Online payment transactions.

Beyond bill amount and payment relief, service continuity was likewise a key imperative. A disconnection moratorium was implemented for all customers until December 31, 2020, and further extended until January 31, 2021, for customers consuming 200 kWh and below, and until March 31, 2021, for our lifeline customers. In addition, we worked with government regulators and other industry players to structure installment payment arrangements for all of our customers.

Your Company also provided high-touch customer service by leveraging on technology. In 2020, we established and fortified our Customer Care Group and enabled it with the latest contact center automation tools dramatically improving our customer concerns handling processes and capabilities.

We also simplified the bills payment experience through the launch of our Customer Account Number (CAN), a 10-digit permanent number tagged to a specific customer — akin to having a Meralco ID for paying bills. Real-time payment validation was also made possible, while Robotic Process Automation (RPA) facilitated faster bill discrepancy resolution.

We drove improvements in our digital customer touchpoints, through our Customer Centricity Transformation Program.

Meralco Online became a beacon of service for customers, surging to 2.2 million active accounts by the end of 2020, 5.6 times higher than 2019.

Your Company also introduced groundbreaking customer service initiatives. For instance, the Online Customer Appointment system allowed customers to book appointments at Business Centers ahead of time, making visits faster and eliminating unnecessary waiting time. In addition, the Virtual Customer Assistant provided customers the option of transacting with a Meralco customer care representative via video conferencing.

Bringing light and hope to our communities within and beyond the franchise area was top-of-mind for Meralco and the One Meralco Foundation (OMF). We supported brave front-liners battling COVID-19 by arming more than 6,000 of them with much needed PPEs. Moreover, we donated 2,000 liters of ethyl alcohol to medical facilities as well as over 12,000 rapid antigen test kits to our government responders.

In the second quarter of 2020, we provided a temporary home to 32 frontliners from The Medical City. We also put our eSakay electric vehicles to good use by working closely with the Department of Transportation and LGU leaders to ferry 76,000 essential personnel and health workers to and from medical facilities, at no cost to them.

Through OMF, your Company helped the hungry, the homeless, and the country's harvesters. We launched "From Farmers to Front-liners," a campaign that provided vegetables to front-liners and the homeless, while invigorating the livelihood of farmers from Benguet. In parallel, our reforestation program One For Trees also provided additional income to tree farmers who helped plant more than 80,000 trees in 2020.

Notwithstanding the constraints brought about by COVID-19, Meralco pursued the energization of low-income communities in its franchise area. Under OMF's household and school electrification program, close to 7,000 low-income households in informal settlements and relocation sites as well as 15 off-grid schools were connected to the grid in 2020.

2020 saw Meralco heightening its commitment to power the nation and empower more Filipinos. Through the Meralco Electrification Program, we energized 261 sites including remote and far-flung communities and brought light to more than 11,000 households in our service area. Furthermore, to bolster the reliability and resiliency of our grid, we embarked on major electric capital projects — building substations and extending distribution lines — while undertaking key initiatives in support of the government's Build Build Build program and Public-Private Partnerships.

Finally, with our strong spirit of "*bayanihan*", we exerted supreme effort to ensure continuous power for the communities we serve, particularly for those in the thick of the fight against COVID-19. We energized more than 90 vital institutions including government agencies, medical facilities, and temporary treatment centers including the 525-bed Solaire-PAGCOR Mega Quarantine Center.

The pandemic has brought the different growth platforms to the fore in powerful ways, with a host of new opportunities enabling a more robust and inclusive One Meralco.

2020 also saw us further build our power generation footprint as we aim to bring affordable, reliable, and clean power supply to propel the Philippines' growth momentum.

Meralco Powergen's San Buenaventura Power Limited (SBPL) had its first full year of operations in 2020. As the country's first coal-fired power plant to utilize high efficiency, low emission technology, SBPL delivered 3,070 GWh of energy with an average plant availability of over 82% and contributed almost PhP 1.0 billion to Meralco's Consolidated Core Net Income.

Meralco Powergen (MGen) also fortified its power generation portfolio through its strategic acquisition of Global Business Power Corporation (GBPC) this past March. As the largest Independent Power Producer in the Visayas, GBPC has an existing generation capacity of close to 1,100 MW and delivered a net income of PhP 2.3 billion in 2020.

In addition, Meralco's earnest strides on the renewable energy or RE front are best exemplified by its first utility-scale solar power plant — a 50-MW solar farm in San Miguel, Bulacan which was commissioned on May 5, 2021. The PhP 4.3 billion BulacanSol plant is a significant milestone for MGreen, which serves as MGen's platform to develop utility-scale power projects leveraging RE technologies such as solar, wind, and hydropower.

Beyond our assets and investments in the energy value chain, Meralco also maintains its strong presence in energy-related and infrastructure services.

Bayad Center reinvented itself into Bayad with a commitment to delivering seamless onsite-to-online customer experience. In 2020, the company expanded its biller network by 7%, grew its over-the-counter footprint with over 45,000 touchpoints across the country, and tripled its digital payment transactions. Going forward, Bayad looks to serve even more Filipinos and drive financial inclusion through its Bayad Online platform and Bayad App.

Our telecommunications arm Radius fortified its position as one of the Philippines' leading data, internet, cloud, and managed services providers. Apart from servicing top corporations, the company now addresses the needs of MSMEs and consumer segments through its recently launched RED Fiber high-speed internet service bundled with HD-quality IPTV content. In addition, Radius also introduced its high capacity data service, Optical Transport Network Suite, and Security Information and Event Management products, positioned to support its corporate customers.

Our AAAA Philippine Contractor Accreditation Board (PCAB)-licensed engineering services company, MIESCOR, continued to ably support Meralco's growth and delivered highly strategic projects. In 2020, MIESCOR commenced the contract to manage and maintain Meralco's utility pole

attachments and is now licensed to operate as an Independent Tower Company.

Meralco also continues to find technological solutions to provide power to all in its coverage area, which includes many isolated island communities in need of energy.

Microgrid solutions that combine solar PV (photovoltaic) and battery energy storage systems have become integral to Meralco's energization efforts bringing power to off-grid communities.

In 2020, together with our solar subsidiary, Spectrum, we continued our electrification efforts in Cagbalete Island, Quezon with the construction of an additional 1.4 MW microgrid system. This will benefit the entire island of over 600 households and 11 resorts.

As we forge ahead, we will continue to deliver value to all our stakeholders through our strategic thrusts this 2021 and beyond.

First, we will heighten Revenue Enhancement and Expansion. For the distribution utility, we will accelerate the energization of Project Covered Applications and Ordinary Service Applications, while ensuring zero leakage and zero unbilled volumes. We will also expand Meralco's business by serving new areas through key partnerships and by expanding our pole management operations to urban services and non-cable attachments such as 5G surveillance and environmental sensors.

Looking towards our subsidiaries and following the acquisition of Global Business Power Corporation (GBPC) last March 31st, our focus now moves into integrating GBPC into Meralco Powergen. In addition, we will continue to drive the growth of Bayad, Radius Telecoms, MIESCOR, and all our other subsidiaries through the launch and expansion of their new and strategic customer offerings.

Customers are Meralco's reason for being, and our goal is to delight them with excellent service. This strong thrust and affinity for Customer Centricity will be increasingly evident across all our customer touchpoints and throughout our customer operations.

We have thus put in place Customer 360 to provide us a single view of our customers, helping us better manage and enhance their experience across all our channels.

More than ever, Digital Transformation is vital to Meralco. We will continue to build the grid of the future today through our Advanced Metering Infrastructure (AMI) and Advanced Distribution Management System (ADMS), and through substation and distribution automation. We are also improving our capabilities in load sensing and predictive fault monitoring to heighten service delivery, while establishing an integrated ICT Command Center to increase visibility and control over the grid.

Finally, we continue to place Sustainability at the core of our strategy and operations as a company. We have thus defined our long-term sustainability aspirations and strategies through 2030 and beyond, in support of global goals to keep temperature rise to no more than 1.5 degrees Celsius.

We aim to accelerate our transition to cleaner energy as we pledge to source 1,500 MW of our power requirements from renewable energy sources in the next 5 years. We are also committed to building up to 1,500 MW in utility-scale renewable energy power plants in the next 5 to 7 years.

Consistent with our sustainability goals, we are moving towards the electrification of Meralco's vehicle fleet. Beginning this year, we will deploy electric pick-ups, vans, cars, and motorcycles to serve our Metro Manila Business Centers.

We will also heighten our Race to Zero Waste program not only in the centers of our operations but also through the very edges of our distribution network. Going forward, 100% of our new distribution transformers will be powered by plant-based, natural ester oil, making these assets 99% recyclable and biodegradable.

Lastly, we aim to inject and ingrain sustainability standards into our supply chain through the Meralco Supplier Sustainability Scorecard. This scorecard will assess our vendors on key sustainability criteria and disclosures as part of their continuing accreditation with Meralco.

2020 was the year when COVID-19 cast a dark shadow of fear and uncertainty in the country. But Meralco did not falter. And it will not falter as we are moved by a greater and deeper sense of purpose and community, led by a strong and able leadership team and driven by a dedicated organization with "*malasakit*" at its very core.

(A video on COVID-19 Response and Powering Through was shown.)

We express our gratitude to the members of the Meralco Board of Directors for their vision and guidance and we thank our shareholders and customers for their continued trust and confidence in us.

Thank you and a good day to all of you."

The Chairman thanked the President and CEO for his report and reminded the stockholders that for good order and as indicated by the Corporate Secretary, any questions on the report will be considered after Item 9 of the agenda and before Item 10.

<p>APPROVAL OF THE 2020 AUDITED CONSOLIDATED FINANCIAL STATEMENTS</p>
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The next item on the agenda was the approval of the Audited Financial Statements for the Year 2020.

The Secretary stated that Management requested the approval of the Company's 2020 Audited Financial Statements and proposed the adoption of Resolution No. 2021-2.

Accordingly, the Company's Audited Financial Statements for the period ended December 31, 2020 was approved by stockholders representing at least a majority of the total voting shares, present and represented at the meeting, as detailed below:

VOTES	NUMBER OF VOTES CAST (1 share = 1 vote)	PERCENTAGE OF VOTING
1. Approved	902,962,961	80.11%
2. Against	138,101	0.01%
3. Abstained	6,615	0.00%

The following resolution was thus adopted and approved as Resolution 2021-2:

“RESOLVED, that the audited financial statements for the year ended December 31, 2020 be, as the same are hereby, approved.”

<p>RATIFICATION OF ACTS OF THE BOARD OF DIRECTORS AND MANAGEMENT</p>

The next item on the agenda was the ratification of acts, resolutions, and deeds of the Board of Directors, its Committees and Management of the Company from the Annual Stockholders' Meeting held on May 26, 2020 up to this meeting. Upon the Chairman's request, the Secretary briefly explained that these acts are provided in the minutes of meetings of the Board, its Committees and the Management. These include, among others, the amendment of Article 1 of the Company's By-Laws, the approval of contracts and agreements, projects and investments, treasury matters, dividend declarations, and disclosures to the Securities and Exchange Commission and Philippine Stock Exchange.

The highlights of these acts of the Board and Management were flashed on the screen.

Acts of Management pertain to those taken to implement the resolutions, directives and instructions of the Board and its Committees and those done in the regular course of the Company's business.

All acts, resolutions, and deeds of the Board of Directors, its Committees and Management of the Company from the Annual Stockholders' Meeting held on May 26, 2020 up to this meeting were ratified by the stockholders representing at least a majority of the total voting shares, present and represented at the meeting, as detailed in the following table:

VOTES	NUMBER OF VOTES CAST (1 share = 1 vote)	PERCENTAGE OF VOTING
1. Approved	902,822,565	80.10%
2. Against	74,131	0.00%
3. Abstained	210,981	0.02%

The following resolution was thus adopted and passed as Resolution 2021-3:

“RESOLVED, that all acts, resolutions, and deeds of the Board of Directors and Management of the Company from the Annual Stockholders' Meeting held on May 26, 2020 up to the date of this meeting be as they hereby are, confirmed, ratified and approved.”

ELECTION OF DIRECTORS FOR THE ENSUING YEAR

The next item on the agenda was the election of the members of the Board of Directors for the ensuing year. The Company's Articles of Incorporation provide for eleven (11) seats in the Board. The Company's stockholders, including shareholders in the minority, were given the opportunity to nominate candidates for election to the Board of Directors.

A “Call for Nomination” was also posted in the Company's website last January 25, 2021 calling for the submission of the proposed agenda and nomination of qualified candidates on or before March 5, 2021.

The Chairman requested the Assistant Corporate Secretary, Atty. WILLIAM S. PAMINTUAN, and Corporate Secretary, Atty. SIMEON KEN R. FERRER, to explain this particular matter and give the results of the election.

The Assistant Corporate Secretary stated that in accordance with the Company's By-Laws and Manual of Corporate Governance, as well as the Revised Corporation Code and the Securities Regulations Code, the following stockholders were duly nominated as members of the Company's Board of Directors to serve as such for the ensuing term:

Name	Nominated by
1. Anabelle L. Chua	Beacon Electric Asset Holdings, Inc.
2. Lydia B. Echauz	Atty. Marianito D. Miranda
3. Ray C. Espinosa	Beacon Electric Asset Holdings, Inc.
4. James L. Go	JG Summit Holdings, Inc.
5. Frederick D. Go	JG Summit Holdings, Inc.
6. Lance Y. Gokongwei	JG Summit Holdings, Inc.
7. Jose Ma. K. Lim	Metro Pacific Investments Corporation
8. Artemio V. Panganiban	Ms. Virginia P. Gapuz
9. Manuel V. Pangilinan	Beacon Electric Asset Holdings, Inc.
10. Pedro Emilio O. Roxas	Ms. Virginia P. Gapuz
11. Victorico P. Vargas	Beacon Electric Asset Holdings, Inc.

Retired Chief Justice Panganiban, Mr. Roxas and Ms. Echauz were nominated as independent directors.

The Corporate Secretary stated that under the Company's Corporate Governance Manual, SEC Code of Governance and SEC Memorandum Circulars, a company's independent director shall serve for a maximum cumulative period of only nine (9) years. At present, retired Chief Justice Panganiban and Mr. Roxas have already reached the maximum term limit. Retired Chief Justice Panganiban has served the Company as an independent director since May 27, 2008, while Mr. Roxas has served as such since May 25, 2010.

This notwithstanding, the same manual, code and circulars allow the extension and re-election of independent directors beyond the term limit, provided that meritorious justification exists.

The justification for the nomination of retired Chief Justice Panganiban and Mr. Roxas may be viewed in light of the current situation. With the unprecedented operational, legal and regulatory risks and uncertainty brought about by the COVID-19 pandemic, it has become imperative, now more than ever, that there be stability. The re-election of retired Chief Justice Panganiban and Mr. Roxas as independent directors of the Company will partly bring about such stability to the Board, benefitting not only the Company, but our stakeholders as well.

Retired Chief Justice Panganiban's and Mr. Roxas' deep experience and knowledge of the Company's business will enable them to provide steady guidance and meaningful participation in policy making and strategic management of risks brought about by the pandemic.

Retired Chief Justice Panganiban is a legal luminary of unquestionable independence, who has brought to the Board a wealth of expertise and experience and competencies relevant to the power industry. He has, in freely sharing his measured opinions on relevant issues raised during Board meetings, encouraged critical discussion, thus promoting sound resolutions in the attainment of the Company's strategic objectives but always in consideration of the rights of all stakeholders. He was the Company's Lead Independent Director, serving as intermediary between the Chairman and other directors and the Chairman of the Audit Committee, leading the Board in ensuring the adequacy of the Company's material controls and risk management systems. He has also played a significant role in the Risk Management and Related Party Transactions Committees.

Similarly, Mr. Pedro Roxas' indispensable contribution to the Board in terms of his vast expertise and experience in the areas of business, finance, and operations relevant to the power industry cannot be discounted. As the Chairman of the Nomination and Governance Committee and Related Party Transactions Committee, Mr. Roxas has been at the forefront of promoting good governance regulations, policies and practices within the Company and in its dealings with private and public stakeholders. As a testament to his efforts in ensuring that

the corporate governance practices of the Company remain at the highest level of excellence, the Company received the ASEAN Asset Class Award in December 2020 for being one of the top companies in the region with sterling 2019 ASEAN Corporate Governance Scorecard (ACGS) assessment results. In February 2021, the Company also garnered a Three-Golden Arrow Award as a result of the 2019 ACGS assessment.

A more detailed description of retired Chief Justice Panganiban and Mr. Roxas' individual background and achievements, including their accomplishments and contributions to the Company are all in the Definitive Information Statement distributed to the stockholders.

The Assistant Corporate Secretary stated that the Nomination and Governance Committee had evaluated the qualifications of the nominees, including the nominees for Independent Directors, and determined that they have all the qualifications and none of the disqualifications to serve as directors of the Company. All these nominees have given their consent to their nomination.

The profiles of all the nominees to the Board of Directors, stating their age, qualifications, experience, date of first appointment to the Board of the Company, and directorships in other publicly listed companies or subsidiaries, whether listed or non-listed within the group of companies, were made available as part of the Definitive Information Statement that were distributed to all the stockholders.

The Corporate Secretary announced that based on votes obtained by each, and as certified by the Nomination and Governance Committee that each of the nominees has garnered enough votes for election, the following were declared duly elected members of the Board of Directors to serve for the ensuing year and until their successors are duly elected and qualified:

Name	Votes
1. Anabelle L. Chua	856,265,653
2. Lydia B. Echauz	902,339,780
3. Ray C. Espinosa	897,850,357

Name	Votes
4. James L. Go	855,247,262
5. Frederick D. Go	855,243,007
6. Lance Y. Gokongwei	855,271,206
7. Jose Ma. K. Lim	856,140,720
8. Artemio V. Panganiban	885,995,277
9. Manuel V. Pangilinan	857,187,613
10. Pedro Emilio O. Roxas	886,253,950
11. Victorico P. Vargas	858,193,210

The following resolution was thus adopted and passed as Resolution 2021-4.

“RESOLVED, that the following nominees to the Board, having received sufficient number of votes from the stockholders present and represented at the meeting, are hereby declared duly elected members of the Board of Directors to serve for the ensuing year and until their successors are duly elected and qualified:

Anabelle L. Chua
 Lydia B. Echauz
 Ray C. Espinosa
 James L. Go
 Frederick D. Go
 Lance Y. Gokongwei
 Jose Ma. K. Lim
 Artemio V. Panganiban
 Manuel V. Pangilinan
 Pedro E. Roxas
 Victorico P. Vargas

The Chairman acknowledged and welcomed the newly elected Board member, Ms.

Lydia B. Echauz, to the Company’s Board of Directors.

Ms. Echauz has a doctorate degree in Business Administration from De La Salle University and currently serves as a member of the board of directors of publicly listed corporations such as Metro Pacific Investments Corporation, D & L Industries Inc., and Pilipinas Shell Petroleum, and sixteen (16) other non-publicly listed corporations.

The Chairman thanked outgoing Director, Mr. Elpidio L. Ibañez.

“As we welcome Lydia to our Board, we also would like to express our heartfelt gratitude to Mr. Elpidio L. Ibañez, for having served with distinction as a director of the Company for three (3) years. We are grateful for his contribution to the Company in those years. Thank you, Mr. Ibañez for your record of service to Meralco.”

APPOINTMENT OF EXTERNAL AUDITORS

The next order of business was the appointment of external auditor for the Company.

The Chairman requested the Chairman of the Audit Committee, retired Chief Justice Artemio V. Panganiban, to enlighten the stockholders on this matter and for the Corporate Secretary to give the voting results on the proposed resolution for this item.

Retired Chief Justice Panganiban stated that for the information of the stockholders, the Company had paid an audit fee of about Nine Million Eight Hundred Thousand Pesos (PhP 9,800,000.00) to our incumbent external auditors, SyCip Gorres Velayo & Co. for the year ended December 31, 2020. He added that the Audit Committee had evaluated their performance for the past year and was satisfied with their work. As such, the Audit Committee and the Board of Directors hereby endorse the re-appointment of Sycip Gorres Velayo & Co. as External Auditor of the Company for the ensuing year.

The Secretary stated that the management proposed the adoption of Resolution No. 2021-5 for the re-appointment of SyCip Gorres Velayo & Co. as External Auditor of the Company for the ensuing year. He was pleased to report that the reappointment of the Company's external auditor was approved by the stockholders representing a majority of the voting shares, present and represented at the meeting and eligible to vote. The details of the votes are, follows:

VOTES	NUMBER OF VOTES CAST (1 share = 1 vote)	PERCENTAGE OF VOTING
1. Approved	902,985,635	80.11%
2. Against	98,245	0.01%
3. Abstained	23,797	0.00%

The following resolution was thus adopted and passed as Resolution 2021-5:

“RESOLVED, that SGV & Company, Certified Public Accountants, be, as they hereby are, retained and appointed as external auditor of the Company for the ensuing year.”

QUESTIONS & ANSWERS

The Chairman requested the Assistant Corporate Secretary, Atty. William S. Pamintuan, to read the questions from the stockholders.

Atty. Pamintuan stated that there are several questions from stockholders that were received via the SERVE facility. Following were the questions raised and the answers provided by the Board and/or Management of the Company:

- **Ms. Krizel Gallinero:** With the declaration of ECQ and MECQ lately in March, April and May, is the same problem on bill shock experienced last year expected to happen again?

Atty. Ray Espinosa, President and CEO, replied that Meralco does not expect the same bill shock issue to reoccur. In fact, even with the declaration of ECQ and MECQ, Meralco's meter readers have been able to perform meter reading for proper billing. He said that the Company is grateful to the Department of Energy (DOE), Energy Regulatory Commission (ERC) and partner local government units (LGUs) for heeding the call to allow its meter readers to do their job, and so far, there are no issues encountered with respect to reading of meters.

Atty. Espinosa added that the Company had also embarked on an information campaign this summer for the benefit of all its customers to inform them of various energy conservation and efficiency measures, and to make them aware that during summer months, consumption of power is usually at its peak and electricity bills would rise. He added that with proper information, the customers will be in the position to manage their bills more properly.

- **Mr. Amador Nieves:** Can customers install solar panels to reduce electric bills?

Atty. Espinosa replied in the affirmative. He stated that many of Meralco's customers have installed solar PVs in their homes (rooftop), and this is supported by the Company. In fact, Meralco has a subsidiary that provides solar rooftop services to its customers, even to those outside of its franchise area.

He also said that from the network standpoint, the Company is mindful of the effects of solar PVs on its network and it has been taking appropriate measures to make the distribution network compatible with the influx of solar panels to its network.

- **Ms. Jennifer Gutierrez:** Are there initiatives or concessions extended to the business customers during the pandemic, specifically, last year?

Atty. Espinosa shared that, as mentioned in the President and CEO's Report earlier, Meralco provided relief on the Guaranteed Minimum Billing Demand (GMBD), which

totaled PhP 3.2 billion, benefiting about 95,000 business customers. The Company provided significant assistance to its business customers to help them during the pandemic.

- **Ms. Grace Cortez:** Is the network prepared to support the expected surge of electricity demand from electric vehicles? What about the stability of the network to support the increasing net metering of solar panels of households?

Atty. Espinosa replied that in the short term the Company does not see any significant impact of electric vehicles (EVs) in its network. He added that it is a very nascent area in the country, and it would take a bit of time before EVs would come in a manner that would impact our distribution grid.

As for solar panels for households, Atty. Espinosa said that Meralco has taken note of the increase in the popularity of solar panels for homes, as well as for commercial establishments. Since this net metering has an impact in the distribution grid, Meralco's Network group has been preparing its grid for the influx of these types of intermittent energy sources. Hence, the Company is investing in more studies to determine the appropriate technology to invest in to strengthen its grid, as well as to deal with intermittent energy sources, not only from EVs or solar panels, but even from the utility scale renewable energy that Meralco is sourcing.

- **Mr. Amador Nieves:** How does Meralco respond to and support the Energy Efficiency and Conservation (EE&C) Law?

The President and CEO responded that Meralco has been a big supporter of said law by setting up green and sustainable initiatives. As mentioned in the earlier report, sustainability is at the core of the Company's business. Hence, ensuring that Meralco supports the EE&C Law is in one of its prime directives as far as sustainability is concerned. This includes safe interconnection in Meralco's grid through the Net Metering Program, and even preparing customers themselves for complying with the law. He added that Meralco offers such services to its customers, particularly business customers, through its subsidiary.

Atty. Pamintuan thanked the stockholders for their questions, as well as Atty. Espinosa for his answers. He stated that on questions regarding dividends and customer service, the concerned office will reply directly to the stockholders who sent the questions. He added that other questions not taken up will be referred to the responsible office/s to reply.

ADJOURNMENT

There being no other business to transact, the 58th Annual Stockholders meeting was adjourned at 11:28 a.m.

SIMEON KEN R. FERRER
Corporate Secretary

A T T E S T:

MANUEL V. PANGILINAN
Chairman of the Board

PROOF OF NOTICE

I HEREBY CERTIFY, as duly elected, qualified and incumbent Corporate Secretary of Manila Electric Company (MERALCO), that written notice of the annual meeting of stockholders was sent to all stockholders of record at least twenty-eight (28) days before the date of the meeting, in accordance with the By-laws of the Company. A copy of the notice is attached as Annex "A" hereof.

Pasig City, Philippines, May 25, 2021.


SIMEON KEN R. FERRER
Corporate Secretary

NO.	2021 ASM ATTENDEES
1.	CHARINA PADUA
2.	LYDIA B. ECHAUZ
3.	MARIA ROSARIO SUNTAY
4.	JONATHAN MACOPIA CARRETAS
5.	CARLO ANGELES
6.	EDWARD CO YAO
7.	DANILO LO MONTE
8.	JOEY KIELE M LUMAIN
9.	LUZ GARCIA
10.	THOM RYAN QUIAMBAO ORTEGA
11.	MARIAN ANTONETTE CABUNIAG VILLAFUERTE
12.	VICTORICO P. VARGAS
13.	ALLAN COLARINA REYES
14.	JOSE MA. K. LIM
15.	ALVIN ARBUES PABLO
16.	RANDY UYEG CORTEZ
17.	HEIDEE SILVESTRE ARGUELLES
18.	FREDERICK D. GO
19.	GERTRUDES DEL VILLAR GARCIA
20.	MARIA TERESA AGNO ADRIANO
21.	RAMIR ALBIOLA OMBAO
22.	AMELITA C TAN
23.	EVA CORPUZ HUGO
24.	SHERRIE ANN MANATAD GARCIA
25.	CELIAMOR GALANG GERONIMO
26.	HAZEL ROSE SEE
27.	MA. CRISTINA PURIFICACION CRISANTO NEPOMUCENO
28.	ELVIRA MASANQUE CRUZ
29.	CATHERINE ALEGRE YANTO-VIRAY
30.	ALEXANDER BRIAN FORTUNA SAMSON
31.	FRED LORENZ GEOLAGON RAMOS
32.	ALPHA BAUTISTA BERNARDO
33.	EMERSON SOLIS ASUNCION
34.	JAMES L. GO
35.	LANCE Y GOKONGWEI
36.	RODOLFO JR BAGUISI REYNO
37.	NELON BALAGUER ALINDOGAN
38.	JULIUS DE JESUS SANVICTORES
39.	JAMESON SANTOS AGUB
40.	SHEENA MARIE AMURAO
41.	LOREME CO BONDOC
42.	ANNA CRISTINA PEREZ
43.	PHILIP ROLDAN GARGAR LANDICHO
44.	PRESIDIO RIVERA CALUMPIT
45.	BOTAN C REYES
46.	MA GEMINIA DAGUMBOY VECINO

47.	MARIE JO DAGUMBOY VECINO
48.	FLORIELVIR DAGUMBOY VECINO
49.	LETICIA SANTOS BLANCO
50.	JENNIFER JOY STO. TOMAS SENGSON
51.	MARIA ROSARIO VICTORIA SANTIAGO BUENAVENTURA
52.	JOY PORCIUNCULA MENDOZA
53.	VINCENT RAPHAEL BRION DE LEON
54.	IAN GERARD CONTRERAS CAPISTRANO
55.	ELLEN BENDICIO
56.	PEDRO O ROXAS
57.	MANUEL V. PANGILINAN
58.	RAY C. ESPINOSA
59.	ARTEMIO V. PANGANIBAN
60.	MANUEL VITO CRUZ DAEL
61.	LORNA ANDRES HERRERA
62.	MARILOU BRAVO MENDOZA
63.	LEA EVELYN GUEVARA AGUILOS
64.	ROY ANTHONY PEDROSO
65.	MARK TED TIO GALLINERO
66.	BELLA DE CASTRO VICTORIA
67.	MIRIAM DE MAPUE MANITO
68.	KRIZEL TIO GALLINERO
69.	COLEEN GALLINERO
70.	HANSLEY TIO GALLINERO
71.	MYRA TIO GALLINERO
72.	JOSEFINA DE CASTRO ZITA
73.	FILIBERTO CARPENA OPULENCIA
74.	EDWIN ARROYO
75.	JOSE TRINI DE LEON EVANGELISTA
76.	ROMENA MERCADO OPULENCIA
77.	SARAH CONCEPCION SANTOS
78.	FLORDELIZA SORIANO PINEDA
79.	EDNA FERRER GONZALEZ
80.	VIOLETA P. ESGUERRA
81.	VICTOR IV LIBARIOS RISMA
82.	ILUMINADA MOLINA VILLAMAYOR
83.	DAVID BUNAGAN ACEDO
84.	EDWIN GALLARDO NILOOBAN
85.	ANABELLE L. CHUA
86.	ERNESTO FERMATO AMOROSO
87.	BRENDA MONTA NOYNAY
88.	RAMONA FE CAJIPE AGUIRRE
89.	RAMON JR. CACHAPERO YU
90.	NORMAN AQUINO SANTIAGO
91.	ELVIRA DAGUMBOY VECINO
92.	AGAPITO DEL ROSARIO ZALDARRIAGA
93.	BYRON JR VALENCIA YAP

94.	BYRON LIM YAP
95.	ANTHONY CORDOVA VILLAFUERTE
96.	KIM HUY CHUA UY
97.	LILIAN PILI UMIPIG
98.	RODOLFO DIZON UNGSON
99.	DELMAR NATHANIEL TANTAMCO
100.	CYNTHIA CAMPOS SAMSON
101.	ANNA MIRABEL SANTIAGO
102.	ISABEL LUMANAS IBAY
103.	ROGELIO SANTIAGO
104.	FROILAN SAVET
105.	TERESITA ULANDAY SICANGCO
106.	DIOSDADO RAFAL SADANGSAL
107.	ANTHONY VILLARIN ROSETE
108.	TERESITA COPUYOC RAMOS
109.	JOEL JIMENEZ ROMAN
110.	JOSE JR. SANTOS REYES
111.	NERISSA VILLARICO RONQUILLO
112.	FRANCISCO LOPEZ REYES
113.	MICHELLE ANN CASTRO RIVERA
114.	EMMANUEL RAMOS PEREZ
115.	DANILO MADERAZO PILAPIL
116.	PAQUITO BERNIZA POMPERADA
117.	RHODELLER ARAYATA ORLINO
118.	ROSELITA GONZALES ORLINO
119.	MERLIE PILAPIL NUÑEZ
120.	AMADOR NIEVES
121.	CESAR SANTOS MENDOZA
122.	MA. CRISTINA L. MEANA
123.	ROMEO GALANG MANALO
124.	LOUIS JOSEPH CUEVA MAAGMA
125.	SHILO FUERTE MANZANILLA
126.	WILSON MANZANO
127.	MA. LOURDES MARCELO MANLUGON
128.	CORAZON LABRADO
129.	JOEL B LIBED
130.	MA. MIEL CRISTINA GAMALINDA LANTING
131.	ANTONIO A KAW
132.	ELPIDIO L IBAÑEZ
133.	CHRISTINE FERRER INFANTADO
134.	DANILO IGNACIO
135.	MA. VICTORIA MESINA GERONILLA
136.	ANTONIO RIVERA GERONILLA
137.	ESTRELLA SY GUZMAN
138.	FERDINAND ORCULLO GELUZ
139.	LEILANI GONZALES ANASTACIO
140.	MARVIN GONSALVES

141.	TEODORO OLIVARES GALLINERO
142.	ANTONIO A. GERMINO
143.	JENNIFER SANTOS GUTIERREZ
144.	AMPARO CONSUELO URETA FRANCISCO
145.	PATRICIA SAJO EVANGELISTA
146.	ALEXANDER PARAGAS EVANGELISTA
147.	RIZALDY SIOSON ENRIQUEZ
148.	JEAN VILLAVER EUGENIO
149.	EDUARDO EVANGELISTA EVANGELISTA
150.	LUNINGNING SAQUILAYAN EVANGELISTA
151.	MARIA GINA DELFIN
152.	JOSE CARMELITO DEOFERIO
153.	DIOSDADO EUSEBIO DELA CRUZ
154.	NORBERTO DOLIGOSA
155.	MARIO DALAG
156.	CECILIA VALENCIA DELA CRUZ
157.	GERARDO FEDERICO DELA PAZ
158.	RUSTICO CALINGO DE BORJA JR.
159.	JESUS JR CASTRO CINCO
160.	ALLEN ALONZO COSTALES
161.	ERNESTO MANALOTO CABRAL
162.	BENJAMIN UMEREZ CUSI
163.	MA. CYNTHIA CARIDAD SOLUREN
164.	ALEX CONDEZ CABUGAO
165.	NESTOR ANTONIO CACNIO
166.	ERNESTO F CRUZ
167.	VICENTA EUSTAQUIO BORJA
168.	MARY ANNE DE QUIROZ BARCELONA
169.	DEMETRIO BULLEN
170.	JOUIE FLORANTE MERCADO BARTOLOME
171.	WILFREDO BAETIONG
172.	MA. TERESITA TE BUENO
173.	RONNIE LEGURO APEROCHO
174.	AMPARO FRANCISCA SOTELO ANGELES
175.	EDGARDO SOTELO ANGELES
176.	MA. CECILIA ARISCO IGNACIO
177.	ANTONIO JR MANO ABUEL
178.	IRENEO BONIFACIO ACUNA
179.	SIMON CESAR CABALLERO ABAGA
180.	AMOR CONCEPCION L. AVENDAÑO
181.	BLASITO ARQUIZA ABELLERA



ORTIGAS AVENUE, PASIG CITY
0300 PHILIPPINES

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

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

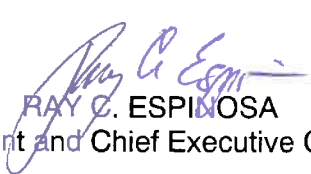
In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the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

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

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

SyCip Gorres Velayo & Co., the independent auditor appointed by the stockholders, has audited the consolidated financial statements of the Company in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.


MANUEL V. PANGILINAN
Chairman of the Board


RAY C. ESPINOSA
President and Chief Executive Officer


BETTY C. SIY-YAP
Chief Finance Officer

MAR 17 2022

SUBSCRIBED AND SWORN to before me this ____ day of _____ 2022 in Pasig City, by the above-named persons who exhibited to me their respective Tax Identification Numbers as follows:

NAME	Tax Identification Number
Manuel V. Pangilinan	914-481-801
Ray C. Espinosa	113-248-897
Betty C. Siy-Yap	102-100-627

Doc. No. 100;
Page No. 101;
Book No. 1;
Series of 2022.


ISAGANI C. PORUANA
NOTARY PUBLIC
Appointment No. 140 (2004-05-2),
Pres. San Juan and Pateros,
Issued on 05 July 2021 at Pasig City
Roll of Attorneys No. 6, 20
IBF No. 176400; 01/21/20 - RCM
PTR No. 8-31478; 01/06/20, Pasig City
6 Floor, Lopez Blg., Ortigas Ave., Pasig City

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and the Stockholders
Manila Electric Company and Subsidiaries
Lopez Building, Ortigas Avenue
Barangay Ugong, Pasig City, Metro Manila

Opinion

We have audited the consolidated financial statements of Manila Electric Company (the Company) and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2021 and 2020, 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, 2021, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2021 and 2020, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2021 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

Key Audit Matters

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

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



Revenue from sale of electricity

The Group's revenue from its electricity distribution business represents 92% of its consolidated revenues and arise from its service contracts with a large number of customers that are classified as either commercial, industrial or residential, located within the Group's franchise area. This matter is significant to our audit because the revenue recognized depends on (a) the complete capture of electric consumption based on the meter readings over the franchise area taken on various dates; (b) the propriety of rates computed and applied across customer classes including the application of adjustments promulgated by the Energy Regulatory Commission (ERC); and (c) the reliability of the IT systems involved in processing the billing transactions.

Notes 2, 23, 24, 30 and 32 provide the relevant disclosures related to the rate-making regulations and regulatory policies of the ERC.

Audit response

We obtained an understanding and evaluated the design of, as well as tested the controls over, the customer master file maintenance, accumulation and processing of meter data, and interface of data from the billing system to the financial reporting system. In addition, we performed a test recalculation of the bill amounts using the ERC-approved rates, adjustments and formulae, as well as actual pass-through costs incurred, and compared them with the amounts reflected in the billing statements. We involved our internal specialist in understanding the IT processes and in understanding and testing the IT general controls over the IT systems supporting the revenue process.

Adequacy of Allowance for Expected Credit Losses for Receivables

Under PFRS 9, *Financial Instruments*, the Group is required to estimate expected credit loss (ECL) for its financial assets, particularly its trade receivables which, as of December 31, 2021, represent 9% of the consolidated assets of the Group. The allowance for ECL and the provision for ECL as at and for the year ended December 31, 2021 amounted to ₱5,924 million and ₱551 million, respectively.

The Group's use of the ECL model is significant to our audit as it involves the exercise of significant management judgment. Key areas of judgment include: segmenting the Group's credit risk exposures; defining default; determining assumptions to be used in the ECL model; and incorporating forward-looking information (called overlays), including the impact of coronavirus pandemic, in calculating ECL.

The disclosures in relation to allowance and provisions for ECL using the ECL model are included in Notes 5, 13 and 27 to the consolidated financial statements.

Audit response

We obtained an understanding of the methodologies and models used for the Group's varying credit exposures and assessed whether these considered the requirements of PFRS 9 to reflect an unbiased and probability-weighted outcome and the best available forward-looking information.



We (a) assessed the Group's segmentation of its credit risk exposures based on homogeneity of credit risk characteristics; (b) tested the definition of default against historical analysis of accounts and credit risk management policies and practices in place, (c) tested historical loss rates by inspecting historical collections, recoveries and write-offs (d) checked the classification of outstanding exposures to their corresponding aging buckets; and (e) checked the forward-looking information used for overlay through statistical test and corroboration using publicly available information and our understanding of the Group's receivable portfolios and industry practices, including the impact of the coronavirus pandemic.

Further, we checked the data used in the ECL models, such as the historical aging analysis and default and recovery data, by reconciling data from the billing system to the loss allowance analysis/models and financial reporting systems. To the extent that the loss allowance analysis is based on credit exposures that have been disaggregated into subsets with similar risk characteristics, we traced the disaggregation from source systems to the loss allowance analysis.

We reviewed the completeness of the disclosures made in the consolidated financial statements.

Retirement and other long-term post-employment benefits

The Group has defined retirement and other long-term post-employment benefits plans covering all regular employees. The valuation of the retirement benefits obligation involves significant management judgment in the use of assumptions. The valuation also requires the assistance of an external actuary whose calculations depend on certain assumptions, such as discount rates and future salary increases, which could have a material impact on the results. Thus, we considered this as a key audit matter.

Note 26 to the consolidated financial statements provides the relevant disclosures related to this matter.

Audit response

We involved our internal specialist in the review of the scope, bases, methodology and results of the work by the external actuary, whose professional qualifications, capabilities and objectivity were also taken into consideration. We evaluated the key assumptions used by comparing the employee demographics and attrition rates against the Group's human resource data, and the discount rate and mortality rate against external data. We inquired from management about the basis of salary increase rate and compared it against the Group's historical data and future plans. Moreover, we reviewed the required disclosures in the consolidated financial statements.

Provisions and contingencies

The Group is involved in certain proceedings and claims for which 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 significant to our audit because the determination of whether any provision should be recognized and the estimation of the potential liability resulting from these assessments require significant judgment by management. The inherent uncertainty over the outcome of these matters is brought about by the differences in the interpretation and implementation of the relevant laws and regulations.

Notes 2, 19, 22 and 29 to the consolidated financial statements provide the relevant disclosures related to this matter.



Audit response

We examined the bases of management's assessment of the possible outcomes and the related estimates of the probable costs and/or expenses that are recognized and/or disclosed in the Group's financial statements and involved our internal specialist when necessary. We discussed with management the status of the claims and/or assessments and obtained correspondences with the relevant authorities and opinions from the internal and external legal counsels. We evaluated the position of the Group by considering the relevant laws, rulings and jurisprudence. We also reviewed the disclosures on provisions and contingencies in the Group's consolidated financial statements.

Accounting for business combination

As disclosed in Notes 3 and 6 to the consolidated financial statements, MERALCO PowerGen Corporation, a wholly owned subsidiary of the Company, acquired an additional 86% interest in Global Business Power Corporation (GBPC) for a total consideration of ₱32,575 million and performed a provisional purchase price allocation. Apart from the significance of the amounts involved, we consider the accounting for this acquisition to be a key audit matter because it requires significant management judgment in determining the fair values of the assets acquired and liabilities assumed from GBPC, based on the available information as at the acquisition date, specifically the acquired property and equipment and intangible assets.

Audit response

We reviewed the share purchase agreements covering the acquisition and assessed whether the acquisition has been appropriately accounted for. We evaluated management's basis in determining the fair value of the assets acquired and liabilities assumed from GBPC using the available information as of the acquisition date. We assessed the competence, capabilities and objectivity of the external appraiser who have been engaged to prepare the appraisal report used in the purchase price allocation, by considering their qualifications, experience and reporting responsibilities. We involved our internal specialist in evaluating the methodologies and assumptions used in arriving at the provisional fair values of the property and equipment and intangible assets. We also assessed the adequacy of the related disclosures in Notes 3 and 6 to the consolidated financial statements.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2021 but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2021 are expected to be made available to us after the date of this auditor's report.

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

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



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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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



- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

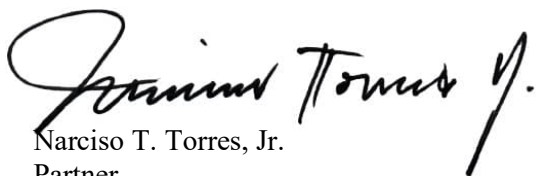
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

The engagement partner on the audit resulting in this independent auditor's report is Narciso T. Torres, Jr.

SYCIP GORRES VELAYO & CO.



Narciso T. Torres, Jr.

Partner

CPA Certificate No. 84208

Tax Identification No. 102-099-147

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

SEC Partner Accreditation No. 84208-SEC (Group A)

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

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

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

BIR Accreditation No. 08-001998-111-2020, November 27, 2020, valid until November 26, 2023

PTR No. 8854376, January 3, 2022, Makati City

February 28, 2022



MANILA ELECTRIC COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	December 31	
		2021	2020
<i>(Amounts in millions)</i>			
ASSETS			
Noncurrent Assets			
Utility plant, generation plant and others	7 and 10	₱225,779	₱163,009
Investments in associates and interests in joint ventures	8 and 23	23,450	15,688
Investment properties	9	1,496	1,499
Intangible assets	7 and 10	15,387	2,233
Deferred tax assets - net	28	27,226	28,943
Financial and other noncurrent assets	2, 11, 15, 26, 27 and 30	53,125	50,513
Total Noncurrent Assets		346,463	261,885
Current Assets			
Cash and cash equivalents	12 and 27	55,007	50,912
Trade and other receivables	13, 24 and 27	45,013	58,120
Inventories	14	9,817	5,484
Financial and other current assets	11, 15, 23 and 27	27,182	13,866
Total Current Assets		137,019	128,382
Total Assets		₱483,482	₱390,267

EQUITY AND LIABILITIES

**Equity Attributable to Equity Holders
of the Parent**

Common stock	16	₱11,273	₱11,273
Additional paid-in capital		4,111	4,111
Equity reserve		(116)	(116)
Employee stock purchase plan	16	1,049	1,049
Unrealized fair value gains on financial assets at fair value through other comprehensive income ("FVOCI")	11	502	324
Remeasurement adjustments on retirement and other post-employment liabilities	26	2,681	(3,822)
Share in remeasurement adjustments on associates' retirement liabilities	8	(25)	(13)
Cumulative translation adjustments of associates	8	306	6
Cumulative translation adjustments of subsidiaries		40	22
Treasury shares	16	(11)	(11)
Retained earnings	16	75,394	66,414
Equity Attributable to Equity Holders of the Parent		95,204	79,237
Non-controlling Interests		10,239	1,494
Total Equity		105,443	80,731

(Forward)

	Note	December 31	
		2021	2020
<i>(Amounts in millions)</i>			
Noncurrent Liabilities			
Interest-bearing long-term financial liabilities - net of current portion	17 and 27	₱52,720	₱14,809
Customers' deposits - net of current portion	18, 22 and 27	30,901	29,844
Long-term employee benefits	26	10,257	15,327
Provisions	19, 22 and 29	13,554	17,065
Refundable service extension costs - net of current portion	22 and 27	5,334	6,632
Deferred tax liabilities - net	28	5,722	316
Other noncurrent liabilities	2, 5, 7, 24 and 29	97,981	82,942
Total Noncurrent Liabilities		216,469	166,935
Current Liabilities			
Notes payable	21 and 27	28,834	23,373
Trade payables and other current liabilities	16, 22, 23, 27 and 29	119,056	111,261
Customers' refund	2, 20 and 27	2,929	2,949
Income tax payable		1,637	3,056
Current portion of interest-bearing long-term financial liabilities	17 and 27	9,114	1,962
Total Current Liabilities		161,570	142,601
Total Liabilities		378,039	309,536
Total Liabilities and Equity		₱483,482	₱390,267

See accompanying Notes to Consolidated Financial Statements.

MANILA ELECTRIC COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

		Years Ended December 31		
	<i>Note</i>	2021	2020	2019
<i>(Amounts in millions, except per share data)</i>				
REVENUES				
	<i>6, 23, 24, 30 and 32</i>			
Sale of electricity		₱309,238	₱267,946	₱310,098
Sale of other services	<i>23</i>	9,309	7,358	8,217
		318,547	275,304	318,315
COSTS AND EXPENSES				
Purchased power	<i>24 and 30</i>	224,915	204,420	241,032
Salaries, wages and employee benefits	<i>25 and 26</i>	15,892	12,301	13,106
Depreciation and amortization	<i>7, 9, 10 and 25</i>	12,499	8,555	8,730
Provision for probable losses and expenses from claims	<i>2, 19 and 29</i>	10,175	15,526	10,119
Coal and fuel		8,793	—	—
Contracted services		7,074	6,348	6,637
Taxes, fees and permits		1,939	1,069	1,118
Power plant operations and maintenance cost		1,103	—	—
Provision for expected credit losses (“ECL”)		506	1,827	435
Other expenses	<i>23 and 25</i>	6,312	4,267	5,899
		289,208	254,313	287,076
OTHER INCOME (EXPENSES)				
Interest and other financial income	<i>11 and 12</i>	2,197	2,323	3,269
Interest and other financial charges	<i>17, 18 and 21</i>	(3,728)	(1,594)	(1,607)
Equity in net earnings (losses) of associates and joint ventures	<i>8</i>	3,127	1,233	(1,486)
Foreign exchange gains (losses)		487	(839)	(508)
Others	<i>2, 23, 30 and 32</i>	1,573	301	1,008
		3,656	1,424	676
INCOME BEFORE INCOME TAX		32,995	22,415	31,915
PROVISION FOR (BENEFIT FROM) INCOME TAX				
	<i>28</i>			
Current		8,728	10,295	11,503
Deferred		184	(4,029)	(2,960)
		8,912	6,266	8,543
NET INCOME		₱24,083	₱16,149	₱23,372
Attributable To				
Equity holders of the Parent	<i>31</i>	₱23,498	₱16,316	₱23,285
Non-controlling interests		585	(167)	87
		₱24,083	₱16,149	₱23,372
Earnings Per Share Attributable to Equity Holders of the Parent				
	<i>31</i>			
Basic		₱20.85	₱14.48	₱20.66
Diluted		20.85	14.48	20.66

See accompanying Notes to Consolidated Financial Statements.

MANILA ELECTRIC COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

		Years Ended December 31		
	<i>Note</i>	2021	2020	2019
		<i>(Amounts in millions)</i>		
NET INCOME		₱24,083	₱16,149	₱23,372
OTHER COMPREHENSIVE INCOME				
Items that will be reclassified to profit or loss in subsequent years:				
Unrealized fair value gains on fair value through other comprehensive ("FVOCI") financial assets	11	139	100	507
Cumulative translation adjustments of subsidiaries		18	(10)	(1)
Cumulative translation adjustments of associates		300	(756)	211
Net other comprehensive income (loss) that will be reclassified to profit or loss in subsequent years		457	(666)	717
Items that will not be reclassified to profit or loss in subsequent years:				
Remeasurement adjustments on retirement and other post-employment liabilities	26	8,671	(5,186)	(5,327)
Income tax effect		(2,168)	1,557	1,599
		6,503	(3,629)	(3,728)
Unrealized fair value gains (losses) on equity securities at FVOCI		43	(3)	17
Income tax effect		(4)	—	(2)
		39	(3)	15
Share in remeasurement adjustments on associates' retirement liabilities	8	(12)	(1)	(2)
Net other comprehensive income (loss) that will not be reclassified to profit or loss in subsequent years		6,530	(3,633)	(3,715)
OTHER COMPREHENSIVE INCOME (LOSS), NET OF INCOME TAX		6,987	(4,299)	(2,998)
TOTAL COMPREHENSIVE INCOME, NET OF INCOME TAX		₱31,070	₱11,850	₱20,374
Total Comprehensive Income Attributable To				
Equity holders of the Parent		₱30,485	₱12,017	₱20,287
Non-controlling interests		585	(167)	87
		₱31,070	₱11,850	₱20,374

See accompanying Notes to Consolidated Financial Statements.

MANILA ELECTRIC COMPANY AND SUBSIDIARIES

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

	Equity Attributable to Equity Holders of the Parent													
	Common Stock (Note 16)	Additional Paid-in Capital	Equity Reserve (Note 3)	Employee Stock Purchase Plan (Note 16)	Unrealized Fair Value Gains (Losses) on Financial Assets at FVOCI (Note 11)	Remeasure- ment Adjustments on Retirement and Other Post- Employment Liabilities (Note 26)	Share in Remeasure- ment Adjustments on Associates' Retirement Liabilities (Note 8)	Cumulative Translation Adjustments of Associates (Note 8)	Cumulative Translation Adjustments of Subsidiaries	Treasury Shares (Note 16)	Retained Earnings (Note 16)	Equity Attributable to Equity Holders of the Parent	Non- controlling Interests (Note 3 and 6)	Total Equity
	(Amounts in millions)													
At January 1, 2021	₱11,273	₱4,111	(₱116)	₱1,049	₱324	(₱3,822)	(₱13)	₱6	₱22	(₱11)	₱66,414	₱79,237	₱1,494	₱80,731
Net income	—	—	—	—	—	—	—	—	—	—	23,498	23,498	585	24,083
Other comprehensive income (loss)	—	—	—	—	178	6,503	(12)	300	18	—	—	6,987	—	6,987
Total comprehensive income (loss)	—	—	—	—	178	6,503	(12)	300	18	—	23,498	30,485	585	31,070
Dividends	—	—	—	—	—	—	—	—	—	—	(14,518)	(14,518)	(1,358)	(15,876)
Effect of consolidation of Global Business Power Corporation ("GBPC")	—	—	—	—	—	—	—	—	—	—	—	—	9,474	9,474
Others	—	—	—	—	—	—	—	—	—	—	—	—	44	44
	—	—	—	—	—	—	—	—	—	—	(14,518)	(14,518)	8,160	(6,358)
At December 31, 2021	₱11,273	₱4,111	(₱116)	₱1,049	₱502	₱2,681	(₱25)	₱306	₱40	(₱11)	₱75,394	₱95,204	₱10,239	₱105,443
At January 1, 2020	₱11,273	₱4,111	(₱116)	₱1,049	₱227	(₱193)	(₱12)	₱762	₱32	(₱11)	₱67,108	₱84,230	₱1,011	₱85,241
Net income	—	—	—	—	—	—	—	—	—	—	16,316	16,316	(167)	16,149
Other comprehensive income (loss)	—	—	—	—	97	(3,629)	(1)	(756)	(10)	—	—	(4,299)	—	(4,299)
Total comprehensive income (loss)	—	—	—	—	97	(3,629)	(1)	(756)	(10)	—	16,316	12,017	(167)	11,850
Dividends	—	—	—	—	—	—	—	—	—	—	(17,010)	(17,010)	644	(16,366)
Appropriation of unrestricted retained earnings	—	—	—	—	—	—	—	—	—	—	—	—	6	6
	—	—	—	—	—	—	—	—	—	—	(17,010)	(17,010)	650	(16,360)
At December 31, 2020	₱11,273	₱4,111	(₱116)	₱1,049	₱324	(₱3,822)	(₱13)	₱6	₱22	(₱11)	₱66,414	₱79,237	₱1,494	₱80,731

Equity Attributable to Equity Holders of the Parent

					Unrealized Fair Value Gains (Losses) on Financial Assets at <i>FVOCI</i> (Note 11)	Remeasure- ment Adjustments on Retirement and Other Post- Employment Liabilities (Note 26)	Share in Remeasure- ment Adjustments on Associates' Retirement Liabilities (Note 8)	Cumulative Translation Adjustments of Associates (Note 8)	Cumulative Translation Adjustments of Subsidiaries	Treasury Shares (Note 16)	Retained Earnings (Note 16)	Equity Attributable to Equity Holders of the Parent	Non- controlling Interests (Note 6)	Total Equity
<i>(Amounts in millions)</i>														
At January 1, 2019	₱11,273	₱4,111	(₱116)	₱1,049	(₱295)	₱3,535	(₱10)	₱551	₱33	(₱11)	₱61,922	₱82,042	₱845	₱82,887
Net income	–	–	–	–	–	–	–	–	–	–	23,285	23,285	87	23,372
Other comprehensive income (loss)	–	–	–	–	522	(3,728)	(2)	211	(1)	–	–	(2,998)	–	(2,998)
Total comprehensive income (loss)	–	–	–	–	522	(3,728)	(2)	211	(1)	–	23,285	20,287	87	20,374
Dividends	–	–	–	–	–	–	–	–	–	–	(18,099)	(18,099)	(32)	(18,131)
Additions to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	111	111
	–	–	–	–	–	–	–	–	–	–	(18,099)	(18,099)	79	(18,020)
At December 31, 2019	₱11,273	₱4,111	(₱116)	₱1,049	₱227	(₱193)	(₱12)	₱762	₱32	(₱11)	₱67,108	₱84,230	₱1,011	₱85,241

See accompanying Notes to Consolidated Financial Statements.

MANILA ELECTRIC COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

		Years Ended December 31		
	Note	2021	2020	2019
(Amounts in millions)				
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax		₱32,995	₱22,415	₱31,915
Adjustments for:				
Provision for probable losses and expenses from claims - net	2 and 29	7,951	14,473	9,696
Depreciation and amortization	7, 9 and 10	12,499	8,555	8,730
Interest and other financial charges	17, 18 and 21	3,728	1,594	1,607
Interest and other financial income	11 and 12	(2,197)	(2,323)	(3,269)
Equity in net losses (earnings) of associates and joint ventures	8	(3,127)	(1,233)	1,486
Provision for expected credit losses (“ECL”)		557	1,827	435
Others		12	(151)	(213)
Operating income before working capital changes		52,418	45,157	50,387
Decrease (increase) in:				
Trade and other receivables		11,127	(27,922)	(2,645)
Inventories		(2,136)	(926)	(746)
Financial and other current assets		(2,573)	184	(324)
Increase (decrease) in:				
Trade payables and other current liabilities		(12,832)	18,215	1,419
Customers’ deposits		1,244	1,282	1,635
Customers’ refund		(20)	(83)	(1,327)
Long-term employee benefits		2,855	1,573	2,220
Cash generated from operations		50,083	37,480	50,619
Income tax paid		(6,902)	(7,608)	(8,443)
Net cash flows provided by operating activities		43,181	29,872	42,176
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition of Global Business Power Corporation (“GBPC”) – net of GBPC’s cash upon acquisition	3	(16,476)	–	–
Additions to:				
Debt securities at amortized cost	11	(23,115)	(15,949)	(11,974)
Financial assets at <i>FVOCI</i>	11	(42,458)	(92,057)	(51,065)
Utility plant and others	7	(26,260)	(19,662)	(19,438)
Intangible assets	10	(976)	(896)	(547)
Investments in associates and interests in joint ventures	8	(992)	(466)	(6,421)
Short-term investments		(435)	(5,472)	(37,957)
Investment properties	9	(1)	–	(1)
Proceeds from maturity of:				
Financial assets at <i>FVOCI</i>		43,070	85,268	51,874
Debt securities at amortized cost		14,059	23,999	11,065
Short-term investments		–	23,680	41,618
Interest and other financial income received		2,184	2,657	3,395
Proceeds from disposal of utility plant and others		161	353	490
Dividends received from associates and joint ventures		1,778	475	546
Increase (decrease) in minority interests		(1,364)	651	69
Decrease (increase) in financial and other noncurrent assets		1,358	195	(2,047)
Net cash provided by (used in) investing activities		(49,467)	2,776	(20,393)

(Forward)

		Years Ended December 31		
	Note	2021	2020	2019
<i>(Amounts in millions)</i>				
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from availment of:				
Interest-bearing long-term financial liabilities	17	₱24,513	₱2,578	₱28
Notes payable	21	22,880	179	10,179
Payments of:				
Notes payable		(17,419)	(199)	(283)
Dividends	16	(13,748)	(16,796)	(18,008)
Interest-bearing long-term financial liabilities	17	(7,388)	(3,669)	(8,712)
Interest and other financial charges		(215)	(1,446)	(1,620)
Increase (decrease) in other noncurrent liabilities		2,238	(938)	(1,831)
Net cash provided by (used in) financing activities		10,861	(20,291)	(20,247)
NET DECREASE IN CASH AND CASH EQUIVALENTS				
		4,575	12,357	1,536
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR				
		50,912	38,262	36,471
NET UNREALIZED FOREIGN EXCHANGE LOSSES (GAINS)				
		(480)	293	255
CASH AND CASH EQUIVALENTS AT END OF YEAR				
	12	₱55,007	₱50,912	₱38,262

See accompanying Notes to Consolidated Financial Statements.

MANILA ELECTRIC COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

Manila Electric Company (“*MERALCO*”) holds a 25-year congressional franchise under Republic Act (“*RA*”) No. 9209 valid through June 28, 2028 to construct, operate, and maintain the electric distribution system in the cities and municipalities of Bulacan, Cavite, Metro Manila, and Rizal and certain cities, municipalities and barangays in the provinces of Batangas, Laguna, Pampanga, and Quezon. On October 20, 2008, the Energy Regulatory Commission (“*ERC*”) granted *MERALCO* a consolidated Certificate of Public Convenience and Necessity for the operation of electric service within its franchise 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 of *MERALCO* 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*”), 60% owned by *MERALCO*. Clarion Energy Management Inc. (“*Clarion*”), a wholly owned subsidiary of *Clark Electric*, and Phoenix Power Solutions, Inc. (“*Phoenix Power*”), a wholly owned subsidiary of *MERALCO*, have submitted their respective requirements for *RES* licensing to *ERC*. As at February 28, 2022, the approval of their *RES* licensing is pending with the *ERC*. The *RES* license of Global Energy Supply Corporation (“*GESC*”), a wholly owned subsidiary of Global Business Power Corporation (“*GBPC*”), was renewed by the *ERC* for another five (5) years beginning September 13, 2021.

The power segment, primarily power distribution, consists of operations of *MERALCO* and its subsidiary, Clark Electric Distribution Corporation (“*Clark Electric*”). *Clark Electric* is a registered private distribution utility with a franchise granted by Clark Development Corporation (“*CDC*”) to own, operate and maintain a power distribution system and to distribute power exclusively within its franchise area, which includes the Clark Freeport Zone and the sub-zones.

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

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’s power generation business is through its wholly owned subsidiary, *MGen*. *MGen* owns 100% of *GBPC*, the largest independent power producer in the Visayas, beginning March 31, 2021. *MGen*, through *GBPC*, and its subsidiaries, is engaged in developing various power plants projects which includes high efficiency low emission (“*HELE*”) technologies for coal-fueled power plant and renewable energy resources. *MERALCO* is also engaged in rooftop solar energy projects through its wholly owned subsidiary, MSpectrum, Inc. (“*Spectrum*”). Through several subsidiaries in the services segment, *MERALCO* provides engineering, design, construction and consulting services, bill collection services, distribution and energy management services, and communication, information system and technology services.

MERALCO is owned directly by two (2) major shareholder groups, *Metro Pacific* and *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 45.46% while *JG Summit* has 29.56% direct ownership interest in *MERALCO*. First Philippine Holdings Corporation ("*First Holdings*") and First Philippine Utilities Corporation have a combined direct equity ownership of 3.95% in *MERALCO*. The balance of *MERALCO*'s common shares is held by institutional investors and the public.

The 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 *BOD* on February 28, 2022.

2. Rate Regulations

As distribution utilities ("*DUs*"), *MERALCO* and *Clark Electric* are subject to the rate-making regulations and regulatory policies of the *ERC*. Billings of *MERALCO* and *Clark Electric* to customers are itemized or "unbundled" into a number of bill components that reflect the various activities and costs incurred in providing electricity distribution services. The adjustment to each bill component is governed by mechanisms promulgated and enforced by the *ERC*, mainly: [i] the "Rules Governing the Automatic Cost Adjustment and True-up Mechanisms and Corresponding Confirmation Process for Distribution Utilities", which govern the recovery of pass-through costs, including over- or under-recoveries of the bill components, namely, (a) generation charge, (b) transmission charge, (c) system loss ("*SL*") charge, (d) lifeline and inter-class rate subsidies, and (e) local franchise and business taxes as modified by Rules on Recovery of Pass-Through Taxes (Real Property, Local Franchise, and Business Taxes) of Distribution Utilities; and [ii] the "Rules for the Setting of Distribution Wheeling Rates" ("*RDWR*"), as modified, which govern the determination of *MERALCO*'s distribution, supply, and metering charges.

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

Performance-Based Regulations ("PBR")

MERALCO

MERALCO is among the Group A entrants to the *PBR*, together with two (2) other private *DUs*.

Rate-setting under *PBR* is governed by the *RDWR*. The *PBR* scheme sets tariffs once every Regulatory Period ("*RP*") based on the regulated asset base ("*RAB*") of each *DU*, and the required operating and capital expenditures ("*OPEX*" and "*CAPEX*", respectively) to meet operational performance and service level requirements responsive to the need for adequate, reliable and quality power, efficient service, and growth of all customer classes in the franchise area as approved by the *ERC*. *PBR* also employs a mechanism that penalizes or rewards a *DU* depending on its network and service performance.

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

Maximum Average Price (“MAP”) for the 3rd RP

After rate setting process for a *RP*, *MERALCO* goes through a rate verification process to set the *MAP* for each *RY* within the *RP*. In each of *RYs* 2012, 2013, 2014 and 2015, *MERALCO* filed for the respective *MAP* with the *ERC*. The *ERC* provisionally approved the *MAPs* for each of the *RY*. As at February 28, 2022, *MERALCO* is awaiting the final approval of the *ERC*.

Interim Average Rate beginning RY 2016

On July 10, 2015, the *ERC* provisionally approved an interim average rate of ₱1.3810 per *kWh* (excluding efficiency adjustment) and the rate translation per customer class, which was reflected in the customer bills starting July 2015. *MERALCO* has completed the presentation of its evidence and is set to file its Formal Offer of Evidence (“*FOE*”) after the *ERC* has resolved pending motions. As at February 28, 2022, the *ERC*’s ruling on these motions remains pending.

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

While *MERALCO* complied with the directive to refund the total amount of ₱263.9 million representing regulatory reset costs, equivalent to ₱0.0731 per *kWh* in its July 2019 billing, it wrote a letter seeking clarification or reconsideration on the basis for such refund, including the imposition of and basis for the interest computed therein. The refund was included as a separate line item in *MERALCO*’s July 2019 billing to its customers. As at February 28, 2022, the *ERC* has yet to reply to *MERALCO*’s letter.

MERALCO recognized provisions for any resulting over-recoveries. The movements in and the balance of the “Other noncurrent liabilities” and “provision for probable losses” accounts in the consolidated statements of financial position and “consolidated statements of income” include these provisions, consistent with the limited disclosure as allowed in Philippine Financial Reporting Standards (“*PFRSs*”) as it may prejudice the position of *MERALCO*.

Distribution Rate True-Up (“DRTU”) Application

On December 23, 2020, *MERALCO* filed an Application for (1) confirmation of the true-up calculation of the Actual Weighted Average Tariff (“*AWAT*”) vis-à-vis *ERC*-approved Interim Average Rate (“*IAR*”) for the lapsed regulatory years; and (2) approval of the final refund scheme to account for the lapsed regulatory years. The lapsed regulatory years covered the period from July 2015 to November 2020 when *MERALCO* was implementing the *IAR*. *MERALCO* prayed that a Decision be rendered: (a) approving *MERALCO*’s proposed mechanism to address the issue of the rates governing the period from July 2015 to November 2020 through the true-up mechanism between *MERALCO*’s *AWAT* and *IAR*; (b) confirming *MERALCO*’s resulting calculation of the total amount to be refunded to its customers of ₱13,886 million; (c) approving *MERALCO*’s proposed refund scheme and refund period, within 24 months or until fully refunded, to its customers; and (d) declaring all issues relating to *MERALCO*’s lapsed regulatory years (and until a new rate has been determined by the *ERC* for the next regulatory period), as resolved, closed and terminated with prejudice. In an Order dated January 27, 2021, the *ERC* granted *MERALCO* provisional authority to implement the refund. The refund was reflected as a separate line item in the billings to customers starting March 2021. As at February 28, 2022, the refund and the hearings on the case are ongoing.

As at December 31, 2021, the outstanding balance of *DRTU* for refund amounted to ₱7,578 million. The amount expected to be refunded within the next 12 months is presented as part of “Provisions”

under “Trade payables and other current liabilities” account, and the balance which is expected to be refunded beyond one year is presented as part of “Other noncurrent liabilities” account in the consolidated statement of financial position.

CAPEX for 4th RP, RY 2020 to RY 2022

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

In a Decision dated June 15, 2016, the *ERC* approved *MERALCO*’s *RY* 2016 *CAPEX* application. For *MERALCO*’s *RY* 2017 *CAPEX* application, the *ERC* granted a provisional authority to implement certain projects amounting to ₱8,758 million. As at February 28, 2022, *MERALCO*’s *CAPEX* applications for the rest of the 4th *RP* and *RYs* 2020 to 2021 remain pending with the *ERC*.

On July 27, 2021, *MERALCO* filed its application for the approval of its *RY* 2022 *CAPEX* program. Hearings have been completed and *MERALCO* has filed its *FOE*. As at February 28, 2022, *MERALCO* is awaiting the final resolution of the *ERC*.

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

Regulatory Reset Process Application

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* sought clarification from the *ERC* on certain issues in the Resolution.

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 were asked to submit their respective comments on 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 preceding paragraph has been resolved. As at February 28, 2022, the *ERC* has yet to resolve *MERALCO*’s Omnibus Motion. In the meantime, on April 29, 2021, the *ERC* posted the proposed draft “Regulatory Asset Base Roll Forward Handbook for Privately Owned Electricity Distribution Utilities” (“*RAB Roll Forward Handbook*”) (2nd Draft) for comments of all interested parties. In December 2021, the *ERC* promulgated *ERC* Resolution No. 11, Series of 2021, which adopted the final *RAB* Roll Forward Handbook.

On December 21, 2018, *MERALCO* filed a Petition for the Adoption of the Proposed Issues Paper and Revised *RDWR* for the Fifth *RP* of the First Entry Group Under *PBR*. As at February 28, 2022, the *ERC* has yet to act on *MERALCO*’s Petition.

On June 13, 2019, the *ERC* posted the working drafts of the *RDWR* and “Regulatory Reset for the Fourth (4th) and Fifth (5th) *RP* for the First Entry Group of Privately Owned Distribution Utilities subject to Performance Based Regulations” Issues Paper. The Draft Rules and Issues Paper were works in progress by the technical staff that will be presented to the *ERC* together with the consolidated inputs from stakeholders. *MERALCO* and other stakeholders have submitted their respective comments and public consultations were held. Thereafter, on March 15, 2021, the *ERC*

posted the *RDWR* (2nd Draft) and “Regulatory Reset for the Fifth Regulatory Period for the First Entry Group of Privately Owned Distribution Utilities subject to Performance Based Regulations” Issues Paper (2nd Draft) for comments of all parties. Under said rules, the timelines were modified such that the 4th *RP* or “Lapsed Period” would now cover the period from July 2016 to June 2022; while the 5th *RP* would cover the period from July 2022 to June 2026. *MERALCO* and other stakeholders submitted their respective comments and their counter-comments and/or counter-proposals to those submitted by the other stakeholders. Under *ERC* Resolution No. 10, Series of 2021, the *ERC* promulgated the *RDWR*. The deadline for filing the regulatory reset application is set on February 9, 2022. However, *MERALCO* requested for an additional period, or until March 11, 2022, within which to file its reset application. On February 17, 2022, the *ERC* granted the request of *MERALCO* but with no further extension.

Clark Electric

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

3rd and 4th RP PBR Reset for Clark Electric

Pending the issuance by the *ERC* of the final rules to govern 3rd and 4th *RP* and subsequent regulatory period, the approved *MAP* for *RY* 2015 was used beginning *RY* 2016.

On February 18, 2016, December 29, 2016, May 17, 2018 and July 5, 2019, *Clark Electric* filed with the *ERC* its proposed *CAPEX* program for *RYs* 2016, 2017, 2018 and 2019, respectively. *Clark Electric* applied for an approval to implement the *CAPEX* in order to continue meeting the electricity requirements of its current and future customers, improve the flexibility, reliability and stability of its distribution network as well as improve customer service. Manifestations as emergency projects were submitted to the *ERC* on October 9, 2019 covering most of the applied *CAPEX* Projects for *RYs* 2016, 2017 and 2018. As at February 28, 2022, the application is pending approval by the *ERC*.

Supreme Court (“SC”) Decision on Unbundling Rate Case

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

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

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

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

On June 21, 2011, the *ERC* maintained and affirmed its findings and conclusions in its Decision dated March 20, 2003 and Order dated May 30, 2003. The *ERC* stated that the *COA* recommendation to apply disallowances under *PBR* to rate unbundling violates the principle against retroactive rate-making. An intervenor group filed a *MR* of the said Order. On September 5, 2011, *MERALCO* filed its comment on the intervenor's *MR*. On February 4, 2013, the *ERC* denied the intervenor's *MR*. The intervenor filed a Petition for Review before the *CA* and *MERALCO* filed its comment thereon on May 29, 2014. In compliance with the *CA*'s directive, *MERALCO* filed its Memorandum in August 2015. In a Resolution dated September 29, 2015, the *CA* declared the case submitted for decision. In a Decision dated February 29, 2016, the *CA* dismissed the Petition for Review and affirmed the orders dated June 21, 2011 and February 4, 2013 of the *ERC*.

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

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

MERALCO, the other *DUs* and the *ERC* filed their respective motions for reconsideration which are pending before the *SC*. Two (2) new *DUs* filed their respective motions for leave to intervene and to file their motions for reconsideration. As at February 28, 2022, the case is pending before the *SC*.

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

MERALCO

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, local franchise and business taxes. 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 citizens 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 June 1, 2015, the *ERC* approved with modification *MERALCO*'s applications for the confirmation of its under- or over-recoveries of its pass-through costs for the periods June 2003 to December 2010 and January to December 2011, directing *MERALCO* to collect net under-recoveries of ₱909 million and ₱1,535 million, respectively, without carrying charges until such time that the full amount has been collected. As at December 31, 2021, the net under-recoveries were fully recovered.

On March 31, 2014, *MERALCO* filed its application with the *ERC* to confirm for the recovery 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 citizens 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. In an Order dated December 5, 2019, the *ERC* provisionally approved the application. *MERALCO* started implementation of the Order in its March 2020 billing. As at February 28, 2022, hearings are ongoing.

On January 29, 2016, *MERALCO* filed an 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 28, 2022, the application is pending before the *ERC*.

On March 31, 2017, *MERALCO* filed an 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 from January 2014 to December 2016 of ₱2 million and real property tax ("*RPT*") payments under-recoveries from June 2014 to December 2016 of ₱1,090 million. On May 11, 2017, the *ERC* provisionally approved *MERALCO*'s application to refund the over-recoveries of pass-through charges (generation costs, transmission costs, system loss, lifeline subsidies and senior citizen discount) 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 was included in the June 2017 until August 2017 billings to customers. *MERALCO* then filed a manifestation in order to zero out the remaining balance. *MERALCO* filed its *FOE* on April 27, 2018. As at February 28, 2022, the application is pending final approval by the *ERC*.

On September 1, 2020, *MERALCO* filed an application with the *ERC* to confirm its net generation charge under-recoveries of ₱2,382 million, net transmission charge over-recoveries of ₱440 million, net lifeline subsidy over-recoveries of ₱31 million, net *SL* over-recoveries of ₱971 million, and net senior citizen discount over-recoveries of ₱3 million from January 2017 to December 2019. In an Order dated December 16, 2020, the *ERC* granted interim relief to implement the refund/collection. *MERALCO* started implementation of the Order in its January 2021 billing. Hearings have been completed on January 21, 2021. *MERALCO* filed its *FOE* on February 5, 2021. As at February 28, 2022, the application is pending final approval by the *ERC*.

Clark Electric

Clark Electric filed an application for the approval of the calculations for the Automatic Cost Adjustment and True-up Mechanism for generation, transmission and system loss rates on April 1, 2014 covering the period January 2011 to December 2013 in conformity with the *ERC* Resolution No. 16, series of 2009. A public hearing was held on June 17, 2014 and the *ERC* decision

was received by *Clark Electric* on January 13, 2017. On January 30, 2017, *Clark Electric* filed a *MR* on the decision of the *ERC*. As at February 28, 2022, the *MR* is pending decision by the *ERC*.

On March 31, 2017, *Clark Electric* filed with the *ERC* a second application for the approval of the calculations for the Automatic Cost Adjustment and True-up Mechanism for generation, transmission and system loss rates which covered years 2014, 2015 and 2016. A public hearing was held on October 25, 2017. On March 5, 2020, *Clark Electric* received an *ERC* Order dated December 9, 2019 directing *Clark Electric* to refund over-recoveries of transmission costs amounting to ₱22 million and to collect under-recoveries of generation and system loss costs amounting to ₱6 million and ₱4 million, respectively. Refund and collection of under- or over-recoveries of these pass-through charges is for a period of six (6) months starting the next billing period from the receipt of the *ERC* Order or such time that the full amount shall have been refunded.

On April 27, 2021, *Clark Electric* filed with the *ERC* its third application for the approval of the calculations for the Automatic Cost Adjustment and True-up Mechanism for generation, transmission and system loss rates which covered years 2017, 2018 and 2019. The virtual hearings were held on June 29, 2021 and July 6, 2021. On August 20, 2021, *Clark Electric* received a Comfort Letter from *ERC* directing *Clark Electric* to refund over-recoveries of generation, transmission and system loss amounting to ₱5 million, ₱4 million and ₱26 million, respectively. Refund of the over-recoveries of these pass-through charges is for a period of twelve (12) months starting the next billing period from the receipt of the Comfort Letter or such time that the full amount shall have been refunded.

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 28, 2022, 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 the Wholesale Electricity Spot Market ("*WESM*") billing adjustments based on regulated Luzon *WESM* prices. The first hearing was conducted on May 26, 2014. The *ERC* suspended the proceedings, pending resolution of issues of related cases at the *SC* involving generation costs for the November and December 2013 supply months and the regulated *WESM* prices for the said period. As at February 28, 2022, the proceedings remain suspended.

Deferred Purchase Price Adjustment

On October 12, 2009, the *ERC* released its findings on *MERALCO*'s implementation of the collection of the approved pass-through cost under-recoveries for the period June 2003 to January 2007. The *ERC* directed *MERALCO* to refund to its customers ₱268 million of deferred purchase power adjustment ("*PPA*") transmission line costs related to Quezon Power (Philippines) Limited Company ("*QPPL*") and deferred accounting adjustments incurred along with ₱184 million in carrying charges, or an equivalent ₱0.0169 per *kWh*. *MERALCO* implemented the refund beginning November 2009 until September 2010. However, the *ERC* has yet to rule on *MERALCO*'s deferred purchase price adjustment 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 28, 2022, the *MR* is still pending resolution by the *ERC*.

Applications for Recovery of Local Franchise Tax ("LFT")

MERALCO has filed distinct applications with request for provisional authority to implement new *LFT* rates based on Ordinances from the cities of Manila, Quezon, Binan, Makati, Valenzuela, Taguig and Pasig. Some hearings have been completed and are awaiting final approval. Application for recovery of taxes paid have been filed and pending decision by the *ERC*.

SC Decision on the ₱0.167 per kWh Refund

Following the *SC*'s final ruling that directed *MERALCO* to refund affected customers ₱0.167 per *kWh* for billings made from February 1994 to April 2003, the *ERC* approved the release of the refund in four (4) phases. On December 18, 2015, *MERALCO* filed a Motion seeking the *ERC*'s approval for the continuation of the implementation of the refund to eligible accounts or customers under Phases I to IV, three (3) years from January 1, 2016 or until December 31, 2018. In said Motion, *MERALCO* likewise manifested to the *ERC* that, in order to give eligible customers, the opportunity to claim their refund, and, so as not to disrupt the *SC* Refund process, *MERALCO* shall continue implementing the refund even after the December 2015 deadline, until and unless the *ERC* directs otherwise. In its Order dated December 18, 2019, the *ERC* granted *MERALCO*'s Motion and authorized *MERALCO* to continue with the implementation of the *SC* Refund to eligible accounts or customers under Phases I to IV until June 30, 2019 and submit a proposed scheme on how the unclaimed refund will be utilized for purposes of reducing the distribution rates of customers. On February 18, 2019, *MERALCO* filed a Partial Compliance with Manifestation and Motion. On March 8, 2019, *MERALCO* filed a Compliance with Manifestation and Motion. On July 12, 2019, *MERALCO* filed its Compliance with Manifestation informing the *ERC* that on July 1, 2019, *MERALCO* deposited all the unclaimed amounts of the *SC* Refund as of June 30, 2019 in a separate bank account. *MERALCO* further manifested in said Compliance that it shall continue with the processing of the refund claims of eligible customers and should the refund claims of these customers be evaluated to be valid, *MERALCO* shall, for the benefit of the customers, withdraw the refund amount from the bank account, release the same to the concerned customers and accordingly inform the *ERC* of the refunds paid. On September 10, 2019, *MERALCO* filed an Urgent Manifestation and Motion with respect to the Order dated December 19, 2018 of the *ERC*. The *ERC* has yet to rule on the Urgent Manifestation and Motion by *MERALCO*. In its letter dated July 23, 2020, *MERALCO* informed the *ERC* of the updated balance of the *SC* Refund. As at February 28, 2022, *MERALCO* continues to process the refund claims of eligible customers.

In the meantime, in a letter dated February 3, 2021, the *ERC* informed *MERALCO* that it will be undertaking an audit and verification of *MERALCO*'s refunds, which included *MERALCO*'s *SC* refund. As at February 28, 2022, the audit has been completed and *MERALCO* is awaiting further action of the *ERC* on the matter.

See Note 20 – Customers’ Refund.

Violation of the ERC’s Advisories during the Enhanced Community Quarantine (“ECQ”) and Modified ECQ

In a Decision dated August 20, 2020, the *ERC* imposed a ₱19 million fine on *MERALCO* for alleged violation of the following *ERC*’s directives: (1) failure to clearly indicate that the bills were estimated; and (2) failure to comply with the mandated installment payment arrangement.

In addition, the *ERC* also directed *MERALCO* to set to zero the distribution, supply, and metering (“*DSM*”) charges of lifeline consumers whose monthly energy consumption do not exceed 100 *kWh* for one (1) month billing cycle effective in the next billing cycle immediately upon receipt of the *ERC* Decision. The cost of the discount shall not be charged to the non-lifeline consumers.

On September 11, 2020, *MERALCO* filed its Motion for Partial Reconsideration with respect to the directive to set to zero the *DSM* charges of lifeline consumers. On the same date, *MERALCO* also paid the ₱19 million fine imposed by the *ERC*.

As at February 28, 2022, the Motion for Partial Reconsideration remains pending with the *ERC*. However, *MERALCO* implemented the directive to set to zero the *DSM* charges of lifeline consumers in its October 2020 billing subject to the resolution of its Motion for Partial Reconsideration.

Deferment of Collection of Generation Charge Related to Shell Philippines Exploration B.V. (“SPEX”)-Malampaya’s Scheduled Maintenance Outage from October 2-22, 2021

On November 6, 2021, *MERALCO* informed the *ERC* of the significant increase in generation cost for October 2021 which would be the basis of the November 2021 generation billing charge to customers. This generation charge increase was attributed to the use of liquid fuel by the natural gas plants to ensure continued operation, in view of *SPEX*-Malampaya’s scheduled maintenance outage from October 2-22, 2021; which likewise affected prices in the *WESM*. In this regard, *MERALCO* requested for the following:

1. Deferment of the imposition of the true cost of generation in its billing to its customers, in light of the automatic cost adjustment mechanisms in the *ERC* Rules; and
2. Deferment of payment of the charges from the *WESM*, without incurring any interest and penalty and without resulting in a drawdown in its security deposit with Independent Electricity Market Operator of the Philippines Inc. (“*IEMOP*”).

On November 10, 2021, the *ERC* issued a resolution ordering:

1. Deferral by *MERALCO* of the collection from consumers of the 50% of Liquid Fuel Incremental cost from First Gas Power Corporation (“*FGPC*”) amounting to ₱729 million;
2. Deferral by *MERALCO* of the collection from consumers of the ₱100 million generation charges from San Buenaventura Power Ltd. Co. (“*SBPL*”);
3. Deferral by *IEMOP* from collecting charges amounting to ₱300 million from *MERALCO*;
4. In relation to item number 3, *MERALCO* to defer the collection from its consumers of the *IEMOP* charges amounting to ₱300 million;
5. In addition to the foregoing collection deferments, *MERALCO* to advance the payment of its generation cost in the amount of ₱300 million to further reduce the generation rate increase;
6. No interest and penalty shall be imposed for the deferred payments;

7. No drawdown shall be made from *MERALCO*'s security deposit with *IEMOP*; and
8. Collection of the deferred payments and amount advanced by *MERALCO* will be made in equal monthly installments, over a four (4) month period from December 2021 to March 2022.

3. Basis of Preparation and Statement of Compliance

Basis of Preparation

The accompanying consolidated financial statements have been prepared on a historical cost basis, except for *MERALCO*'s utility plant and others and investment properties acquired before January 1, 2004, which are carried at deemed cost, and fair value through other comprehensive income ("FVOCI") financial assets, which are measured at fair value.

All values are rounded to the nearest million peso, except when otherwise indicated.

Statement of Compliance

The consolidated financial statements of *MERALCO* and its subsidiaries have been prepared in compliance with *PFRSs*.

Basis of Consolidation

The consolidated financial statements comprise the financial statements of *MERALCO* and its directly and indirectly owned subsidiaries, collectively referred to as the *MERALCO Group*. The following table presents such subsidiaries and the respective percentage of ownership:

Subsidiaries	Place of Incorporation	Principal Business Activity	2021		2020	
			Percentage of Ownership			
			Direct	Indirect	Direct	Indirect
Corporate Information Solutions, Inc. (“CIS”)	Philippines	e-Transactions	100	—	100	—
Customer Frontline Solutions, Inc. (“CFSP”)	Philippines	Teller services	—	95	—	95
CIS Bayad Center, Inc. (“Bayad”)	Philippines	Bills payment collection	—	95	—	95
Fieldtech Specialist, Inc. (“Fieldtech”) ⁵	Philippines	Bills payment collection	—	—	—	48
Meralco Energy, Inc. (“MServ”)	Philippines	Energy systems management	100	—	100	—
Aurora Managed Power Services, Inc. (“AMPSP”) ¹	Philippines	Energy systems management	—	60	—	60
eMeralco Ventures, Inc. (“e-MVT”)	Philippines	e-Business development	100	—	100	—
Paragon Vertical Corporation (“Paragon”)	Philippines	Information technology (“IT”) and multi-media services	—	100	—	100
Radius Telecoms, Inc. (“Radius”)	Philippines	Telecommunication services	—	100	—	100
MGen	Philippines	Development of power generation plants	100	—	100	—
Calamba Aero Power Corporation ²	Philippines	Power generation	—	100	—	100
Atimonan Land Ventures Development Corporation	Philippines	Real estate	—	100	—	100
Atimonan One Energy, Inc. (“AIE”) ³	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
MGen Renewable Energy, Inc. (“MGreen”) ⁶	Philippines	Renewable energy	—	100	—	100
LagunaSol Corporation (“LagunaSol”) ²	Philippines	Renewable energy	—	100	—	100
Nortesol III Inc. (“NorteSol”) ²	Philippines	Renewable energy	—	70	—	70
Powersource First Bulacan Solar, Inc. (“First Bulacan”)	Philippines	Renewable energy	—	60	—	60
Greentech Solar Energy, Inc. (“GSEI”)	Philippines	Renewable energy	—	100	—	—
CACI Power Corporation ⁶	Philippines	Power generation	—	60	—	—
PH Renewables Inc. (“PHRF”) ⁶	Philippines	Power generation	—	60	—	—
GBPC ⁴	Philippines	Holding company	—	100	—	—
ARB Power Ventures, Inc.	Philippines	Holding company	—	100	—	—
Toledo Power Company (“TPC”)	Philippines	Power generation	—	100	—	—
Toledo Holdings Corporation	Philippines	Real estate	—	100	—	—
Global Trade Energy Resources Corp.	Philippines	Trading of coal	—	100	—	—
Panay Power Holdings Corporation	Philippines	Holding company	—	89	—	—
Panay Energy Development Corporation (“PEDC”)	Philippines	Power generation	—	89	—	—
Panay Power Corporation	Philippines	Power generation	—	89	—	—
GBH Power Resources, Inc.	Philippines	Power generation	—	100	—	—
Global Formosa Power Holdings, Inc.	Philippines	Holding company	—	93	—	—
Cebu Energy Development Corporation (“CEDC”)	Philippines	Power generation	—	52	—	—
GESC	Philippines	Retail electricity supplier	—	100	—	—
Mindanao Energy Development Corporation	Philippines	Power generation	—	100	—	—
Global Hydro Power Corporation	Philippines	Power generation	—	100	—	—
Global Luzon Energy Development Corporation (“GLEDC”)	Philippines	Power generation	—	57	—	—
Lunar Power Core, Inc.	Philippines	Holding company	—	57	—	—
Global Renewable Power Corporation	Philippines	Renewable energy	—	100	—	—
Spectrum	Philippines	Renewable energy	100	—	100	—
Vantage	Philippines	Retail electricity supplier	100	—	100	—
(Forward)						

Subsidiaries	Place of Incorporation	Principal Business Activity	2021		2020	
			Percentage of Ownership			
			Direct	Indirect	Direct	Indirect
Meralco Financial Services Corporation (“ <i>Finserve</i> ”)	Philippines	Financial services provider	100	–	100	–
Lighthouse Overseas Insurance Limited (“ <i>LOIL</i> ”)	Bermuda	Insurance	100	–	100	–
MRAIL, Inc. (“ <i>MRail</i> ”)	Philippines	Engineering, construction and maintenance of mass transit system	100	–	100	–
eSakay, Inc. (“ <i>eSakay</i> ”)	Philippines	Maintenance and operation of transport service networks	100	–	100	–
<i>MIESCOR</i>	Philippines	Engineering, construction and consulting services	99	–	99	–
Miescor Builders Inc. (“ <i>MBI</i> ”)	Philippines	Electric transmission and distribution operation and maintenance services	–	99	–	99
Miescor Logistics Inc. (“ <i>MLI</i> ”)	Philippines	General services, manpower/maintenance	–	99	–	99
Miescor Infrastructure Development Corporation (“ <i>MIDC</i> ”)	Philippines	Construction and leasing of communication towers and other infrastructure	–	99	–	99
<i>Clark Electric</i>	Philippines	Power distribution	65	–	65	–
Clarion Energy Management Inc. (“ <i>Clarion</i> ”) ²	Philippines	Retail electricity supplier	–	65	–	65
<i>Comstech</i>	Philippines	Management of power distribution	60	–	60	–
MeridianX Inc.	Philippines	Retail electricity supplier	–	60	–	60
Meridian Power Ventures Limited (“ <i>MPV Limited</i> ”) ²	Hongkong	Investment holdings	100	–	100	–
<i>Shin Clark</i>	Philippines	Holding company	60	–	60	–
<i>Phoenix Power</i> ²	Philippines	Retail electricity supplier	100	–	100	–

¹ The BOD of AMPSI approved the dissolution and shortening of corporate life until March 31, 2021.

² Has not started commercial operations.

³ In development stage as at December 31, 2021.

⁴ Became a wholly owned subsidiary beginning March 31, 2021 (See Note 3).

⁵ Bayad disposed its 51% share in FSI on October 20, 2021.

⁶ To consolidate all investments in renewable projects, MGen through MGreen acquired the 60% ownership of GBPC in CACI. CACI owns 100% of PHRI and 28% of Greenergy.

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 year are included in the consolidated financial statements from the date it gains control until the date it ceases to control the subsidiary.

The consolidated financial statements are prepared using uniform accounting policies for like transactions and other events with similar circumstances. All intra-group balances, income and expenses, unrealized gains and losses and dividends resulting from intra-group transactions are eliminated in full.

Non-controlling interests represent the portion of profit or loss and net assets of subsidiaries not attributed, directly or indirectly, to *MERALCO*.

Non-controlling interests is presented separately in the consolidated statement of income, consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from equity attributable to equity holders of the parent.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if such results in a deficit.

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

If the *MERALCO Group* loses control over a subsidiary, it: (a) derecognizes the assets (including goodwill) and liabilities of the subsidiary; (b) derecognizes the carrying amount of any non-controlling interest; (c) derecognizes the cumulative translation adjustments deferred in equity; (d) recognizes the fair value of the consideration received; (e) recognizes the fair value of any investment retained; (f) recognizes any surplus or deficit in profit or loss; and (g) reclassifies *MERALCO's* share of components previously recognized in the consolidated statement of comprehensive income to the consolidated statement of income.

Business Combination

On March 31, 2021, *MGen* completed the acquisition of the combined 86% interests of Beacon Powergen Holdings Inc. ("*BPHI*"), a wholly owned subsidiary of Metro Pacific Investments Corporation ("*Metro Pacific*"), and JG Summit Holdings, Inc. ("*JG Summit*") in *GBPC* to *MGen* for consideration of ₱21,212 million and ₱11,363 million, respectively, net of adjustments in accordance with the terms of the respective Share Purchase Agreements ("*SPA*"). The consideration shall be paid in installments based on the following schedule: 60% upon closing, 20% after six (6) months and the remaining 20% after 18 months.

Prior to the acquisition, *BPHI* held a 56% ownership interest in *GBPC* while *JG Summit* held a 30% interest. *MGen* owned the remaining 14%. As a result of the transaction, *MGen* owns 100% of *GBPC*.

The Philippine Competition Commission ("*PCC*") confirmed on February 9, 2021, that the proposed transaction qualifies as an internal restructuring and thus, does not require further approval by the *PCC*.

As of December 31, 2021, *MGen* settled 80% of the total purchase price consideration in accordance with the terms of *SPA*.

The details of the purchase consideration are as follows:

	Amounts In millions
Cash paid	₱19,545
Liability	13,030
Total purchase consideration	₱32,575

The fair value of the assets and liabilities of *GBPC* as at the date of acquisition are as follows:

	Amounts In millions
Generation plant and others	₱47,218
Investment in associates	10,447
Intangible assets	13,833
Deferred tax assets	765
Cash and cash equivalents	9,584
Trade and other receivables	5,247
Inventories	2,197
Other assets	2,153
Interest-bearing long-term financial liabilities	(28,323)
Deferred tax liabilities	(5,265)
Retirement benefits liability	(1,055)
Trade and other payables	(7,518)
Other liabilities	(1,932)
Net identifiable assets acquired	47,351
Less:	
Non-controlling interests	9,474
Fair value of existing 14% ownership in <i>GBPC</i>	5,302
Net assets acquired	₱32,575

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

The remeasurement of the fair value of *MGen's* existing 14% ownership in *GBPC* resulted in a gain of ₱228 million. This amount has been recognized as part of "Other income" account in the 2021 consolidated statement of income.

The fair value of general plant and others has been measured provisionally, pending finalization of an independent valuation.

From the date of acquisition, *GBPC* contributed ₱18,191 million of revenue and ₱306 million net income in *MERALCO Group's* revenues and net income, respectively, in 2021. If the acquisition had taken place at the beginning of 2021, the *MERALCO Group's* consolidated revenue and net income would have been ₱323,559 million and ₱24,666 million, respectively.

4. Significant Accounting Policies, Changes and Improvements

Changes in Accounting Policies and Disclosures

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those of previous year except with respect to the adoption of the following new standards and amendments and improvements to existing standards, which were effective beginning January 1, 2021.

Amendments to PFRS 9, PFRS 7, PFRS 4 and PFRS 16, Interest Rate Benchmark Reform – Phase 2

The amendments provide the following temporary reliefs which address the financial reporting effects when an interbank offered rate (“IBOR”) is replaced with an alternative nearly risk-free interest rate (“RFR”):

- Practical expedient for changes in the basis for determining the contractual cash flows as a result of IBOR reform
- Relief from discontinuing hedging relationships
- Relief from the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component

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

The amendment provides relief to lessees from applying the PFRS 16 requirement on lease modifications to rent concessions arising as a direct consequence of the COVID-19 pandemic. A lessee may elect not to assess whether a rent concession from a lessor is a lease modification if it meets all of the following criteria:

- The rent concession is a direct consequence of COVID-19;
- The change in lease payments results in a revised lease consideration that is substantially the same as, or less than, the lease consideration immediately preceding the change;
- Any reduction in lease payments affects only payments originally due on or before June 30, 2022; and
- There is no substantive change to other terms and conditions of the lease.

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

The MERALCO Group disclosed information, as applicable:

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

The amendments do not have material effect on the consolidated financial statements of the MERALCO Group.

Effective beginning on or after January 1, 2022

Amendments to PFRS 3, Reference to the Conceptual Framework

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

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

The amendments are effective for annual reporting years beginning on or after January 1, 2022 and apply prospectively. The amendments do not have material effect on the consolidated financial statements of the *MERALCO Group*.

Amendments to PAS 16, Plant and Equipment: Proceeds before Intended Use

The amendments prohibit entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting years beginning on or after January 1, 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest year presented when the entity first applies the amendment.

The amendments are not expected to have a material impact on the *MERALCO Group*.

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

The amendments specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a “directly related cost approach”. The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting years beginning on or after January 1, 2022. The Group will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting year in which it first applies the amendments.

The amendments are not expected to have a material impact on the *MERALCO Group*.

Annual Improvements to PFRSs 2018-2020 Cycle

Amendments to PFRS 1, First-time Adoption of Philippines Financial Reporting Standards, Subsidiary as a first-time adopter

The amendment permits a subsidiary that elects to apply paragraph D16(a) of *PFRS 1* to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to *PFRS*. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of *PFRS 1*.

The amendment is effective for annual reporting years beginning on or after January 1, 2022 with earlier adoption permitted. The amendments are not expected to have a material impact on the *MERALCO Group*.

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

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

The amendment is effective for annual reporting years beginning on or after January 1, 2022 with earlier adoption permitted. The *MERALCO Group* will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting year in which the entity first applies the amendment. The amendments are not expected to have a material impact on the *MERALCO Group*.

Amendments to PAS 41, Agriculture, Taxation in fair value measurements

The amendment removes the requirement in paragraph 22 of *PAS 41* that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of *PAS 41*.

An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting year beginning on or after January 1, 2022 with earlier adoption permitted. The amendments are not expected to have a material impact on the *MERALCO Group*.

Effective beginning on or after January 1, 2023

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

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

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

The amendments are effective for annual reporting years beginning on or after January 1, 2024 and must be applied retrospectively.

The *MERALCO Group* is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

Amendments to PAS 12, Deferred Tax related to Assets and Liabilities arising from a Single Transaction

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

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

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

PFRS 17, Insurance Contracts

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

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

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

PFRS 17 is effective for reporting year beginning on or after January 1, 2025, with comparative figures required. Early application is permitted. The *MERALCO Group* is currently assessing the impact of adopting *PFRS 17*.

Amendments to PAS 8, Definition of Accounting Estimates

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

An entity applies the amendments to changes in accounting policies and changes in accounting estimates that occur on or after January 1, 2023 with earlier adoption permitted.

Amendments to PAS 1 and PFRS Practice Statement 2, Disclosure of Accounting Policies

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

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

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

Effective beginning on or after January 1, 2024

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

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

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

The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and must be applied retrospectively. However, in November 2021, the International Accounting Standards Board (“IASB”) tentatively decided to defer the effective date to no earlier than January 1, 2024.

Effective beginning on or after January 1, 2025

PFRS 17, Insurance Contracts

a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, *PFRS 17* will replace *PFRS 4, Insurance*

Contracts. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

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

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

On December 15, 2021, the *FRSC* amended the mandatory effective date of *PFRS 17* from January 1, 2023 to January 1, 2025. This is consistent with Circular Letter No. 2020-62 issued by the Insurance Commission which deferred the implementation of *PFRS 17* by two (2) years after its effective date as decided by the *IASB*.

PFRS 17 is effective for reporting periods beginning on or after January 1, 2025, with comparative figures required. Early application is permitted.

Deferred Effectivity

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

The amendments address the conflict between *PFRS 10* and *PAS 28* in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in *PFRS 3*. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

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

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

Significant Accounting Policies

The principal accounting policies adopted in the preparation of the consolidated financial statements are as follows:

Utility Plant, Generation Plant and Others

Utility plant, generation plant and others, except land, are stated at cost, net of accumulated depreciation, amortization and impairment losses, if any. Costs include the cost of replacing part of such utility plant, generation plant and other properties when such cost is incurred, if the recognition criteria are met. All other repair and maintenance costs are recognized as incurred in the consolidated

statement of income. The present value of the expected cost for the decommissioning of the asset after use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Land is stated at cost less any impairment in value.

The *MERALCO Group's* utility plant, generation plant and others acquired before January 1, 2004 are stated at deemed cost. The revalued amount recorded as at January 1, 2004 was adopted as deemed cost as allowed by the transition provisions of *PFRS 1*. The balance of revaluation increment was closed to the retained earnings account.

See *Note 16 – Equity* for the related discussion.

Depreciation and amortization of utility plant, generation plant and others are computed using the straight-line method over the following estimated useful lives:

Asset Type	Estimated Useful Lives
Subtransmission and distribution	10-40 years, depending on the life of the significant parts
Boilers and powerhouse	3-25 years
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	2-20 years

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

The asset's residual values, useful lives and methods of depreciation and amortization are reviewed, and adjusted prospectively, if appropriate, at each reporting period to ensure that the residual values, periods and methods of depreciation and amortization are consistent with the expected pattern of economic benefits from items of utility plant, generation plant and others.

Construction in Progress

Construction in progress is stated at cost, which includes cost of construction, plant and equipment, capitalized borrowing costs and other direct costs. Construction in progress is not depreciated until such time that the relevant assets are substantially completed and available for their intended use.

Borrowing Costs

Borrowing costs are capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Capitalization of borrowing costs commences when the activities necessary to prepare the qualifying asset for its intended use or sale have been undertaken and expenditures and borrowing costs have been incurred. Borrowing costs are capitalized until the asset is substantially completed and available for its intended use.

Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds, as well as any exchange differences arising from any foreign currency denominated borrowings used to finance the projects, to the extent that they are regarded as an adjustment to interest costs.

All other borrowing costs are expensed as incurred.

Investments in Associates and Interests in Joint Ventures

An associate is an entity where *MERALCO Group* has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but has no control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

Investments in associates and interests in joint ventures are accounted for using the equity method of accounting and are initially recognized at cost.

Under the equity method, the investment in an associate or interest in a joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

If the *MERALCO Group's* share of losses of an associate or a joint venture equals or exceeds its interest in the associate or joint venture, the *MERALCO Group* discontinues recognizing its share of further losses. The interest in an associate or joint venture is the carrying amount of the investment or joint venture determined using the equity method together with any long-term interest that in substance forms part of the *MERALCO Group's* net investment in associate or joint venture. After the *MERALCO Group's* interest is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the *MERALCO Group* has incurred legal or constructive obligation or made payments in behalf of the associate or joint venture. If the associate or joint venture subsequently reports profits, the *MERALCO Group* resumes recognizing its share of their profits only after its share of the profit equals the share of loss not recognized.

The consolidated statement of income reflects the *MERALCO Group's* share in the results of operations of the associate or joint venture. Any change in the other comprehensive income ("OCI") of those investees is presented as part of the *MERALCO Group's* OCI. In addition, when there has been a change recognized directly in the equity of the associate or joint venture, the *MERALCO Group* recognizes its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealized gains and losses resulting from transactions between the *MERALCO Group* and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the *MERALCO Group's* share in the profit or loss of its associates and joint ventures is shown on the face of the consolidated statement of income and represents profit or loss after tax.

The financial statements of the associate or joint venture are prepared for the same reporting 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 part of equity in net earnings of an associate or a joint venture in the consolidated statement of income.

Upon loss of significant influence over the associate or joint control over the joint venture, the *MERALCO Group* measures and recognizes any remaining investment at its fair value. Any difference between the carrying amount of the investment in associate or interest in joint venture upon loss of significant influence or joint control and the fair value of the remaining investment and proceeds from disposal is recognized in profit or loss.

Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition-date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the *MERALCO Group* elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs in a business combination are 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 *PFRS 9* in profit or loss. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred, any non-controlling interest in the acquiree and, in a business combination achieved in stages, the acquisition-date fair value of the previously held equity interest in the acquiree, over the fair value of net identifiable assets acquired. If the difference is negative, such difference is recognized as gain in the consolidated statement of income.

If the initial accounting for a business combination is incomplete by the end of the reporting date in which the business combination occurs, the provisional amounts of the items for which the

accounting is incomplete are reported in the consolidated financial statements. During the measurement period, which shall be no longer than one (1) year from the acquisition date, the provisional amounts recognized at acquisition date are retrospectively adjusted to reflect new facts and circumstances obtained that existed as at the acquisition date and, if known, would have affected the measurement of the amounts recognized as of that date. During the measurement period, additional assets or liabilities are also recognized if new information is obtained about facts and circumstances that existed as at the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as at that date.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from acquisition date, allocated to each of the cash generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units, beginning on the acquisition date.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of, is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in such circumstance is measured based on relative values of the operation disposed and the portion of the cash-generating unit retained.

Business combinations involving entities under common control are accounted for similar to the pooling-of-interests method. The assets and liabilities of the combining entities are reflected at their carrying amounts reported in the consolidated financial statements of the controlling company. Any difference between the consideration paid and the share capital of the “acquired” entity is reflected within equity as additional paid-in capital. The consolidated statement of income reflects the results of the combining entities for the full year, irrespective of when the combination takes place. Comparatives are presented as if the entities had always been combined since the date the entities were under common control.

Investment Properties

Investment properties, except land, are stated at cost, net of accumulated depreciation and accumulated impairment loss, if any. The carrying amount includes transaction costs and costs of replacing part of an existing investment property at the time such costs are incurred if the recognition criteria are met and excludes the costs of day-to-day servicing of an investment property.

Investment properties include properties that are being constructed or developed for future use.

Land classified as investment property is carried at cost less any impairment in value.

The *MERALCO Group*’s investment properties acquired before January 1, 2004 are stated at deemed cost.

See *Note 16 – Equity* for the related discussions.

Investment properties, except land, are being depreciated on a straight-line basis over the useful life of 40 years.

Investment properties are derecognized either when they have been disposed of or when these are permanently withdrawn from use and no future economic benefit is expected from its disposal. Any

gain or loss from the derecognition of the investment properties is recognized in the consolidated statement of income in the 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, generation plant and others up to the date of the change in use. Transfers are made from investment property when, and only when, there is a change in use, evidenced by the commencement of owner-occupation or the commencement of development with a view to sale. Transfers from investment property are recorded using the carrying amount of the investment property as at the date of change in use.

Intangible Assets

Intangible assets acquired separately are initially measured at cost. Following initial recognition, intangible assets are carried at cost less accumulated amortization and any accumulated impairment loss. The useful lives of intangible assets are assessed at the individual asset level as having either finite or indefinite useful lives.

Intangible assets with finite lives are amortized over the useful economic lives of five (5) to 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 intangible assets with indefinite useful life is done annually at every reporting date to determine whether such indefinite useful life continues to exist. Otherwise, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

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

Intangible assets generated within the business are not capitalized and expenditures are charged to profit or loss in the year these are incurred.

Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either (a) in the principal market for the asset or liability, or (b) in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible to the *MERALCO Group*.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic

best interest. A fair value measurement of a nonfinancial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The *MERALCO Group* uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the *MERALCO Group* determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting year.

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 year whether there is an indication that a nonfinancial asset [utility plant, generation plant and others, intangible assets, investment properties, investments in associates and interests in joint ventures and receivable from the Bureau of Internal Revenue (“BIR”)] other than goodwill and intangible assets with indefinite useful life, may be impaired. If any such indication exists, the *MERALCO Group* makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an individual asset's or a cash generating unit's fair value less costs to sell and its value in use. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. The fair value is the amount obtainable from the sale of the asset in an arm's-length transaction. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation factors/parameters, quoted share prices for publicly traded securities or other available fair value indicators. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses are recognized in the consolidated statement of income.

An assessment is also made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If any such indication exists, the *MERALCO Group* estimates the individual asset's or cash generating unit's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If a reversal of impairment loss is to be recognized, the carrying amount of the

asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined had no impairment loss has been recognized for the asset in prior year. Such reversal is recognized in the consolidated statement of income. After such reversal, the depreciation and amortization expense are adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Intangible assets with indefinite useful lives are tested for impairment annually at every reporting date or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired, either individually or at the cash generating unit level, as appropriate. The amount of impairment is calculated as the difference between the recoverable amount of the intangible asset and its carrying amount. The impairment loss is recognized in the consolidated statement of income. Impairment losses relating to intangible assets may be reversed in future years.

Goodwill is reviewed for impairment annually at every reporting year or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of the cash generating unit or group of cash generating units, to which the goodwill relates. Where the recoverable amount of the cash generating unit or group of cash generating units is less than the carrying amount of the cash generating unit or group of cash generating units to which goodwill has been allocated, an impairment loss is recognized. Impairment losses relating to goodwill shall not be reversed in future years.

If the allocation of goodwill acquired in a business combination to cash generating units or group of cash generating units is incomplete, an impairment testing of goodwill is only carried out when impairment indicators exist. Where impairment indicators exist, impairment testing of goodwill is performed at a level at which the acquirer can reliably test for impairment.

Financial Instruments - Initial Recognition and Subsequent Measurement

Financial Assets

Initial Recognition and Measurement

At initial recognition, financial assets are classified and measured at amortized cost, *FVOCI*, and fair value through profit or loss ("*FVPL*").

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the *MERALCO Group's* business model for managing them. With the exception of trade receivables that do not contain a significant financing component, the *MERALCO Group* initially measures a financial asset at its fair value, and in the case of a financial asset not at *FVPL*, plus transaction costs.

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

The *MERALCO Group's* business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

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

Subsequent Measurement

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

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

Financial assets at amortized cost (debt instruments)

This category is the most relevant to the *MERALCO Group*. The *MERALCO Group* measures financial assets at amortized cost if both of the following conditions are met:

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

Financial assets at amortized cost are subsequently measured using the effective interest rate (“*EIR*”) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired. The *MERALCO Group*’s financial assets at amortized cost includes cash and cash equivalents, trade and other receivables, short-term investments, debt securities at amortized cost and advance payments to a supplier.

Financial assets at FVOCI (debt instruments)

The *MERALCO Group* measures debt instruments at *FVOCI* if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt instruments at *FVOCI*, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the consolidated statement of profit or loss and computed in the same manner as for financial assets measured at amortized cost. The remaining fair value changes are recognised in *OCI*. Upon derecognition, the cumulative fair value change recognised in *OCI* is recycled to profit or loss. The *MERALCO Group*’s debt instruments at *FVOCI* include investments in government securities and investments in corporate bonds.

Financial assets designated at FVOCI (equity instruments)

Upon initial recognition, the *MERALCO Group* can elect to classify irrevocably its equity investments as equity instruments designated at *FVOCI* when they meet the definition of equity under

PAS 32, Financial Instruments: Presentation, and are not held for trading. The classification is determined on an instrument by instrument basis. Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognized as other income in the consolidated statement of profit or loss when the right to receive payment has been established, except when the *MERALCO Group* benefits from such proceeds as a partial recovery of the cost of the financial asset, in which case, such gains are recorded in *OCI*. Equity instruments designated at *FVOCI* are not subject to impairment assessment.

The *MERALCO Group* elected to classify irrevocably its non-listed equity investments and investment in club shares under this category.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the *MERALCO Group*'s consolidated statement of financial position) when:

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

When the *MERALCO Group* has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership.

When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the *MERALCO Group* continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the *MERALCO Group* also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the *MERALCO Group* has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the *MERALCO Group* could be required to repay.

Modification of Financial Assets

The *MERALCO Group* derecognizes a financial asset when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new asset, with the difference between its carrying amount and the fair value of the new asset recognized as a derecognition gain or loss in profit or loss, to the extent that an impairment loss has not already been recorded.

The *MERALCO Group* considers both qualitative and quantitative factors in assessing whether a modification of financial asset is substantial or not. When assessing whether a modification is substantial, the *MERALCO Group* considers the following factors, among others:

- Change in currency
- Introduction of an equity feature

- Change in counterparty
- If the modification results in the asset no longer considered “solely payment for principal and interest”

The *MERALCO Group* also performs a quantitative assessment similar to that being performed for modification of financial liabilities. In performing the quantitative assessment, the *MERALCO Group* considers the new terms of a financial asset to be substantially different if the present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the present value of the remaining cash flows of the original financial asset.

When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset, the *MERALCO Group* recalculates the gross carrying amount of the financial asset as the present value of the renegotiated or modified contractual cash flows discounted at the original *EIR* (or credit-adjusted *EIR* for purchased or originated credit-impaired financial assets) and recognizes a modification gain or loss in the statement of comprehensive income.

When the modification of a financial asset results in the derecognition of the existing financial asset and the subsequent recognition of a new financial asset, the modified asset is considered a 'new ' financial asset. Accordingly, the date of the modification shall be treated as the date of initial recognition of that financial asset when applying the impairment requirements to the modified financial asset. The newly recognized financial asset is classified as Stage 1 for *ECL* measurement purposes, unless the new financial asset is deemed to be purchased or originated credit-impaired financial assets (“*POCF*”).

On March 25, 2020, Republic Act No. 11469, otherwise known as the Bayanihan to Heal as One Act (“*Bayanihan 1*”) was enacted. *Bayanihan 1* provides that all covered institutions shall implement a 30-day grace period for all loans with principal and/or interest and lease amortization falling due within the *ECQ* period without incurring interest on interest, penalties, fees and other charges. Subsequently, on September 11, 2020, Republic Act No. 11494, otherwise known as the Bayanihan to Recover as One Act (“*Bayanihan 2*”), was enacted. Under *Bayanihan 2*, a one-time 60-day grace period is granted for the payment of all existing, current and outstanding loans falling due, or any part thereof, on or before December 31, 2020, without incurring interest on interests, penalties, fees, or other charges and thereby extending the maturity of the said loans. Furthermore, a minimum 30-day grace period shall also be granted by covered institutions to all payments due within the period of community quarantine on rent and utility-related expenditures without incurring penalties, interest and other charges.

In 2020, the *MERALCO Group*, in addition to the reliefs provided under *Bayanihan 1* and *Bayanihan 2*, has offered financial reliefs to its borrowers/counterparties as a response to the effect of the *COVID-19* pandemic. These relief measures included the following:

- Restructuring of existing receivables including extension of payment terms
- Relief for principal and interest repayments

Based on the *MERALCO Group* assessment, the modifications in the contractual cash flows as a result of the above reliefs are not substantial and therefore do not result in the derecognition of the affected financial assets.

Impairment of Financial Assets

The *MERALCO Group* recognizes an allowance for expected credit losses (“*ECLs*”) for all debt instruments not held at *FVPL*. *ECLs* are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the *MERALCO Group* expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are measured in a way that reflects the following:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

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

Financial assets are credit-impaired when one (1) or more events that have a detrimental impact on the estimated future cash flows of those financial assets have occurred. For these credit exposures, lifetime *ECLs* are recognized and interest revenue is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the financial assets.

For trade receivables and contract assets, the *MERALCO Group* applies a simplified approach in calculating *ECLs*. Therefore, the *MERALCO Group* does not track changes in credit risk, instead recognizes a loss allowance based on lifetime *ECLs* of each customer segment (e.g. residential, commercial, industrial, etc.) at each reporting date. The *MERALCO Group* has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. In 2020, due to the *COVID 19* pandemic, the *MERALCO group* has considered resegmentation of its customer bills starting from the *ECQ* period, the expected deferred payment arrangements and expected default upon resumption of service disconnection activities in the *ECL* assessment. In 2021, *MERALCO* continued to extend the suspension of disconnection activities in areas under *ECQ*, *MECQ* and granular lockdowns, and extended installment payment arrangements to certain customers. In determining the *ECLs* of trade receivables, the credit loss experience for each contract status of customers for the current year, adjusted for forwarding looking factors as well as the economic environment was considered.

For debt instruments, the *MERALCO Group* applies the low credit risk simplification. At every reporting date, the *MERALCO Group* evaluates whether the debt instrument is considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the *MERALCO Group* reassesses the internal credit rating of the debt instrument. In addition, the *MERALCO Group* considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The *MERALCO Group*'s debt instruments at *FVOCI* comprise solely of quoted bonds that are graded in the top investment category and, therefore, are considered to be low credit risk investments. It is the *MERALCO Group*'s policy to measure *ECLs* on such instruments on a 12-month basis. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the expected lifetime credit losses.

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

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

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

Exposures that have not deteriorated significantly since origination, or where the deterioration remains within the *MERALCO Group*'s investment grade criteria, are considered to have a low credit risk. The provision for credit losses for these financial assets is based on a 12-month *ECL*. The low credit risk exemption has been applied on debt investments that meet the investment grade criteria of the *MERALCO Group* from the time of origination.

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

The *MERALCO Group* considers a financial asset in default when contractual payments are 300 days past due (average days to terminate customer contract). However, in certain cases, the *MERALCO Group* may also consider a financial asset to be in default when internal or external information indicates that the *MERALCO Group* is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the *MERALCO Group*. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial Liabilities

Initial Recognition and Measurement

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

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

The *MERALCO Group*'s financial liabilities include interest-bearing long-term financial liabilities, customer deposits and refunds, refundable service extension costs, notes payable and trade and other payables.

Subsequent Measurement

Financial liabilities at FVPL

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

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the *MERALCO Group* that are not designated as hedging instruments in hedge relationships as defined by *PFRS 9*. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognized in the consolidated statement of profit or loss. Financial liabilities designated upon initial recognition at *FVPL* are designated at the initial date of recognition, and only if the criteria in *PFRS 9* are satisfied. The *MERALCO Group* has not designated any financial liability as at *FVPL*.

Loans and borrowings

This is the category most relevant to the *MERALCO Group*. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the *EIR* method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the *EIR* amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the *EIR*. The *EIR* amortization is included as finance costs in the consolidated statement of profit or loss. This category generally applies to interest-bearing loans and borrowings.

Derecognition

A financial liability (or a part of a financial liability) is derecognized when the obligation under the liability is discharged, cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability or a part of it are substantially modified, such an exchange or modification is treated as a derecognition of the original financial liability and the recognition of a new financial liability, and the difference in the respective carrying amounts is recognized in the statement of comprehensive income.

Exchange or modification of financial liabilities

The *MERALCO Group* considers both qualitative and quantitative factors in assessing whether a modification of financial liabilities is substantial or not. The terms are considered substantially different if the present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the present value of the remaining cash flows of the original financial liability. However, under certain circumstances, modification or exchange of a financial liability may still be considered substantial, even where the present value of the cash flows under the new terms is less than 10%

different from the present value of the remaining cash flows of the original financial liability. There may be situations where the modification of the financial liability is so fundamental that immediate derecognition of the original financial liability is appropriate (e.g., restructuring a financial liability to include an embedded equity component).

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the fair value of the new liability is recognized in profit or loss.

When the exchange or modification of the existing financial liability is not considered as substantial, the *MERALCO Group* recalculates the gross carrying amount of the financial liability as the present value of the renegotiated or modified contractual cash flows discounted at the original *EIR* and recognizes a modification gain or loss in profit or loss.

If modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognized as part of the gain or loss on the extinguishment. If the modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the financial instrument and are amortized over the remaining term of the modified financial instrument.

The *MERALCO Group* has not availed of any reliefs and has not renegotiated the terms of its existing loan agreements with its lenders.

Offsetting of Financial Instruments

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

Redeemable Preferred Stock

MERALCO's peso-denominated redeemable preferred stock has characteristics of a liability and is thus recognized as a liability in the consolidated statement of financial position. The corresponding dividends on those shares are recognized as part of "Interest and other financial charges" account in the consolidated statement of income. Dividends no longer accrue when such shares have been called for redemption.

Inventories

Inventories are stated at the lower of cost and net realizable value. Costs of acquiring materials and supplies including costs incurred in bringing each item to their present location and condition are accounted using the moving average and weighted average cost method, as applicable. Net realizable value is the estimated selling price in the ordinary course of business less the estimated cost to sell or the current replacement cost of the asset.

Prepayments

Prepayments are expenses paid in advance and recorded as asset before they are utilized. Prepayments that are expected to be realized within 12 months from the reporting date are classified as current assets. Otherwise, these are classified as noncurrent assets.

Value-Added Tax ("VAT")

Input *VAT* pertains to the 12% indirect tax paid in the course of trade or business on purchases of goods or services.

Output *VAT* pertains to the 12% tax due on the local sale of goods or services.

If at the end of any taxable month, the output *VAT* exceeds the input *VAT*, the outstanding balance is included under "Trade payables and other current liabilities" account. If the input *VAT* exceeds the output *VAT*, the excess shall be carried over to the succeeding months and included under "Financial and other current assets" account.

Provisions

Provisions are recognized when the *MERALCO Group* has a present obligation, legal or constructive, as a result of a past event, and when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the *MERALCO Group* expects a provision, or a portion, to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statement of income, net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liabilities.

Retirement Benefits

MERALCO and certain subsidiaries have distinct, funded, noncontributory defined benefit retirement plans covering all permanent employees. *MERALCO's* retirement plan provides for post-retirement benefits in addition to a lump sum payment to employees hired as at December 31, 2003. Retirement benefits for employees of *MERALCO* hired beginning January 1, 2004 were amended to provide for a defined lump sum payment only upon retirement of qualified employees. *MERALCO* also has a contributory provident plan introduced in January 2009 whereby employees hired beginning January 1, 2004 may elect to participate.

The net defined benefit liability or asset of the retirement plan is the aggregate of the present value of the defined benefit obligation at the end of the reporting date reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

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

Defined benefit costs comprise of (i) service costs; (ii) net interest on the net defined benefit liability or asset; and (iii) remeasurements of the net defined benefit liability or asset.

Service costs, which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in the consolidated statement of income. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

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

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

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the *MERALCO Group*, nor can they be paid directly to the *MERALCO Group*. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected year until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The *MERALCO Group*'s right to be reimbursed for some or all of the expenditures required to settle a defined benefit obligation is recognized as a separate asset at fair value when, and only when, reimbursement is virtually certain.

The retirement costs under the defined contribution plan are recorded based on *MERALCO Group*'s contribution to the defined contribution plan as services are rendered by the employee.

Termination Benefits

Termination benefits are provided in exchange for its severance as a result of either an entity's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment.

A liability and expense for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of those benefits and when the entity recognizes related restructuring costs. Initial recognition and subsequent changes to termination benefits are measured in accordance with the nature of the employee benefit, as either post-employment benefits, short-term employee benefits, or other long-term employee benefits.

Employee Leave Entitlements

Employee entitlements to annual leave are recognized as a liability when such accrues to the employees. The undiscounted liability for leave expected to be settled wholly before 12 months after the end of the reporting year is recognized for services rendered by employees up to the end of the reporting year.

Unused sick leaves are accumulated, up to a certain limit, and commuted to cash upon separation or retirement. An actuarial valuation of the obligations on the accumulated unused sick leaves is conducted periodically in accordance with the relevant accounting standards.

Long-term Incentive Plan

The liability relating to the long-term incentive plan comprises the present value of the obligation at the end of the reporting date.

Equity

Common stock is measured at par value for all shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown as a deduction from equity, net of any related tax. The amount of proceeds and/or fair value of consideration received, net of incremental costs incurred directly attributable to the issuance of new shares in excess of par value, is recognized as additional paid-in capital.

Employee stock purchase plan cost represents the cumulative compensation expense recognized based on the amount determined using an option pricing model.

Change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction and presented as “Equity Reserve” in the consolidated statement of financial position.

OCI comprises items of income and expense, which are not recognized in profit or loss as required or permitted by *PFRS*.

Cumulative translation adjustment represents the resulting exchange differences in the remeasurement of accounts due to change in functional currency.

Treasury shares are recognized at cost and deducted from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the *MERALCO Group*’s own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized in additional paid-in capital.

Retained earnings include net income attributable to the equity holders of the Parent, reduced by dividends declared on common stock. Dividends are recognized as liability and deducted from retained earnings when they are declared. Dividend declarations approved after the financial reporting year are disclosed as events after the financial reporting year.

Non-controlling interests represent the portion of profit or loss and net assets of subsidiaries not attributed, directly or indirectly, to *MERALCO*.

Revenue Recognition

Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the *MERALCO Group* expects to be entitled in exchange for those goods or services. The *MERALCO Group* assesses its revenue arrangements against specific criteria to determine if it is acting as a principal or as an agent. *MERALCO Group* has concluded that it is acting as principal in majority of its revenue arrangements.

The following specific recognition criteria must also be met before revenue from contracts with customers is recognized:

Sale of Electricity

As distribution utilities, revenues are recognized upon supply of power to the customers and are stated at amounts invoiced to customers, inclusive of pass-through components, and net of discounts and/or rebates. The Uniform Filing Requirements (“UFR”) on the rate unbundling released by the ERC on October 30, 2001 specified the following bill components: (a) generation charge, (b) transmission charge, (c) *SL* charge, (d) distribution charge, (e) supply charge, (f) metering charge, (g) Currency Exchange Rate Adjustment (“CERA”) I and II, where applicable and (h) inter-class rate and lifeline subsidies. *VAT*, business taxes such as *LFT*, *RPT* (beginning March 2021), the Power Act Reduction (for residential customers) adjustment, universal charges, and Feed-in-Tariff - Allowance (“*FiT-All*”) are also separately presented in the customer’s billing statement. *Taxes* billed and collected on behalf of the national governments and local government units, universal charges and *FiT-All* [billed and collected on behalf of Power Sector Assets and Liabilities Management Corporation (“*PSALM*”) and National Transmission Corporation (“*TransCo*”), respectively] do not form part of *MERALCO* and *Clark Electric*’s revenues. Revenues are adjusted for the over and/or under-recoveries of pass-through charges.

Revenue from Contracts with Customers - Recognized Over Time.

The *MGen* Group has contracts with customers in the form of Electric Power Purchase Agreement (“*EPPAs*”), Ancillary Services Procurement Agreement (“*ASPAs*”), and sale of electricity to *WESM*.

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

Revenue from contracts with customers is consummated whenever the electricity generated by the *MGen* Group is transmitted through the transmission line designated by the buyer, for a consideration. Revenue from sale of electricity is recognized monthly based on the actual energy delivered made available to customers or minimum energy off take or contracted capacity, adjusted by actual days of downtime, whichever is higher.

Revenue from sale of electricity through ancillary services to the *NGCP* is recognized monthly based on the capacity scheduled and/or dispatched and provided.

Energy fees derived from trading operations are recognized based on actual delivery of such electricity supplied and made available to customers multiplied by the applicable tariff rate as agreed with its customers.

Revenue from Contracts with Customers - Recognized at the Point in Time

Revenues from the following are recognized at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods:

Coal Sales

Coal sales are recognized at point in time when the coal is delivered, the legal title has passed to the customer. Coal sales are presented as part of sale of electricity in the consolidated statement of income.

Service Fees

Service fee pertains to fees charged to customers and clients for coal transaction related services. The service fee is recognized at point in time. Service fees are presented as part of sale of other services in the consolidated statement of income.

Sale of Services

The *MERALCO Group* recognizes revenue from construction contracts over time on the basis of direct measurements of the value to customers of the goods or services transferred to date, relative to the remaining goods or services promised under the contract (output method). Progress is measured based on the monthly project accomplishment which integrates the performance to date of the construction activities.

Construction contracts are generally accounted for as a single performance obligation and are not segmented between types of services. For engineering and construction contracts, these two (2) are combined into one performance obligation since these are not distinct within the context of the contract. The combined performance obligation qualifies as a good or service (or a bundle of goods or services) that is distinct.

Interest Income

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

Lease Income

Income arising from lease of investment properties and pole positions is accounted for on a straight-line basis over the lease term.

Lease income is included under “Revenues – Sale of other services” account in the consolidated statement of income.

Receivables

Receivables represent the *MERALCO Group*’s right to all amounts of consideration that are unconditional (i.e., only the passage of time is required before payment of the consideration is due).

Contract Assets

A contract asset is the right to consideration in exchange for goods and services transferred to the customer. If the *MERALCO Group* performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognized for the earned consideration that is conditional.

The *MERALCO Group*’s contract assets include unbilled receivables and under-recoveries of pass-through charges.

Contract Liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the *MERALCO Group* has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the *MERALCO Group* transfers good or services

to the customer, a contract liability is recognized when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognized as revenue when the *MERALCO Group* performs under the contract.

The following are considered as contract liabilities:

Assets Funded by Customers

In accordance with the Distribution Services and Open Access Rule (“*DSOAR*”), the costs of non-standard connection facilities to connect the customers to *MERALCO*’s distribution network and to provide the customers with ongoing access to the supply of electricity are funded by the customers. *MERALCO* assesses whether the constructed or acquired non-standard connection facilities meet the definition of an asset in accordance with *PAS 16*. If the definition of an asset is met, *MERALCO* recognizes such asset at its acquisition or construction cost with an equivalent credit to the liability account. Such liability to the customers is included under “Other noncurrent liabilities” account in the consolidated statement of financial position, and is recognized as income over the average duration of relationship with the customer. Assets funded by customers do not form part of *MERALCO*’s regulatory asset base until amounts are refunded.

Net Over-recoveries of Pass-through Charges

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

Cost and Expense Recognition

Expenses are decreases in economic benefits during the financial reporting year in the form of outflows or decrease of assets or incurrence of liabilities that result in decrease in equity, other than those relating to distributions to equity participants. These are recognized when incurred.

MERALCO Group recognizes contract costs relating to satisfied performance obligations as these are incurred. Contract costs principally include all direct materials, labor costs and indirect costs related to contract performance. Project mobilization costs and incremental costs of obtaining a contract with a customer are recognized as an asset if the *MERALCO Group* expects to recover them and the contract term is for more than one year. The project mobilization costs and costs of obtaining a contract is amortized over the expected construction period following the pattern of revenue recognition. Costs incurred prior to obtaining a contract with a customer are not capitalized but are expensed as incurred. Expected losses on contracts are recognized immediately when it is probable that the total contract cost will exceed total contract revenue. The amount of such loss is determined irrespective of whether or not work has commenced on the contract, the stage of completion of the contract activity, or the amount of profits expected to arise on other contracts which are not treated as a single construction contract.

Total contract costs incurred and estimated earnings recognized in excess of total billings are recognized as an asset.

Lease Liabilities

At the commencement date of the lease, the *MERALCO Group* recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable

lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the *MERALCO Group* and payments of penalties for terminating a lease, if the lease term reflects the *MERALCO Group* exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the year which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the *MERALCO Group* uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term Leases and Leases of Low-value Assets

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

Leases

The *MERALCO Group* considers whether a contract is, or contains a lease at the inception of a contract. A lease is a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange of a consideration.

Company as Lessee

At commencement date of the lease, the *MERALCO Group* recognizes a right-of-use (“*ROU*”) asset and a corresponding lease liability on the statements of financial position, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the *MERALCO Group* recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Lease liability is measured at the present value of the unpaid lease payments, discounted using the interest rate implicit in the lease (if readily available) or the *MERALCO Group*’s incremental borrowing rate. Incremental borrowing rate is the rate of interest that the *MERALCO Group* would have to pay to borrow over a similar term and with a similar security the funds necessary to obtain an asset of a similar value to the right-of-use-asset in a similar economic environment.

Lease payments included in the measurement of the lease liability consists of fixed payments, variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee, and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, lease liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in the fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the *ROU* asset, or profit and loss if the *ROU* asset is already reduced to zero.

ROU asset is measured at cost, which consist of the initial measurement of the lease liability, any initial direct costs incurred, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date.

The *MERALCO Group* depreciates *ROU* assets on a straight-line basis using the expected useful life or lease term whichever is shorter. The *MERALCO Group* also assesses the *ROU* asset for impairment when such indicators exist.

Company as Lessor

Leases where the *MERALCO Group* does not transfer substantially all the risk and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the year in which these are earned.

Foreign Currency-Denominated Transactions and Translations

The consolidated financial statements are presented in Philippine peso, which is also *MERALCO*'s functional and presentation currency. The Philippine peso is the currency of the primary economic environment in which the *MERALCO Group* operates, except for *LOIL* and *MPG Asia*. This is also the currency that mainly influences the revenue from and cost of rendering services. Each entity in the *MERALCO Group* determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

The functional currency of *LOIL* and *MPG Asia* is the United States ("U.S.") dollar.

Transactions in foreign currencies are initially recorded in the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are re-translated using functional currency closing rate of exchange prevailing at the end of the reporting date. All differences are recognized in the consolidated statement of income except for foreign exchange differences that relate to capitalizable borrowing costs on qualifying assets. Nonmonetary items that are measured in terms of historical cost in foreign currency are translated using the exchange rate as at the date of the initial transactions.

As at the reporting date, the monetary assets and liabilities of subsidiaries, *LOIL* and *MPG Asia* whose functional currency is other than Philippine peso, are translated into Philippine peso at the rate of exchange prevailing at the end of the reporting date, and income and expenses are translated monthly using the weighted average exchange rate for the month. The exchange differences arising on translation are recognized as a separate component of *OCI* as cumulative translation adjustments. On the disposal of a subsidiary, the amount of cumulative translation adjustments recognized in *OCI* is recognized in the consolidated statement of income.

Income Taxes

Current Income Tax

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

Deferred Income Tax

Deferred income tax is provided on all temporary differences at the reporting date between the income tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply when the assets are realized or the liabilities are settled, based on tax rates and tax laws that are enacted or substantively enacted as at the reporting date.

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

Deferred income tax items are recognized in correlation to the underlying transaction either in profit or loss or directly in equity.

Earnings per Share

Basic earnings per share is calculated by dividing the net income for the year attributable to equity holders of the parent by the weighted average number of common shares outstanding during the year.

Diluted earnings per share is calculated by dividing the net income for the 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. Significant Judgments, Accounting Estimates and Assumptions

The preparation of the *MERALCO Group's* consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the accompanying disclosures, and the disclosure of contingent assets and liabilities, at the end of the reporting date. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amounts of the assets or liabilities affected in future years.

Judgments

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

Determination of Functional Currency

The functional currencies of the entities under the *MERALCO Group* are the currencies of the primary economic environment in which each entity operates. It is the currency that mainly influences the revenue and cost of rendering services.

Based on the economic substance of the underlying circumstances, the functional and presentation currency of *MERALCO* and its subsidiaries, except *LOIL* and *MPG Asia*, is the Philippine peso. The functional and presentation currency of *LOIL* and *MPG Asia* is the U.S. dollar.

Uncertain Tax Position

The *MERALCO Group* assesses whether it has any uncertain tax position in accordance with *IFRIC 23*. The *MERALCO Group* applies significant judgement in identifying uncertainties over its income tax treatments. The *MERALCO Group* determined, based on its review and assessment of its income tax computations and filings, in consultation with external tax expert, that it is not probable that its uncertain tax treatments will be accepted by the taxation authorities. The *MERALCO Group* quantified the effect of each uncertain tax treatment using the most likely amount which the *MERALCO Group* expects to better predict the resolution of the uncertainty.

Operating Lease Commitments

As Lessor

The *MERALCO Group* has several lease arrangements as a lessor. Based on the terms and conditions of the arrangements, it has evaluated that the significant risks and rewards of ownership of such properties are retained by the *MERALCO Group*. The lease agreements do not transfer ownership of the assets to the lessees at the end of the lease term and do not give the lessees a bargain purchase option handon over the assets. Consequently, the lease agreements are accounted for as operating leases.

As Lessee

The *MERALCO Group* has entered into various operating lease agreements used for its operations.

For the *MERALCO Group*'s lease under *PFRS 16*, the *MERALCO Group* recognizes *ROU* assets and lease liabilities measured at the present value of lease payments to be made over the lease term using the *MERALCO Group*'s incremental borrowing rate.

The *MERALCO Group* availed exemption of *PFRS 16* for its short-term lease with the term of 12 months or less and low value assets. Accordingly, lease payments on these leases are recognized as expense on a straight-line basis over the lease term.

Arrangement that Contains a Lease

Based on *MERALCO*'s assessment, the *PPAs* and *PSAs* do not qualify to be accounted for as lease and are accounted for as ordinary service contracts, since *MERALCO* does not have the right to direct the use, operate and was not involved in the design of the identified assets.

Principal versus Agent

The *MERALCO Group*'s revenue recognition requires the *MERALCO Group* to make certain judgments on its arrangements with power generation companies such as *PPAs* and *PSAs*. The *MERALCO Group* has concluded that it is acting as a principal in its revenue arrangements.

Revenue from sale of electricity requires *MERALCO* and *Clark Electric* to bill customers based on various billing cycle cut-off dates, while recording of related purchased power cost is based on calendar month as provided in the terms of the *PPAs* and *PSAs*. The difference between the amounts initially billed to customers and the settlement of the actual billings with power generation companies is adjusted to revenue at month end based on *ERC* Resolution No. 16, *A Resolution Adopting the Rules Governing the Automatic Cost Adjustment and True-up Mechanisms and Corresponding Confirmation Process for Distribution Utilities*.

Moreover, *MERALCO* and *Clark Electric* assessed that revenues from electricity, re-connection and other non-standard connection services arise from a single performance obligation which will be satisfied over the year when the services are expected to be provided.

Entity in which the MERALCO Group Holds more than the Majority of the Voting Rights Accounted for as a Joint Venture

MERALCO, through *MGen*, has a 51% interest in *SBPL*. While *MERALCO* owns majority of the voting rights in *SBPL*, it does not have sole control of *SBPL*. *MERALCO*'s investment in *SBPL* is

accounted for as a joint venture since key operating and financial decisions of *SBPL* require the unanimous vote and consent of the parties sharing control.

*Entity in which the MERALCO Group Holds more than the Majority of the Voting Rights
Accounted for as an Associate*

MERALCO, through *MGen*, has a total of 58% direct and indirect interest in *PacificLight*. *MERALCO*'s investment in *PacificLight* is accounted for as an associate since the relevant and significant activities and policies of *PacificLight* require the majority votes of the Board and *MGen* does not hold the majority of the Board.

*Entity in which the MERALCO Group Holds less than 20% of the Voting Rights
Accounted for as an Associate*

Prior to April 1, 2021, *MERALCO*, through *MGen*, has a 14% equity interest in *GBPC*. *GBPC* was considered an associate and, thus, *MERALCO*'s interest in *GBPC* was accounted for using the equity method until March 31, 2021 as *MERALCO* was 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*.

On March 31, 2021, *MGen* acquired the 86% combined equity of *GBPC* from *MPIC* and *JG Summit*, resulting in *MGen*'s 100% ownership in *GBPC* (see Note 3).

MERALCO, through *Finserve*, has 10% interest in *AF Payments, Inc.* ("*AF Payments*"). *AF Payments* is considered an associate and, thus, *MERALCO/Finserve*'s interest in *AF Payments* is accounted for using the equity method as *MERALCO/Finserve* is deemed to have significant influence as evidenced by its representation in the *BOD* which guarantees *MERALCO*'s participation in the decision making and policy making process of *AF Payments*.

Contingencies

The *MERALCO Group* has possible claims from or obligation to other parties from past events and whose existence may only be confirmed by the occurrence or non-occurrence of one (1) or more uncertain future events not wholly within its control. Management has determined that the present obligations with respect to contingent liabilities and claims with respect to contingent assets do not meet the recognition criteria, and therefore has not recorded any such amounts.

See Note 29 – *Contingencies and Legal Proceedings*.

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty as at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial reporting date are discussed as follows:

*Estimating Useful Lives of Utility Plant, Generation Plant and Others, Intangible Assets
with Finite Lives and Investment Properties*

The *MERALCO Group* estimates the useful lives of utility plant, generation plant and others, intangible assets with finite lives and, investment properties based on the years over which such assets are expected to be available for use. The estimate of the useful lives of the utility plant,

generation plant and others, intangible assets with finite lives and investment properties is based on management's collective assessment of industry practice, internal technical evaluation and experience with similar assets. The estimated useful lives are reviewed at least at each financial reporting date and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limitations on the use of such assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in the factors mentioned in the foregoing. The amounts and timing of recorded expenses for any year would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of utility plant, generation plant and others, intangible assets with finite lives and investment properties would increase recorded operating expenses and decrease noncurrent assets.

The total depreciation and amortization expense of utility plant, generation plant and others amounted to ₱10,846 million, ₱8,065 million and ₱8,003 million for the years ended December 31, 2021, 2020 and 2019, respectively. Total carrying values of utility plant, generation plant and others, net of accumulated depreciation and amortization, amounted to ₱225,779 million and ₱163,009 million as at December 31, 2021 and 2020, respectively.

Total depreciation of investment properties amounted to ₱4 million for each of the years ended December 31, 2021, 2020 and 2019. Total carrying values of investment properties, net of accumulated depreciation, amounted to ₱1,496 million and ₱1,499 million as at December 31, 2021 and 2020, respectively.

Total amortization of intangible assets with finite lives amounted to ₱1,649 million, ₱486 million and ₱723 million for the years ended December 31, 2021, 2020 and 2019, respectively. Total carrying values of intangible assets with finite lives, net of accumulated amortization, amounted to ₱15,387 million and ₱2,233 million as at December 31, 2021 and 2020, respectively.

See *Note 7 – Utility Plant, Generation Plant and Others*, *Note 9 – Investment Properties* and *Note 10 – Intangible Assets*.

Impairment of Nonfinancial Assets

PFRS requires that an impairment review be performed when certain impairment indicators are present. These conditions include obsolescence, physical damage, significant changes in the manner by which an asset is used, worse than expected economic performance, drop in revenues or other external indicators, among others. In the case of goodwill, at a minimum, such asset is subject to an annual impairment test and more frequently whenever there is an indication that such asset may be impaired. This requires an estimation of the value in use of the cash generating unit to which the goodwill is allocated. Estimating the value in use requires preparation of an estimate of the expected future cash flows from the cash generating unit and choosing an appropriate discount rate in order to calculate the present value of those cash flows.

Determining the recoverable amount of utility plant, generation plant and others, intangible assets, investment properties, investments in associates and interests in joint ventures, goodwill and financial and other noncurrent assets, requires (i) the determination of future cash flows expected to be generated from the continued use as well as ultimate disposition of such assets and (ii) making estimates and assumptions that can materially affect the consolidated financial statements. Future events may cause management to conclude that utility plant, generation plant and others, intangible assets, investment properties, investments in associates and interests in joint ventures, goodwill and financial and other noncurrent assets are impaired. Any resulting impairment loss could have material adverse impact on the *MERALCO Group's* consolidated financial position and financial performance.

The preparation of estimated future cash flows involves significant estimations and assumptions. While management believes that the assumptions are appropriate and reasonable, significant changes in the assumptions may materially affect the assessment of recoverable values and may lead to future impairment charges under *PFRSs*.

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

Account	2021	2020
	<i>(Amounts in millions)</i>	
Utility plant, generation plant and others	₱225,779	₱163,009
Investments in associates and interests in joint ventures	23,450	15,688
Intangible assets	15,387	2,233
Investment properties	1,496	1,499
Receivable from the <i>BIR</i>	181	181
Goodwill	35	35

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

Realizability of Deferred Income Tax Assets

The *MERALCO Group* reviews the carrying amounts of deferred income tax assets at the end of each reporting year and reduces these to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax assets to be utilized.

Assessment on the recognition of deferred income tax assets on deductible temporary differences is based on the level and timing of forecasted taxable income for the subsequent reporting year. This forecast is based on past results and future expectations on revenues and expenses as well as future tax planning strategies. Management believes that sufficient taxable profit will be generated to allow all or part of the recorded or recognized deferred tax assets to be utilized. The amounts of the deferred income tax assets considered realizable could be adjusted in the future if estimates of taxable income are revised.

Based on the foregoing assessment, following are the relevant consolidated information with respect to deferred income tax assets:

	2021	2020
	<i>(Amounts in millions)</i>	
Recognized deferred income tax assets	₱34,660	₱37,019
Unrecognized deferred income tax assets	3,808	4,115

See *Note 28 – Income Taxes and Local Franchise Taxes*.

Provision for ECL of Receivables and Contract Assets

The *MERALCO Group* applies the *PFRS 9* simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all trade and other receivables and contract assets.

The economic impact of *COVID-19* pandemic to *MERALCO* consumers together with advisories and issuances from the *DOE* and *ERC* directing *MERALCO* and other *DUs* to extend payment terms and suspend service disconnection activities necessitated reassessment of *MERALCO's ECL* model in

2020. *MERALCO* considered resegmentation of all its customer bills starting from the *ECQ* period with the objective of identifying customer groups which were significantly affected by *COVID-19* pandemic based on accumulated number of unpaid bills and measured the expected credit losses considering the deferred payment arrangements and expected default upon resumption of service disconnection activities. In 2021, *MERALCO* continued to extend the suspension of disconnection activities in areas under *ECQ*, *MECQ* and granular lockdowns, and extended installment payment arrangements to certain customers. In determining the *ECLs* of trade receivables, the credit loss experience for each contract status of customers for the current year, adjusted for forwarding looking factors taking into account the economic environment was considered.

The contract assets relate to unbilled receivables and under-recoveries of pass-through charges and have substantially the same risk characteristics as the trade and other receivables. The *MERALCO Group* has concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for contract assets.

The *MERALCO Group* incorporates forward-looking information in its assessments whether the credit risk has increased significantly since its initial recognition and its measurement of *ECL*. The *MERALCO Group* has considered a range of relevant forward-looking macroeconomic assumptions such as inflation rate, gross domestic product and unemployment rate for the determination of unbiased general industry adjustments and any related specific industry adjustments that support the calculation of *ECLs*.

ECLs for trade and other receivables amounted to ₱551 million, ₱1,933 million and ₱708 million for the years ended December 31, 2021, 2020 and 2019, respectively. Trade and other receivables, net of allowance for expected credit losses, amounted to ₱45,013 million and ₱58,120 million as at December 31, 2021 and 2020, respectively.

See Note 13 – Trade and Other Receivables.

Estimating Net Realizable Value of Inventories

Inventories consist of materials and supplies used in the electricity distribution, power generation and services segments, and are valued at the lower of cost or net realizable value. The cost of inventories is written down whenever the net realizable value of inventories becomes lower than the cost due to damage, physical deterioration, obsolescence, and change in price levels or other causes (i.e., pre-termination of contracts). The lower of cost or net realizable value of inventories is reviewed on a periodic basis. Inventory items identified to be obsolete and no longer usable are written off and charged as expense in the consolidated statement of income.

The carrying values of inventories amounted to ₱9,817 million and ₱5,484 million as at December 31, 2021 and 2020, respectively.

See Note 14 – Inventories.

Estimation of Retirement Benefit Costs

The cost of defined benefit retirement plans and other post-employment benefits as well as the present value of the retirement obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates and future retirement benefits increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at

each reporting date. Retirement and other post-employment benefits expense amounted to ₱2,241 million, ₱1,610 million and ₱1,068 million for the years ended December 31, 2021, 2020 and 2019, respectively. Retirement and other post-employment benefit liabilities as at December 31, 2021 and 2020 amounted to ₱7,716 million and ₱14,020 million, respectively.

In determining the appropriate discount rate, management considers the interest rates of government bonds in the respective currencies, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The underlying bonds are further reviewed for quality, and those having excessive credit spreads are removed from the population of bonds on which the discount rate is based, on the basis that they do not represent high quality bonds.

The mortality rate is based on publicly available mortality tables for the Philippines and is modified accordingly with estimates of mortality improvements. Future salary increases and retirement benefits increases are based on expected future inflation rates for the Philippines.

See *Note 25 – Expenses and Income* and *Note 26 – Long-term Employee Benefits*.

Provisions

The *MERALCO Group* has various claims, assessments and cases as discussed in *Note 29 – Contingencies and Legal Proceedings* and *Note 2 – Rate Regulations*. The *MERALCO Group's* estimate for probable costs for the resolution of these claims, assessments and cases has been developed in consultation with external counsel, if any, and internal counsels handling the defense in these claims, assessments and cases and is based upon thorough analysis of potential outcome.

The *MERALCO Group*, in consultation with its external 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 ₱10,175 million, ₱15,526 million and ₱10,119 million for the years ended December 31, 2021, 2020 and 2019, respectively.

Provisions are measured at the present value of management's best estimate of the expenditures required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the liability. As at December 31, 2021 and 2020, provisions and other noncurrent liabilities are presented net of the effect of the time value of money amounting to ₱860 million and ₱2,275 million, respectively.

See *Note 19 – Provisions* and *Note 22 – Trade Payables and Other Current Liabilities*.

Revenue Recognition

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

Revenues from sale of electricity by *MERALCO* and *Clark Electric* are billed based on customer-specific billing cycle cut-off date for each customer, while recording of related purchased power cost is based on calendar month as provided in the terms of the *PPAs* and *PSAs*. The recognition of

unbilled revenues for billing cycles with earlier than month-end cut-off dates requires the use of estimates. The difference between the amounts initially recognized based on provisional invoices and the settlement of the actual billings by power generation companies is taken up in the subsequent period. Also, revenues from sale of electricity are adjusted for the estimated over and/or under-recoveries of pass-through charges, which are subject of various applications for recovery and approval by the *ERC*.

Management believes that such use of estimates will not result in material adjustments in future years.

Revenues and costs from construction contracts of *MIESCOR* are recognized based on the output method. This is measured principally on the basis of the estimated completion of a physical proportion of the contract work.

Revenue from Contracts with Customers

The *MGen* Group applied the following judgements that significantly affect the determination of the amount and timing of revenue from contracts with customers:

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

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

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

For revenue contracts under *EPPAs*, *ASPA*, and spot market sales to *WESM*, these are combined and considered as one (1) performance obligation since these are not distinct within the context of PFRS 15 as the buyer cannot benefit from the contracted capacity without the corresponding energy and the buyer cannot obtain energy without contracting a capacity.

- 2) *Determining Method to Estimate Variable Consideration and Assessing the Constraint.* The *MGen* Group includes some or all the amounts of variable consideration estimated but only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. The *MGen* Group considers both the likelihood and magnitude of the revenue reversal in evaluating the extent of variable consideration the *MGen* Group will be subjected to constraint.

Factors such as the following are considered:

- a. high susceptibility to factors outside the Group's influence;
- b. timing of the resolution of the uncertainty; and
- c. having a large number and broad range of possible outcomes.

Some contracts with customers provide for volume and prompt payment discounts that give rise to variable consideration. In estimating the variable consideration, the *MGen* Group is required to use either the expected value method or the most likely amount method based on which

method better predicts the amount of consideration to which it will be entitled. The expected value method of estimation takes into account a range of possible outcomes while the most likely amount is used when the outcome is binary.

The *MGen* Group determined that the expected value method is the appropriate method to use in estimating the variable consideration given the number of contracts with customers that have similar characteristics and the range of possible outcomes.

- 3) *Allocation of Variable Consideration.* Variable consideration may be attributable to the entire contract or to a specific part of the contract. For revenue contracts under *EPPAs*, *ASPA* and spot market sales to *WESM*, revenue streams which are considered as series of distinct services that are substantially the same and have the same pattern of transfer, the *MGen* Group allocates the variable amount that is no longer subject to constraint to the satisfied portion (i.e., month or actual electricity delivery) which forms part of the single performance obligation and the monthly billing of the *MGen* Group.
- 4) *Revenue Recognition.* The *MGen* Group recognizes revenue when it satisfies an identified performance obligation by transferring a promised good or service to a customer. A good or service is considered to be transferred when the customer obtains control. The *MGen* Group determines, at contract inception, whether it will transfer control of a promised good or service over time. If the *MGen* Group does not satisfy a performance obligation over time, the performance obligation is satisfied at a point in time.

The *MGen* Group concluded that revenue from sale of electricity from contracts with customers are to be recognized over time, since customers simultaneously receive and consume the benefits as the *MGen* Group supplies power.

- 5) *Identifying Methods for Measuring Progress of Revenue Recognized Over Time.* The *MGen* Group determines the appropriate method of measuring progress which is either through the use of input or output methods. Input method recognizes revenue on the basis of the efforts or inputs to the satisfaction of a performance obligation while output method recognizes revenue on the basis of direct measurements of the value to the customer of the goods or services transferred to date.

The *MGen* Group determined that the output method is the best method in measuring progress as actual electricity is supplied to customers.

6. Segment Information

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

Shin Clark is a consortium consisting of *MERALCO*, 60% and Axia Power Holdings Philippines Corporation (a wholly-owned subsidiary of Marubeni Corporation), KPIC Netherlands BV [a wholly-owned subsidiary of the Kansai Electric Power, Inc. ("*Kansai*")], and Chubu Electric Power Co., Inc. ("*Chubu*"), collectively holding 40%. *Shin Clark* manages the development, operation, and maintenance of the electric power distribution system in the 9,450-hectare New Clark City located within the Clark Special Economic Zone in the towns of Capas and Bamban, Tarlac, through a Joint Venture Agreement with the Bases Conversion and Development Authority ("*BCDA*"). As at February 28, 2022, the documents for the incorporation of the joint venture company with *BCDA* has been endorsed by the Governance Commission for government owned and controlled corporation and is awaiting approval and signature of the President of the Republic of the Philippines.

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

MGen owns 51% interest in *SBPL* which operates a 455 *MW* (net) supercritical coal-fired plant in Mauban, Quezon. In 2021, it delivered a total of 3,234 *GWh* to *MERALCO* under an *ERC*-approved *PSA*.

GBPC is the largest independent power producer in the Visayas. *GBPC* owns 854 *MW* (gross) of operating coal and diesel-fired power plants in the Visayas and Mindoro Island. *GBPC* also has a 50% interest in Alsons Thermal Energy Corporation ("*ATEC*"), which holds a 75% interest in Sarangani Energy Corporation ("*Sarangani Energy*"). *Sarangani Energy*'s first 105 *MW* (net) *CFB* plant in Maasim, Sarangani started commercial operations in 2016. The second 105 *MW* (net) *CFB* plant completed commissioning and started commercial operations in September 2019.

On June 30, 2021, *GBPC* broke ground for its renewable project – a 115 *MWdc* solar plant in Baras, Rizal. The plant is expected to start commercial operations in 2022.

MGen also has a 28% indirect interest in PacificLight Power Pte Ltd. ("*PacificLight Power*"). In July 1, 2021, it acquired a 30% direct interest in PacificLight Power, increasing its effective to 58%. *PacificLight Power* owns and operates a 2 x 400 *MW* combined cycle turbine power plant mainly fueled by liquefied natural gas ("*LNG*") in Jurong Island, Singapore.

MGen is developing a 2 x 600 *MW* (net) coal-fired power plant in Atimonan, Quezon through its wholly-owned subsidiary, *AIE*. It will be the first ultra-supercritical coal-fired facility to be built

in the country. Site preparation is in an advanced stage and engineering activities are ongoing to meet the targeted operations date.

AIE is classified as a Committed Project of National Significance by the *DOE* and has the requisite Department of Environment and Natural Resources (“*DENR*”) approvals and permits. It is also recognized by the Board of Investments (“*BOI*”) as a registered Pioneer Project.

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

MGreen has 70% equity interest in *Nortesol*, a company engaged in the development, construction and operation of power plant and related facilities using renewable energy system and hybrid energy system. *Nortesol* is developing a 110 MWdc/90MWac floating solar facility in Laguna de Bay while awaiting the leasing policy from the Laguna Lake Development Authority (“*LLDA*”).

LagunaSol Corporation, a 100% owned subsidiary of *MGreen* was incorporated on September 24, 2020 to engage in the development, construction and operation of a power plant and related facilities using solar energy.

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

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

The *ERC* granted the following subsidiaries distinct *RES* licenses to operate as retail electricity suppliers within Luzon and Visayas: *Vantage*, 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. On April 21, 2021, *Phoenix Power*, a wholly owned subsidiary of *MERALCO*, was issued a *RES* license by the *ERC* while *Vantage RES* renewal is on-going. *Clarion*, a wholly owned subsidiary of *Clark Electric*, submitted the requirements for its *RES* licensing to *ERC*. As at February 28, 2022, the approval of its *RES* licensing is pending with the *ERC*. *GESC*, a wholly owned subsidiary of *GBPC*, was issued a *RES* license by the *ERC* on September 12, 2011 to September 12, 2021. On September 10, 2021, *GESC*’s *RES* license was renewed for another five (5) years beginning September 13, 2021.

■ Other Services

The other services segment is involved principally in electricity-related services, such as, electro-mechanical engineering, construction, consulting and related manpower services, e-transaction and bills collection, telecommunications services, rail-related operations and maintenance services, insurance and re-insurance, e-business development, power distribution management,

energy systems management and harnessing renewable energy and electric vehicle and charging infrastructure solutions. These services are provided by *MIESCOR*, *MBI* and *MLI* (collectively known as “*MIESCOR Group*”), *CIS*, *Bayad*, *CFSI* and *Fieldtech* (collectively referred to as “*CIS Group*”), *e-MVI*, *Paragon* and *Radius* (collectively referred to as “*e-MVI Group*”), *Comstech*, *MRail*, *LOIL*, *Finserve*, *MServ*, *Spectrum* and *eSakay*.

The Management Committee 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 attributable to equity holders of the parent for the year, (ii) consolidated core earnings before interest, taxes, and depreciation and amortization (“consolidated core *EBITDA*”); and (iii) consolidated core net income (“*CCNI*”). Net income is measured consistent with reported net income in the consolidated statement of income.

Consolidated core *EBITDA* is measured as *CCNI* excluding depreciation and amortization, interest and other financial charges, interest and other financial income, equity in net earnings or losses of associates and joint ventures and provision for income tax.

CCNI for the period 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 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. None of its revenues from transactions with a single external customer accounts for 10% or more of its revenues from external customers.

	Note	Power			Other Services			Inter-segment Transactions			Total		
		2021	2020	2019	2021	2020	2019	2021	2020	2019	2021	2020	2019
Revenues		₱309,238	₱267,946	₱310,098	₱15,250	₱10,382	₱11,299	(₱5,941)	(₱3,024)	(₱3,082)	₱318,547	₱275,304	₱318,315
Segment results		₱50,912	₱42,074	₱48,213	₱3,161	₱2,460	₱2,375	₱—	₱—	₱—	₱54,073	₱44,534	₱50,588
Provision for probable losses and expenses from claims		(10,120)	(15,511)	(10,119)	(55)	(15)	—	—	—	—	(10,175)	(15,526)	(10,119)
Depreciation and amortization	7, 9 and 10	(11,913)	(8,003)	(8,181)	(586)	(552)	(549)	—	—	—	(12,499)	(8,555)	(8,730)
Interest and other financial income	24	2,145	2,282	3,213	52	41	56	—	—	—	2,197	2,323	3,269
Equity in net earnings (losses) of associates and joint ventures	8	3,162	1,276	(1,482)	(35)	(43)	(4)	—	—	—	3,127	1,233	(1,486)
Interest and other financial charges	24	(3,633)	(1,490)	(1,477)	(95)	(104)	(130)	—	—	—	(3,728)	(1,594)	(1,607)
Provision for income tax - net	27	(8,158)	(5,569)	(7,853)	(754)	(697)	(690)	—	—	—	(8,912)	(6,266)	(8,543)
Net income (loss) attributable to non-controlling interests		—	—	—	—	—	—	(585)	167	(87)	(585)	167	(87)
Net income attributable to equity holders of the Parent		₱22,395	₱15,059	₱22,314	₱1,688	₱1,090	₱1,058	(₱585)	₱167	(₱87)	₱23,498	₱16,316	₱23,285

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:

	2021	2020	2019
	<i>(Amounts in millions)</i>		
<i>EBITDA</i>	₱43,411	₱29,847	₱40,977
Add (deduct):			
Depreciation and amortization	(12,499)	(8,555)	(8,730)
Equity in net earnings (losses) of associates and joint ventures	3,127	1,233	(1,486)
Interest and other financial income net of charges and foreign exchange gains and losses	(1,044)	(110)	1,154
Income before income tax	32,995	22,415	31,915
Provision for income tax - net	(8,912)	(6,266)	(8,543)
Net income	₱24,083	₱16,149	₱23,372

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

	2021	2020	2019
	<i>(Amounts in millions)</i>		
<i>CCNI</i>	₱24,608	₱21,711	₱23,832
Add (deduct) non-core items, net of tax:			
Non-core expenses	(1,487)	(4,556)	(124)
Foreign exchange gains (losses)	377	(839)	(423)
Net income for the year attributable to equity holders of the Parent	23,498	16,316	23,285
Net income for the year attributable to non-controlling interests	585	(167)	87
Net income	₱24,083	₱16,149	₱23,372

7. Utility Plant, Generation Plant and Others

The movements in utility plant, generation plant and others are as follows:

2021											
	Note	Sub-transmission and Distribution	Boilers and Powerhouse	Land	Buildings and Improvements	Communication Equipment	Office Furniture, Fixtures and Other Equipment	Transportation Equipment	Others	Construction in Progress	Total
(Amounts in millions)											
Cost:											
Balance at beginning of year		₱196,793	₱–	₱15,752	₱7,401	₱3,339	₱4,079	₱3,973	₱5,755	₱25,822	₱262,914
Effect of consolidation of GBPC	3	–	63,872	1,436	6,649	203	87	179	379	590	73,395
Additions		946	3,409	511	493	1,069	206	276	618	19,031	26,559
Transfers from construction in progress		19,302	–	–	344	175	31	2	384	(20,238)	–
Disposals/retirements		(1,969)	–	–	(1)	–	(1)	(151)	(66)	–	(2,188)
Reclassifications	10	(105)	27	–	1	2	1	1	371	(39)	260
Balance at end of year		214,967	67,308	17,699	14,887	4,788	4,403	4,280	7,441	25,166	360,939
Less accumulated depreciation and amortization:											
Balance at beginning of year		85,913	–	–	3,237	1,896	2,738	2,673	3,448	–	99,905
Effect of consolidation of GBPC	3	–	23,518	–	1,941	177	77	136	328	–	26,177
Depreciation and amortization		7,238	2,069	–	325	174	363	247	430	–	10,846
Disposals/retirements		(1,969)	–	–	(1)	–	(1)	(121)	(17)	–	(2,109)
Reclassifications		–	286	–	24	(20)	–	–	51	–	341
Balance at end of year		91,182	25,873	–	5,526	2,227	3,177	2,935	4,240	–	135,160
Net book value		₱123,785	₱41,435	₱17,699	₱9,361	₱2,561	₱1,226	₱1,345	₱3,201	₱25,166	₱225,779

2020										
		Subtransmission and Distribution	Land	Buildings and Improvements	Communication Equipment	Office Furniture, Fixtures and Other Equipment	Transportation Equipment	Others	Construction in Progress	Total
	Note									
(Amounts in millions)										
Cost:										
Balance at beginning of year		₱189,492	₱15,410	₱7,054	₱2,882	₱3,683	₱3,769	₱5,326	₱17,340	₱244,956
Additions		340	342	67	240	172	269	286	18,221	19,937
Transfers from construction in progress		8,506	—	416	269	296	1	122	(9,610)	—
Disposals/retirements		(2,199)	—	(57)	(71)	(3)	(66)	(60)	—	(2,456)
Reclassifications	10	654	—	(79)	19	(69)	—	81	(129)	477
Balance at end of year		196,793	15,752	7,401	3,339	4,079	3,973	5,755	25,822	262,914
Less accumulated depreciation and amortization:										
Balance at beginning of year		80,851	—	3,087	1,541	2,475	2,457	3,104	—	93,515
Depreciation and amortization		6,649	—	189	274	340	268	345	—	8,065
Disposals/retirements		(2,199)	—	(5)	—	(2)	(52)	(23)	—	(2,281)
Reclassifications		612	—	(34)	81	(75)	—	22	—	606
Balance at end of year		85,913	—	3,237	1,896	2,738	2,673	3,448	—	99,905
Net book value		₱110,880	₱15,752	₱4,164	₱1,443	₱1,341	₱1,300	₱2,307	₱25,822	₱163,009

As at December 31, 2021 and 2020, the net book values of customer-funded assets included in “Utility plant, generation plant and others” account amounted to ₱5,764 million and ₱5,437 million, respectively. The corresponding liabilities to customers in the same amounts as at December 31, 2021 and 2020 are included in “Other noncurrent liabilities” account in the consolidated statements of financial position.

The power plant complex of *TPC* and the generation plant and equipment of *PEDC*, with aggregate carrying value of ₱29,385 million as at December 31, 2021 are pledged as securities for their long-term debt.

See *Note 24 – Revenues and Purchased Power*.

Construction in progress pertains to both electric capital projects (“*ECPs*”) and non-*ECPs*. *ECPs* are capital projects involving construction of new electric distribution-related facilities and the upgrade and major rehabilitation of existing electrical facilities. Non-*ECPs* mainly represent *MGen*’s construction of powerplant projects. Total interest capitalized amounted to ₱304 million, ₱276 million and ₱247 million based on average capitalization rate of 5% for the years ended December 31, 2021, 2020 and 2019, respectively.

8. Investments in Associates and Interests in Joint Ventures

This account consists of the following:

			2021	2020
	Place of Incorporation	Principal Activity	Percentage of Ownership	
Associates				
Alsons Thermal Energy Corporation (“ <i>ATEC</i> ”)	Philippines	Power generation	50	–
Redondo Peninsula Energy Inc. (“ <i>RP Energy</i> ”)	Philippines	Power generation	47	47
FPM Power Holdings Limited (“ <i>FPM Power</i> ”)/ <i>PacificLight Power</i>	British Virgin Islands/ Singapore	Investment and holding company/ Power generation	58	28
Bauang Private Power Corporation (“ <i>BPPC</i> ”)	Philippines	Power generation	38	38
Aclara Meters Philippines, Inc. (“ <i>Aclara Meters</i> ”)	Philippines	Sale of metering products and services	35	35
Power Distribution Services Ghana Limited (“ <i>PDS Ghana</i> ”)	Ghana	Distribution of power	30	30
Indra Philippines, Inc. (“ <i>Indra Philippines</i> ”)	Philippines	Management and <i>IT</i> consultancy	25	25
<i>GBPC</i> ⁽¹⁾	Philippines	Power generation	–	14
Greenery For Global Inc. (“ <i>Greenery</i> ”)	Philippines	Renewable energy	28	–
<i>AF Payments</i>	Philippines	Electronic payment clearing and settlement system operator	10	10
Joint Ventures				
<i>SBPL</i>	Philippines	Power generation	51	51
MRail-DESCO Joint Venture (“ <i>MDJV</i> ”)	Philippines	Maintenance of mass transit system	50	50
Pure Meridian Hydropower Corporation (“ <i>Pure Meridian</i> ”)	Philippines	Renewable energy	50	50
First Balfour-MRail Joint Venture (“ <i>FBMJV</i> ”)	Philippines	Maintenance of mass transit system	49	49
MPioneer Insurance Inc. (“ <i>MPioneer</i> ”)	Philippines	Insurance	35	35
Rockwell Business Center Joint Venture (“ <i>RBC JV</i> ”)	Philippines	Real estate	30	30
Nuevo Solar Energy Corporation (“ <i>NSEC</i> ”)	Philippines	Power generation	50	–

⁽¹⁾ Beginning March 31, 2021, *GBPC* is accounted as a subsidiary (see *Note 3*).

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

	<i>Note</i>	2021	2020
<i>(Amounts in millions)</i>			
Acquisition cost:			
Balance at beginning of year		₱21,447	₱21,619
Additions		779	466
Effect of consolidation of <i>GBPC</i>	<i>3</i>	10,447	—
Reclassification ⁽¹⁾	<i>11</i>	(5,293)	(534)
Disposal ⁽²⁾		—	(104)
Balance at end of year		27,380	21,447
Accumulated equity in net losses:			
Balance at beginning of year		(5,752)	(7,404)
Equity in net earnings		3,127	1,233
Impairment losses		(12)	—
Reclassification ⁽¹⁾		206	895
Dividends received		(1,780)	(476)
Balance at end of year		(4,211)	(5,752)
Share in remeasurement adjustments on retirement liabilities			
Balance at beginning of year		(13)	(12)
Share in actuarial losses		(12)	(1)
Balance at end of year		(25)	(13)
Share in cumulative translation adjustments:			
Balance at beginning of year		6	762
Cumulative translation adjustments		300	—
Reclassification		—	(756)
Balance at end of year		306	6
		₱23,450	₱15,688

⁽¹⁾ Reclassification in 2021 pertains to the carrying amount of MERALCO's 14% investment in GBPC, which was accounted using equity method and presented as part of investments in associates and interests in joint ventures in 2020.

⁽²⁾ Following the termination of the joint venture agreement with Semirara Mining Power Corporation ("SMPP") in November 2020, MGen disposed its shareholding in St. Raphael in favor of SMPC.

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

	<i>Note</i>	2021	2020
		<i>(Amounts in millions)</i>	
Associates			
<i>ATEC</i>	3	₱10,186	₱—
<i>FPM Power / PacificLight Power</i>		2,434	—
<i>RP Energy</i>		706	717
<i>Aclara Meters</i>		59	63
<i>Greenergy</i>		35	—
<i>GBPC</i>	3	—	5,032
<i>BPPC</i>		—	2
Joint ventures			
<i>SBPL</i>		8,138	7,912
<i>RBC JV</i>		907	1,055
<i>Indra Philippines</i>		416	353
<i>MPioneer</i>		354	390
<i>Pure Meridian</i>		123	131
<i>NSEC</i>		64	—
<i>MDJV</i>		28	33
		₱23,450	₱15,688

ATEC

ATEC owns: (i) 75% of Sarangani Energy Corporation which operates a 2 x 118.5 *MW* (gross capacity) baseload coal-fired plant in Maasim, Sarangani Province; (ii) 100% San Ramon Power, Inc. which is developing a 120 *MW* baseload coal-fired plant in Zamboanga City; and (iii) 100% ACES Technical Services Corporation.

SBPL

SBPL, which is a joint venture between *MGen* (51%) and New Growth B.V. (49%), a 100% subsidiary of Electricity Generating Public Company Limited of Thailand (“*EGCO*”), owns and operates a new 455 *MW* (net) supercritical coal-fired power plant in Mauban, Quezon, which began operations on September 26, 2019.

SBPL and *MERALCO* signed a long-term *PSA* covering all the output of the plant. The *PSA* was approved by the *ERC* on May 19, 2015.

FPM Power/ PacificLight Power

FPM Power is 40%-owned by *MERALCO* through *MPG Asia* (a wholly-owned subsidiary of *MGen*) and 60%-owned by First Pacific Company Limited (“*First Pacific*”). *FPM Power* has a 70% equity interest in *PacificLight Power*, which owns and operates a 2 x 400 *MW* *LNG*-fired power plant in Jurong Island, Singapore. *PacificLight Power*’s wholly owned subsidiary, PacificLight Energy Pte. Ltd., is engaged in energy trading.

In 2019, *MERALCO* re-assessed the estimated recoverable amount of its investment in *FPM Power* in view of the continued depressed market condition in Singapore. As a result of the re-assessment, *MERALCO* recognized impairment on its investment.

On July 1, 2021, *MGen* acquired Petronas International Power Corporation's 30% stake in PacificLight Power in the amount of US \$15 million (₱729 million) bringing its combined direct and indirect interest to 58%.

The fair value of the identifiable assets and liabilities of PacificLight Power as at July 1, 2021 were:

	Amounts In millions
Generation plant and others	₱22,651
Cash and cash equivalents	1,165
Trade and other receivables	4,174
Other assets	4,632
Interest-bearing long-term financial liabilities	(22,187)
Trade and other payables	(5,581)
Other liabilities	(2,424)
Net assets	2,430
Less: <i>FPM Power's</i> 70% interest	1,701
Net assets acquired	₱729

The fair values of assets and liabilities were based on a provisional assessment as the valuation of general plant and others has not been finalized.

See *Note 15 – Financial and Other Current Assets* and *Note 22 – Related Party Transactions*.

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*.

RP Energy

RP Energy was a joint venture agreement with Therma Power, Inc. ("*TPP*") and Taiwan Cogeneration International Corporation – Philippine Branch ("*TCIC*") for the construction and operation of a power plant in the Subic Bay Freeport Zone.

Management continues to reassess the appropriate project technology for the site considering the developments in environmental social and governance ("*ESG*"), banking and insurance.

MPioneer

MPioneer is 35% owned by *MERALCO*, with Pioneer Insurance and Surety Company holding 65%. It is engaged in the non-life insurance business.

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.

Greenenergy

In February 2021, *GBPC* acquired 28% equity interest in *Greenenergy*, which is developing a 40 MWac solar power plant in Cordon, Isabela.

Pure Meridian

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

Aclara Meters

Aclara Meters is 35% owned by *MERALCO* and 65% owned by Aclara Technology LLC. *Aclara Meters* serves the Philippine market for American National Standard Institute ("ANSI")-type Watt-hour meters.

NSEC

NSEC, an entity considered as *MGreen*'s joint venture, is engaged in the development of an approximately 65 MWac solar energy project in Currimao, Ilocos Norte.

MDJV

On June 2, 2014, *MRail* and Desco, Inc. entered into a Joint Venture Agreement for the general overhaul and rehabilitation of three (3) units of diesel electric locomotives by the Philippine National Railways ("PNR"). The project including its warranty period was completed on April 19, 2019. The *MDJV* is in the process of liquidation.

AF Payments

MERALCO, through *Finserve*, has a 10% equity interest in *AF Payments*. *AF Payments* operates and maintains an electronic payment clearing and settlement system through a contactless automated fare collection system for public utility, including generic contactless micropayment solution. It supplies and issues fare media and store value cards or reloadable cards for use in transport and non-transport facilities and operates and maintains the related hardware and software.

Due to the lower than expected penetration rate into the micropayments business, *MERALCO* recognized impairment on the carrying amount of its investment in *AF Payments*. The recoverable amount of the investment in *AF Payments* was measured using the estimate of the value in use of the investment. The valuation analysis involved discounting estimates of free cash flows using the discount rate of 11.9%. The estimated cash flows were based on the most recent financial budgets and forecasts representing best estimate of ranges of economic conditions that will exist over the forecast period. The forecast period covers the remaining service concession agreement term. As at December 31, 2021 and 2020, the investment in *AF Payments* is fully impaired.

The condensed statements of financial position of material associates follow:

2021			
	<i>ATEC</i>	<i>FPM Power / PacificLight Power</i>	<i>RP Energy</i>
<i>(Amounts in millions)</i>			
Current assets	₱5,665	₱31,570	₱251
Noncurrent assets	33,980	15,140	1,176
Current liabilities	(5,698)	(9,499)	(6)
Noncurrent liabilities	(13,461)	(23,724)	(25)
Net assets	₱20,486	₱13,487	₱1,396

2020		
	<i>GBPC</i>	<i>RP Energy</i>
<i>(Amounts in millions)</i>		
Current assets	₱18,645	₱272
Noncurrent assets	53,572	1,177
Current liabilities	(15,352)	(6)
Noncurrent liabilities	(23,450)	(23)
Non-controlling interests	(5,265)	—
Net assets	₱28,150	₱1,420

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

	2021			2020			2019		
	<i>ATEC</i>	<i>FPM Power / PacificLight Power</i>	<i>RP Energy</i>	<i>GBPC⁽¹⁾</i>	<i>FPM Power</i>	<i>RP Energy</i>	<i>GBPC⁽¹⁾</i>	<i>FPM Power</i>	<i>RP Energy</i>
<i>(Amounts in millions)</i>									
Revenues	₱8,270	₱61	₱—	₱21,926	₱19,981	₱4	₱24,767	₱36,909	₱12
Costs and expenses	(6,826)	(59)	(21)	(19,447)	(20,181)	(18)	(21,206)	(42,591)	(653)
Net income (loss)	1,444	2	(21)	2,479	(200)	(14)	3,561	(5,682)	(641)
Non-controlling interests	(354)	—	—	(831)	—	—	(1,268)	950	—
Net income (loss) attributable to equity holders of the parent	1,090	2	(21)	1,648	(200)	(14)	2,293	(4,732)	(641)
Other comprehensive income	—	—	—	—	—	—	—	528	—
Total comprehensive income (loss)	₱1,090	₱2	(₱21)	₱1,648	(₱200)	(₱14)	₱2,293	(₱4,204)	(₱641)
Dividends received	₱1,455	₱—	₱—	₱308	₱—	₱—	₱350	₱—	₱—

⁽¹⁾ On March 31, 2021, MERALCO, through MGen, acquired 86% combined equity in GBPC from MPIC and JG Summit, increasing MGen's equity to 100%. The transaction resulted in accounting for the investment in GBPC as a subsidiary. In 2020, investment in GBPC was accounted as investment in an associate.

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

	2021		
	<i>FPM Power / PacificLight Power</i>		
	<i>ATEC</i>		<i>RP Energy</i>
	<i>(Amounts in millions, except % of ownership)</i>		
Net assets of associates	₱20,486	₱13,487	₱1,396
Proportionate ownership in associates (%)	50	58	47
	10,243	7,822	656
Fair value adjustment and impairment	—	(5,388)	
Goodwill	—	—	50
	₱10,243	₱2,434	₱706
	2020		
	<i>GBPC</i>		
	<i>(Amounts in millions, except % of ownership)</i>		
Net assets of associates	₱28,150		₱1,420
Proportionate ownership in associates (%)	14		47
	3,941		667
Goodwill	1,091		50
	₱5,032		₱717

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

	2021	2020	2019
	<i>(Amounts in millions)</i>		
Share in net income	₱54	₱20	₱23
Share in other comprehensive loss	(12)	(1)	(3)
Share in total comprehensive income	₱42	₱19	₱20
Dividends received	₱13	₱19	₱80

Joint Ventures

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

	2021	
	<i>RBC JV</i>	<i>SBPL</i>
	<i>(Amounts in millions)</i>	
Current assets	₱992	₱9,371
Noncurrent assets	2,507	46,407
Current liabilities	(475)	(4,497)
Noncurrent liabilities	(1)	(35,324)
Net assets	₱3,023	₱15,957

	2020	
	<i>RBC JV</i>	<i>SBPL</i>
	<i>(Amounts in millions)</i>	
Current assets	₱1,020	₱8,127
Noncurrent assets	2,947	48,273
Current liabilities	(450)	(3,882)
Noncurrent liabilities	—	(37,004)
Net assets	₱3,517	₱15,514

The foregoing condensed statements of financial position include the following:

	2021	
	<i>RBC JV</i>	<i>SBPL</i>
	<i>(Amounts in millions)</i>	
Cash and cash equivalents	₱667	₱2,957
Current financial liabilities (excluding trade payables)	(358)	(3,328)

	2020	
	<i>RBC JV</i>	<i>SBPL</i>
	<i>(Amounts in millions)</i>	
Cash and cash equivalents	₱663	₱2,996
Current financial liabilities (excluding trade payables)	(3)	(3,201)

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

	2021		2020		2019	
	<i>RBC JV</i>	<i>SBPL</i>	<i>RBC JV</i>	<i>SBPL</i>	<i>RBC JV</i>	<i>SBPL</i>
	<i>(Amounts in millions)</i>					
Revenues	₱821	₱15,700	₱782	₱12,954	₱738	₱5,178
Costs and expenses	(172)	(13,178)	(167)	(10,971)	(196)	(4,457)
Other income - net	3	54	24	7	20	6
Provision for (benefit from) income tax - net	(92)	23	(84)	(23)	(134)	7
Net income	₱560	₱2,599	₱555	₱1,967	₱428	₱734
Dividends received	₱172	₱1,123	₱143	₱—	₱116	₱—

The foregoing condensed statements of comprehensive income include the following:

	2021		2020		2019	
	<i>RBC JV</i>	<i>SBPL</i>	<i>RBC JV</i>	<i>SBPL</i>	<i>RBC JV</i>	<i>SBPL</i>
	<i>(Amounts in millions)</i>					
Depreciation	₱212	₱1,478	₱209	₱1,467	₱206	₱392
Interest income	(2)	(4)	(24)	(7)	(20)	(6)
Provision for (benefit from) income tax - net	92	(23)	84	23	134	7

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

	2021	
	RBC JV	SBPL
	<i>(Amounts in millions, except % of ownership)</i>	
Net assets of joint ventures	₱3,023	₱15,957
Proportionate ownership in joint ventures (%)	30	51
	₱907	₱8,138
	2020	
	RBC JV	SBPL
	<i>(Amounts in millions, except % of ownership)</i>	
Net assets of joint ventures	₱3,517	₱15,514
Proportionate ownership in joint ventures (%)	30	51
	₱1,055	₱7,912

The following is the condensed financial information of joint ventures which are considered immaterial:

	2021	2020	2019
	<i>(Amounts in millions)</i>		
Share in net income (loss)	₱33	(₱113)	(₱45)
Share in other comprehensive loss	—	—	—
Share in total comprehensive income (loss)	₱33	(₱113)	(₱45)
Dividends received	₱—	₱5	₱—

9. Investment Properties

The movements in investment properties are as follows:

	2021		
	Land	Buildings and Improvements	Total
	<i>(Amounts in millions)</i>		
Cost:			
Balance at beginning of year	₱1,427	₱206	₱1,633
Additions	1	—	1
Balance at end of year	1,428	206	1,634
Less accumulated depreciation:			
Balance at beginning of year	—	134	134
Depreciation	—	4	4
Balance at end of year	—	138	138
	₱1,428	₱68	₱1,496

	2020		
	Land	Buildings and Improvements	Total
	(Amounts in millions)		
Cost:			
Balance at beginning of year	₱1,427	₱206	₱1,633
Disposal	—	(2)	(2)
Reclassification and others	—	2	2
Balance at end of year	1,427	206	1,633
Less accumulated depreciation:			
Balance at beginning of year	—	131	131
Depreciation	—	4	4
Reclassification and others	—	(1)	(1)
Balance at end of year	—	134	134
	₱1,427	₱72	₱1,499

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, 2021 and 2020 are as follows (amounts in millions):

Land	₱4,653
Buildings and improvements	126

Land pertains primarily to properties where the *Rockwell JV* buildings and “Strip” mall are located. and other non-regulated asset base properties.

The fair values of investment properties were determined by independent, professionally qualified appraisers. The fair value represents the price that would be received to sell an investment property in an orderly transaction between market participants at the measurement date.

The fair value disclosures of the investment properties are categorized as Level 3 as there is no active market for identical or similar properties. The inputs include price per square meter ranging from ₱100 to ₱164,000. There have been no changes in the valuation techniques used.

In conducting the appraisal, the independent professional appraisers used one (1) of the following approaches:

a. Market Data or Comparative Approach

Under this approach, the value of the property is based on sales and listings of comparable property registered within the vicinity. This approach requires the establishment of a comparable property by reducing comparative sales and listings to a common denominator with the subject property. This is done by adjusting the differences between the subject property and those actual sales and listings regarded as comparables. The properties used are either situated within the immediate vicinity or at different floor levels of the same building, whichever is most appropriate to the property being valued. Comparison was premised on the following: location, size and physical attributes, selling terms, facilities offered and time element.

b. Depreciated Replacement Cost Approach

This method of valuation considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets, with allowance for accrued depreciation based on physical wear and tear and obsolescence.

10. Intangible Assets

The movements of intangible assets are as follows:

2021						
				Land and Leasehold Rights	Customer Contracts	
	Note	Software	Franchise			Total
(Amounts in millions)						
Cost:						
Balance at beginning of year		₱5,969	₱49	₱932	₱—	₱6,950
Additions		865	—	75	—	940
Effect of consolidation of GBPC	3	6	—	—	13,827	13,833
Disposals/retirements		(5)	—	(31)	—	(36)
Reclassification	7	38	14	(406)	375	21
Balance at end of year		6,873	63	570	14,202	21,708
Less accumulated amortization:						
Balance at beginning of year		4,343	—	374	—	4,717
Amortization		719	—	37	893	1,649
Disposals/retirements		(5)	—	(31)	—	(36)
Reclassification		(6)	—	(3)	—	(9)
Balance at end of year		5,051	—	377	893	6,321
		₱1,822	₱63	₱568	₱12,934	₱15,387
2020						
					Land and Leasehold Rights	
	Note	Software	Franchise			Total
(Amounts in millions)						
Cost:						
Balance at beginning of year		₱5,391	₱49		₱537	₱5,977
Additions		449	—		447	896
Retirement		—	—		(52)	(52)
Reclassification	7	129	—		—	129
Balance at end of year		5,969	49		932	6,950
Less accumulated amortization:						
Balance at beginning of year		3,886	—		327	4,213
Amortization		443	—		43	486
Reclassification		14	—		4	18
Balance at end of year		4,343	—		374	4,717
		₱1,626	₱49		₱558	₱2,233

11. Financial and Other Noncurrent Assets

This account consists of:

	<i>Note</i>	2021	2020
		<i>(Amounts in millions)</i>	
Financial assets:			
Debt securities at amortized cost	<i>15 and 27</i>	₱24,340	₱24,112
Financial assets at <i>FVOCI</i>	<i>27</i>	8,467	8,941
Restricted cash	<i>27</i>	4,698	4,734
Advance payments to a supplier	<i>27 and 30</i>	523	694
Nonfinancial assets:			
Under-recoveries of pass-through charges - net	<i>2 and 24</i>	10,597	7,279
Deferred input <i>VAT</i>		1,585	1,475
Rental deposits		643	375
Finance lease		565	779
Receivable from the <i>BIR</i>		181	181
Goodwill		35	35
Others		1,491	1,908
		₱53,125	₱50,513

Debt Securities at Amortized Cost

The details of debt securities at amortized cost are as follows:

	2021			2020		
	Current Portion (see Note 15)	Noncurrent Portion	Total	Current Portion (see Note 15)	Noncurrent Portion	Total
	<i>(Amounts in millions)</i>					
Government securities	₱11,873	₱21,136	₱33,009	₱4,456	₱16,466	₱20,922
Private debt securities	5,248	3,204	8,452	3,563	7,646	11,209
	₱17,121	₱24,340	₱41,461	₱8,019	₱24,112	₱32,131

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

Financial Assets at FVOCI

The details of financial assets at *FVOCI* are as follows:

	2021	2020
	<i>(Amounts in millions)</i>	
Investments in debt securities:		
Corporate bonds and other investments	₱6,569	₱7,626
Government securities	3	—
Investments in shares of stock and club shares	1,895	1,315
	₱8,467	₱8,941

Interest income from debt and equity securities amounted to ₱1,316 million, ₱1,580 million and ₱1,867 million for the years ended December 31, 2021, 2020 and 2019, respectively.

The rollforward of unrealized fair value gains on quoted *FVOCI* financial assets, net of tax, included in the consolidated statements of financial position follows:

	2021	2020
	<i>(Amounts in millions)</i>	
Balance at beginning of year	₱324	₱227
Unrealized fair value gains (losses) on fair value changes on:		
Debt securities	139	100
Equity securities	39	(3)
Balance at end of year	₱502	₱324

Deferred Input VAT

The amount includes portion of input *VAT* incurred and paid in connection with purchase of capital assets in excess of ₱1 million per month. As provided for under *RA* No. 9337 (“*EVAT Law*”), said portion of input *VAT* shall be deferred and credited evenly over the estimated useful lives of the related capital assets or 60 months, whichever is shorter, against the output *VAT* due. Under the Tax Reform for Acceleration and Inclusion (“*TRAIN*”) Law that was signed by President Duterte on December 19, 2017, input *VAT* on capital goods purchased after December 31, 2021 shall be fully recognized outright and may be claimed as input tax credits against output tax. The deferred input *VAT* as of December 31, 2021 will continue to be amortized.

Net Under-Recoveries of Pass-through Charges

This account represents generation, transmission and other pass-through costs incurred by *MERALCO* and *Clark Electric* as *DUs* determined based on *ERC*-approved recovery mechanism, which shall be billed to customers, upon confirmation by the *ERC*. The balance also includes other net under-recoveries of generation, transmission and other pass-through charges of current and prior years, which are the subject of various applications for recovery and approval by the *ERC*. The amount of net under-recoveries of pass-through charges that will be collected within 12 months amounted to ₱1,453 million and ₱2,753 million as at December 31, 2021 and 2020, respectively. This is shown as part of “Trade and other receivables” account in the consolidated statement of financial position.

See *Note 13 - Trade and Other Receivables*.

Allowance for *ECL* on net under-recoveries of pass-through charges amounted to ₱3,078 million and ₱1,652 million as at December 31, 2021 and 2020, respectively.

Finance lease

Spectrum entered into bilateral *PSAs* to lease out solar power generation systems to its customers under a finance lease arrangement for a period of 25 years.

Spectrum recognized finance lease receivables equivalent to its net investments under the lease. Net investment in the lease is the fair value of the asset and the present value of the minimum lease payments, whichever is lower. The average implicit interest rate of the lease arrangements ranges from 7.07% to 12.52% per annum at the inception of the lease.

Minimum lease payment pertains to the price of estimated energy output that the asset can produce and deliver to the lessee. The difference of actual and minimum lease payments from finance lease arrangements is recognized under “Other income (expense)” account in the consolidated statement of income.

The lease payments made by the lessees consist of interest and principal determined using the effective interest rate method. The lease receivable is reduced by the principal received.

12. Cash and Cash Equivalents

This account consists of:

	2021	2020
	<i>(Amounts in millions)</i>	
Cash on hand and in banks	₱20,888	₱19,146
Cash equivalents	34,119	31,766
	₱55,007	₱50,912

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

Interest income on cash in banks and cash equivalents amounted to ₱515 million, ₱595 million and ₱1,283 million for the years ended December 31, 2021, 2020 and 2019, respectively.

13. Trade and Other Receivables

This account consists of:

	Note	2021	2020
		<i>(Amounts in millions)</i>	
Trade:			
Electricity distributed	23 and 27	₱35,264	₱52,631
Energy generated	27	5,087	—
Service contracts		3,814	4,095
Unbilled receivables	24	2,647	1,499
Nontrade	23 and 27	4,125	4,200
		50,937	62,425
Less allowance for expected credit losses		5,924	4,305
		₱45,013	₱58,120

Movements in allowance for expected credit losses for trade and other receivables are as follows:

	2021				
	Balance at Beginning of Year	Provisions	Write-offs	Effect of Consolidation of GBPC	Balance at End of Year
	<i>(Amounts in millions)</i>				
Trade:					
Electricity distributed	₱3,492	₱259	₱—	₱—	₱3,751
Energy generated	—	52	(34)	1,102	1,120
Other trade receivables	783	2	—	—	785
Nontrade receivables	30	238	—	—	268
	₱4,305	₱551	(₱34)	₱1,102	₱5,924

2020			
	Balance at Beginning of Year	Provisions	Write-offs
	Balance at End of Year		
	(Amounts in millions)		
Trade – electricity distributed	₱1,761	₱1,744	(₱13)
Other trade receivables	622	161	–
Nontrade receivables	2	28	–
	₱2,385	₱1,933	(₱13)
			₱4,305

2021					2020				
	Trade – Electricity distributed	Trade – Energy generated	Other Trade Receivables	Nontrade Receivables	Total	Trade – Electricity distributed	Other Trade Receivables	Nontrade Receivables	Total
	(Amounts in millions)								
Individually impaired	₱1,086	₱–	₱785	₱268	₱2,139	₱1,275	₱783	₱30	₱2,088
Collectively impaired	2,665	1,120	–	–	3,785	2,217	–	–	2,217
	₱3,751	₱1,120	₱785	₱268	₱5,924	₱3,492	₱783	₱30	₱4,305

Trade Receivables – Electricity Distributed

Trade receivables of *MERALCO* and *Clark Electric* include charges for pass-through costs. Pass-through costs of *MERALCO* consist of generation, transmission and *SL* charges, which represent 58%, 9% and 4%, respectively, of the total billed amount in 2021 and 55%, 10% and 4%, respectively, of the total billed amount in 2020. Billed receivables are due 10 days after bill date. *MERALCO*'s and *Clark Electric*'s trade receivables are noninterest-bearing and are substantially secured by bill deposits. Electricity consumed after the meter reading cut-off dates, which will be billed to customers in the immediately following billing period, is included as part of trade receivables.

See Note 27 – *Financial Assets and Financial Liabilities*.

Trade Receivables – Energy Generated

Trade receivables – Energy generated represent non-interest-bearing outstanding billings for energy fees and pass-through fuel costs arising from the delivery of electricity to customers and energy sales to the *WESM* by power generation subsidiaries. Normal credit term is 15 to 30 days from the date of receipt of billing.

Trade Receivables – Service Contracts

Service contracts receivable arise from contracts entered into by the *MIESCOR Group*, *e-MVI Group*, *CIS Group*, *MRail*, *MServ*, *Finserve*, *Comstech*, *eSakay* and *Spectrum* for construction, engineering, consulting and related manpower, light rail maintenance, telecommunications and data transport, e-transactions and bills collection, tellering and e-business development, energy systems management and harnessing renewable energy to third parties.

Receivables from service contracts and others are noninterest-bearing and are generally on 30- to 90-day terms.

See Note 11 – Financial and Other Noncurrent Assets.

14. Inventories

	2021	2020
	<i>(Amounts in millions)</i>	
Materials and supplies:		
At cost	₱10,057	₱5,696
At net realizable value (“NRV”)	9,817	5,484
Materials and supplies at NRV	₱9,817	₱5,484

The net realizable value of inventories is net of allowance for inventory obsolescence of ₱206 million as at December 31, 2021 and 2020. No item of inventory has been written off for the years ended December 31, 2021, 2020 and 2019.

See Note 25 – Expenses and Income.

15. Financial and Other Current Assets

	Note	2021	2020
		<i>(Amounts in millions)</i>	
Financial assets:			
Debt securities at amortized cost	11 and 27	₱17,121	₱8,019
Short-term investments		444	–
Current portion of advance payments to a supplier	27	182	171
Nonfinancial assets:			
Prepayments		4,101	2,431
Input VAT		2,570	1,179
Prepaid tax		1,511	1,315
Others		1,253	751
		₱27,182	₱13,866

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

16. Equity

<i>Common Stock</i>		
	2021	2020
	<i>(In millions, except par value)</i>	
Authorized number of shares- ₱10 par value per share	1,250	1,250
Issued and outstanding - number of shares	1,127	1,127

There was no movement in the number of shares of *MERALCO*'s common stock.

The common shares of *MERALCO* were listed on the *PSE* on January 8, 1992. There are 41,689 and 41,943 shareholders of *MERALCO*'s common shares as at December 31, 2021 and 2020, respectively.

Unappropriated Retained Earnings

The unappropriated retained earnings include accumulated earnings of subsidiaries, associates and joint ventures, the balance of *MERALCO*'s revaluation increment in utility plant, generation plant and others and investment properties carried at deemed cost, deferred tax assets and unrealized foreign exchange gains totaling to ₱57,591 million and ₱57,537 million as at December 31, 2021 and 2020, respectively. These amounts are restricted for dividend declaration purposes as of the close of the respective reporting.

The following are the cash dividends declared on common shares for the years ended December 31, 2021, 2020 and 2019:

Declaration Date	Record Date	Payment Date	Dividend Per Share	Amount
<i>(In millions)</i>				
July 26, 2021	August 23, 2021	September 15, 2021	₱5.06	₱5,700
March 1, 2021	March 30, 2021	April 26, 2021	7.82	8,818
July 27, 2020	August 20, 2020	September 15, 2020	4.70	5,294
February 24, 2020	March 20, 2020	April 15, 2020	10.40	11,716
July 29, 2019	August 20, 2019	September 20, 2019	5.46	6,159
February 26, 2019	March 22, 2019	April 15, 2019	10.59	11,941

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

Treasury Shares

Treasury shares represent 172,412 subscribed shares and the related rights of employees who have opted to withdraw from the *ESPP* in accordance with the provisions of the *ESPP* and which *MERALCO* purchased.

17. Interest-bearing Long-term Financial Liabilities

This account consists of the following:

	<i>Note</i>	2021	2020
		<i>(Amounts in millions)</i>	
Long-term portion of interest-bearing financial liabilities - long-term debt		₱52,720	₱14,809
Current portion of interest-bearing financial liabilities:			
Long-term debt		7,644	490
Redeemable preferred stock		1,470	1,472
		9,114	1,962
		₱61,834	₱16,771

All of the redeemable preferred shares have been called as at June 30, 2011, consistent with the terms of the Preferred Shares Subscription Agreement. Accrued interests amounted to ₱249 million as at December 31, 2021 and 2020. Interest is no longer accrued from the time such preferred shares were called for redemption.

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

	<i>Note</i>	2021	2020
		<i>(Amounts in millions)</i>	
<i>MERALCO</i>			
12-year Puttable Bonds		₱7,000	₱7,000
₱7.2 Billion Note		4,680	5,040
<i>MGen Group</i>			
₱18.0 Billion Term Loan		17,910	—
₱11.0 Billion Term Loan		7,829	—
₱16.0 Billion Term Loan		5,510	—
₱14.0 Billion Term Loan		4,200	—
₱4.5 Billion Term Loan		4,150	—
₱7.0 Billion Term Loan		3,869	—
₱2.8 Billion Term Loan		2,841	2,578
₱1.5 Billion Term Loan		614	—
<i>MServe</i>			
₱600 Million Term Loan		480	510
₱350 Million Note		140	210
<i>MIESCOR</i>			
₱375 Million Term Loan		383	—
₱130 Million Term Loan		—	12
<i>eSakay</i>			
₱27 Million Term Loan		23	27
Total long-term debt		59,629	15,377
Less unamortized debt issuance costs		357	78
		59,272	15,299
<i>Redeemable Preferred Stock</i>		1,470	1,472
Fair value adjustment in relation to the purchase of GBPC	3	1,092	—
		61,834	16,771
Less current portion		9,114	1,962
Long-term portion of interest-bearing financial liabilities		₱52,720	₱14,809

All of the interest-bearing long-term financial liabilities as at December 31, 2021 and 2020 are denominated in Philippine peso. The scheduled maturities of the outstanding long-term debt at nominal values as at December 31, 2021 are as follows:

	Amount (In millions)
2023	₱7,729
2024	3,844
2025	7,468
2026	12,239
2027	3,155
Beyond 2027	25,194
	<u>₱59,629</u>

MERALCO

12-year Puttable Bonds

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

₱7.2 Billion Note

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

MGen Group

₱18 Billion Term Loan

On May 31, 2021, *GBPC* obtained a ₱18,000 million, 15-year term loan with interest repricing on the 5th year and the principal amount is payable semi-annually until May 2036.

₱11.0 Billion Term Loan

On March 26, 2015, *PEDC* entered into an Amended and Restated Omnibus Agreement (“*ARO*”) with various lenders for an additional aggregate principal amount of up to ₱11,000 million (the Phase II Facility) to partially finance its 1 x 150 MW expansion project. The *ARO* includes a Project Loan Facility Agreement, a Project Accounts Agreement, a Mortgage Agreement, a Pledge Agreement and an Assignment Agreement. The loan facility and its related interest are payable semi-annually within 12 years from initial advance with a balloon payment upon final maturity.

₱16.0 Billion Term Loan

On June 18, 2009, *CEDC* entered into an Omnibus Agreement with various lenders in the aggregate principal amount of up to ₱16,000 million to partially finance the construction of the power plant. The Omnibus Agreement includes Project Loan Facility Agreement, Project Accounts Agreement, Mortgage Agreement, Pledge Agreement and Assignment Agreement. The principal amount and its

related interest are payable semi-annually within 10 years from June 30, 2011, with a balloon payment upon final maturity.

On June 30, 2021, *CEDC* entered into a loan restructuring agreement with a local bank for a principal amount of ₱5,800 million which was used for the final payment of the ₱16,000 million term loan facility. The principal amount is payable over 10 years until June 2031.

₱14.0 Billion Term Loan

On February 26, 2010, *PEDC* entered into an Omnibus Agreement with various lenders in the aggregate principal amount of up to ₱14,000 million (the Phase I Facility) to partially finance the on-going construction of its power plant. The Omnibus agreement includes a Project Loan Facility Agreement, a Project Accounts Agreement, a Mortgage Agreement, a Pledge Agreement and an Assignment Agreement. The principal amount and related interest are payable semi-annually within 12 years from initial advance, with a balloon payment upon final maturity.

₱4.5 Billion Term Loan

On October 5, 2017, *GBPC* entered into a bilateral term loan with various banks in the aggregate principal amount of ₱4,500 million to finance its acquisition of a 50% less one share in *ATEC*. The loan is a fixed rate facility with a 12-year term and quarterly principal repayment commencing three (3) years from the drawdown date.

₱7.0 Billion Term Loan

On March 7, 2013, *TPC* entered into an Omnibus Agreement with various lenders in the aggregate principal amount of up to ₱7,000 million to partially finance the construction of its expansion project. The Omnibus Agreement includes a Project Loan Facility Agreement, a Project Accounts Agreement, a Mortgage Agreement, and an Assignment Agreement. The principal amount and related interest are payable within 12 years from initial advance, with a balloon payment upon final maturity.

₱2.8 Billion Term Loan

First Bulacan obtained a total of ₱2,881 million, 30-year term loan with interest repricing on the 21st year and the principal amount payable until November 2034.

₱1.5 Billion Term Loan

In March 2016, *CEDC* entered into term loan agreements with various lenders for a total credit facility of ₱1,500 million for *CEDC*'s general financing and corporate requirements. The principal and related interest are payable semi-annually until December 2025.

MServ

₱600 Million Term Loan

MServ obtained a ₱600 million, 10-year fixed rate term loan. The principal amount is payable annually until January 2027 and the related interest is payable semi-annually.

₱350 Million Note

In July 2018, *MServ* obtained a ₱350 million fixed rate note facility agreement with principal amount payable semi-annually until July 2023.

MIESCOR

₱375 Million Term Loan

On June 17, 2021, *MIESCOR* obtained a ₱375 million, fixed rate term loan, with principal amount payable semi-annually until June 2028.

₱130 Million Term Loan Facility

The ₱130 million fixed rate term loan was fully paid in June 2021.

eSakay

₱27 Million Term Loan Facility

On November 8, 2019, *eSakay* obtained a ₱27 million, seven (7)-year fixed rate term loan, with principal amount payable until November 2026.

The annual interest rates for the interest-bearing financial liabilities range from 2.75% to 8.26% and 4.50% to 6.22% as at December 31, 2021 and 2020, respectively.

Debt Covenants

MERALCO's loan agreements require compliance with debt service coverage of 1.1 times calculated on specific measurement dates. The agreements also contain restrictions with respect to the creation of liens or encumbrances on assets, issuance of guarantees, mergers or consolidations, disposition of a significant portion of its assets and related party transactions.

CEDC, *PEDC* and *TPC* are required to meet certain financial ratios. *CEDC*, *PEDC* and *TPC* shall maintain a debt-to-equity ratio not exceeding 70:30 at all times until full payment of the obligation. Also, *CEDC*, *PEDC* and *TPC* shall ensure that the core equity must be at least 30% of the total project cost at project completion date and shall at all times be equivalent to at least 30% of the sum of total outstanding loan under the facility and the core equity. For *CEDC* and *PEDC*, core equity includes the equity, paid in equity of third parties provided that if the same is in the form of preferred redeemable shares, redemption must be at the option of the borrower and at terms no more favorable than subordinated loans, outstanding subordinated loans and outstanding shareholder advances of the sponsor to the borrower.

GBPC is required to maintain a debt-to-equity ratio not greater than 75:25 until full payment of the obligation. Also, *GBPC* is prohibited from entering into merger or consolidation, unless *GBPC* is the surviving entity.

As at December 31, 2021 and 2020, the *MERALCO Group* is in compliance with all of the covenants of the loan agreements.

Interest expense on interest-bearing long-term financial liabilities amounted to to ₱2,265 million, ₱473 million and ₱606 million for the years ended December 31, 2021, 2020 and 2019, respectively.

Unamortized Debt Issuance Costs

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

	<i>Note</i>	2021	2020
		<i>(Amounts in millions)</i>	
Balance at beginning of year		₱78	₱80
Additions		205	26
Effect of consolidation of <i>GBPC</i>	3	125	–
Amortization charged to interest and other financial charges	24	(51)	(28)
Balance at end of year		₱357	₱78

Redeemable Preferred Stock

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

	2021	2020
Balance at beginning of year	147,158,808	147,880,772
Redemptions	(143,527)	(721,964)
Balance at end of year	147,015,281	147,158,808

The original “Terms and Conditions” of *MERALCO*’s Special Stock Subscription Agreement, which required an applicant to subscribe to preferred stock with 10% dividend to cover the cost of extension of, or new, distribution facilities, have been amended by the *Magna Carta* and the *DSOAR*, effective June 17, 2004 and January 18, 2006, respectively. The amendment sets forth the guidelines for the issuance of preferred stock, only if such instrument is available.

18. Customers’ Deposits

This account consists of:

	2021			2020		
	Current Portion <i>(see Note 22)</i>	Noncurrent Portion	Total	Current Portion <i>(see Note 22)</i>	Noncurrent Portion	Total
	<i>(Amounts in millions)</i>					
Bill deposits	₱2,460	₱30,901	₱33,361	₱2,261	₱29,844	₱32,105
Meter deposits	315	–	315	314	–	314
	₱2,775	₱30,901	₱33,676	₱2,575	₱29,844	₱32,419

Bill Deposits

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

As provided in the *Magna Carta* and *DSOAR*, all captive customers of the DU are required to pay a deposit, equivalent to the estimated monthly bill calculated based on applied load. Such deposit shall be updated annually based on the historical 12-month average bill. A captive customer who has paid his electric bills on or before due date for three (3) consecutive years may apply for the full refund of the bill deposit, together with the accrued interests, prior to the termination of his service; otherwise

bill deposits and accrued interests shall be refunded within one (1) month from the termination of service, provided all bills have been paid.

Under the amended *DSOAR*, which became effective on April 1, 2010, interest on bill deposits for both residential and non-residential customers shall be computed using the equivalent peso savings account interest rate of the Land Bank of the Philippines ("*Land Bank*") or other government banks, on the first working day of the year, subject to the confirmation of the *ERC*.

As provided for under *ERC* Resolution No. 1, Series of 2011, *A Resolution Adopting the Revised Rules for the Issuance of Licenses to Retail Electricity Suppliers*, a local *RES* may require security deposits from its contestable customers, which shall earn interest equivalent to the actual interest earnings of the total amount of deposits received from the customers.

On May 10, 2019, *MERALCO* received a copy of the Petition dated April 27, 2019 filed by various partylist representatives which questioned the imposition of bill deposits by the *DU* for its captive customers.

The Petition prayed that the bill deposits provisions in the Magna Carta be declared as illegal and void and that *MERALCO* and other *DUs* be permanently prohibited from imposing and collecting bill deposit from the captive market. The Petition further prayed that the bill deposit be refunded and/or that combining the bill deposits with the general funds of *MERALCO* be disallowed. Lastly, the Petition prayed for the conduct of an audit of the bill deposits collected by *MERALCO*.

MERALCO filed its Comment to the Petition on October 18, 2019. On October 28, 2019, the *OSG* filed a Manifestation and Motion to drop *COA* as a respondent in the case. In a Resolution dated February 4, 2020, the *SC* required *COA* to file their comments on the Petition. On July 27, 2020, *MERALCO* received a copy of the Comment filed by the *COA*, through the *OSG*.

On September 8, 2020, the *SC* issued a Notice of Resolution noting the Comment filed by the *OSG* and requiring petitioners to file a consolidated reply within ten (10) days from notice. On November 24, 2020, *MERALCO* received the petitioners' Consolidated Reply to the Separate Comment/Opposition of the *ERC*, *MERALCO*, and *COA* dated November 10, 2020.

The following are the movements of the bill deposits account:

	<i>Note</i>	2021	2020
		<i>(Amounts in millions)</i>	
Balance at beginning of year		₱32,105	₱30,804
Additions		3,002	3,347
Refunds		(1,746)	(2,046)
Balance at end of year		33,361	32,105
Less portion maturing within one year	22	2,460	2,261
Noncurrent portion of bill deposits and related interests		₱30,901	₱29,844

Interest expense on bill deposits amounted to ₱21 million, ₱35 million and ₱34 million for the years ended December 31, 2021, 2020 and 2019, respectively.

Meter Deposits

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

The *Magna Carta* for residential customers (effective July 19, 2004) and *DSOAR* (effective February 2, 2006) for non-residential customers exempt all customer groups from payment of meter deposits beginning July 2004 for residential customers and February 2006 for non-residential customers.

MERALCO implemented refund of said deposits to its customers based on the *ERC* Resolution No. 8, Series of 2008, otherwise known as “Rules to Govern the Refund of Meter Deposits to Residential and Non-Residential Customers” (“*Rules*”) which required the refund of meter deposits from the effectivity of said *Rules* on July 5, 2008. Under the *Rules*, a customer has the option of receiving his refund in cash, check, 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.

Further, in July 2016, *MERALCO* deposited unclaimed meter deposits in a single savings account. In May 2017, *MERALCO* submitted the required Audit Report to the *ERC* in compliance with the *ERC*’s directive to all *DUs* pursuant to *ERC* Resolution No. 13, Series of 2016, entitled, “Guidelines to Govern the Audit Process of Meter Deposit Refund to Residential and Non-Residential Customers,” and *ERC* Resolution No. 03, Series of 2017 which provided the extended deadline for *DUs* submission of the Audit Report on *MDR*.

In April 2018, *MERALCO* submitted to the *ERC* the total amount of unclaimed *MDR* that will be subject of regulatory directive. As at February 28, 2022, *MERALCO* is waiting for directive from the *ERC* on the next steps with respect to the unclaimed meter deposits.

19. Provisions

Provisions consist of amounts recognized related to certain proceedings and claims against *MERALCO Group*, among others. The movements follow:

	Note	2021	2020
		<i>(Amounts in millions)</i>	
Balance at beginning of year		₱38,992	₱34,191
Provisions for the year - net		4,432	5,853
Settlements		(6,388)	(1,052)
Balance at end of year		37,036	38,992
Less current portion	22	23,482	21,927
Noncurrent portion of provisions		₱13,554	₱17,065

The balance of provisions substantially represents the amounts of claims related to a commercial contract which remains unresolved and local taxes being contested as discussed in *Note 29 – Contingencies and Legal Proceedings*, consistent with the limited disclosure as allowed in *PFRS*.

20. Customers' Refund

This account represents the balance of the refund related to the *SC* decision promulgated on April 30, 2003, which is continuously being refunded based on documents presented by claimants.

In June 2003, the *ERC*, in the implementation of the *SC* decision, ordered *MERALCO* to refund to its customers an equivalent ₱0.167 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. In an Order dated December 19, 2018, the *ERC* authorized *MERALCO* to continue the implementation of the refund to eligible customers until June 30, 2019. The *ERC* also required *MERALCO* to submit information and documents related to the customers' refund, including a proposed scheme on how the unclaimed refund will be utilized for purposes of reducing the distribution rates of customers. On February 18, 2019, *MERALCO* filed a Partial Compliance with Manifestation and Motion. On March 8, 2019, *MERALCO* filed a Compliance with Manifestation and Motion. On July 12, 2019, *MERALCO* filed its Compliance with Manifestation informing the *ERC* that on July 1, 2019, *MERALCO* deposited all the unclaimed amounts of the *SC* Refund as of June 30, 2019 in a separate interest-bearing account. *MERALCO* further manifested in said Compliance that it shall continue with the processing of the refund claims of eligible customers and should the refund claims of these customers be evaluated to be valid, *MERALCO* shall, for the benefit of the customers, withdraw the refund amount from the bank account, release the same to the concerned customers and accordingly inform the *ERC* of such fact. On September 10, 2019, *MERALCO* filed an Urgent Manifestation and Motion with respect to the Order dated December 19, 2018 of the *ERC*. In its letter dated July 23, 2020, *MERALCO* informed the *ERC* of the updated balance of the *SC* Refund. The *ERC* has yet to rule on the Urgent Manifestation and Motion by *MERALCO*. As at February 28, 2022, *MERALCO* continues to process the refund claims of eligible customers.

In 2021, the *ERC* through its appointed consultant conducted an audit and verification of *MERALCO*'s refunds, which included *MERALCO*'s *SC* refund. As at February 28, 2022, the audit has been completed and *MERALCO* is awaiting further action of the *ERC* on the matter.

See Note 2 – Rate Regulations.

21. Notes Payable

Notes payable represent unsecured interest-bearing working capital loans obtained from local banks. Annual interest rates were up to 4.80% and 5.40% as at December 31, 2021 and 2020, respectively.

Interest expense on notes payable amounted to ₱1,238 million, ₱994 million and ₱896 million for the years ended December 31, 2021, 2020 and 2019, respectively.

22. Trade Payables and Other Current Liabilities

This account consists of the following:

	<i>Note</i>	2021	2020
		<i>(Amounts in millions)</i>	
Trade accounts payable	<i>23 and 24</i>	₱54,489	₱47,805
Provisions	<i>2, 19 and 29</i>	23,482	21,927
Taxes		15,071	13,303
Accrued expenses:			
Employee benefits		2,095	2,103
Interest	<i>17</i>	264	560
Others		4,840	2,436
Current portions of:			
Bill deposits and related interests	<i>18</i>	2,460	2,261
Deferred income		961	1,102
Meter deposits and related interests	<i>18</i>	315	314
Refundable service extension costs		1,660	5,555
Dividends payable on:			
Common stock	<i>16</i>	2,021	1,251
Redeemable preferred stock	<i>17</i>	249	249
Payable to customers		6,731	5,900
Universal charges payable	<i>32</i>	2,373	2,769
<i>FiT-All</i> payable	<i>32</i>	957	689
Regulatory fees payable		263	227
Other current liabilities		825	2,810
		₱119,056	₱111,261

Trade Accounts Payable

Trade accounts payable mainly represent obligations to power generating companies, National Grid Corporation of the Philippines (“*NGCP*”) and *IEMOP* for cost of power purchased and transmission services. In addition, this account includes liabilities due to local and foreign suppliers for purchases of goods and services, consisting of transformers, poles, coal, materials and supplies, and contracted services, among others.

Trade payables are non-interest-bearing and are generally settled within 15 to 30 days from the receipt of invoice. Other payables are non-interest-bearing and due within one (1) year from incurrence.

See *Note 23 – Related Party Transactions*, *Note 24 – Revenue and Purchased Power* and *Note 30 – Significant Contracts and Commitments*.

Refundable Service Extension Costs

Article 14 of the *Magna Carta*, specifically, “Right to Extension of Lines and Facilities”, requires a customer requesting for an extension of lines and facilities beyond 30-meter service distance from the nearest voltage facilities of the *DU* to advance the cost of the project. The amended *DSOAR*, which became effective April 1, 2010, requires such advances from customers to be refunded at the rate of 75% of the distribution revenue generated from the extension lines and facilities until such amounts are fully refunded. The related asset shall form part of the rate base only as the refund is paid out. Customer advances are non-interest-bearing.

As at December 31, 2021 and 2020, the noncurrent portion of refundable service extension costs of ₱5,334 million and ₱6,632 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.

Payable to Customers

Payable to customers represents amounts credited to customers’ bills or paid by customers in advance and which are being applied to their current consumption.

Taxes

Taxes represent pass-through *VAT*, output *VAT*, withholding taxes and energy taxes payable. Pass-through *VAT* pertains to *VAT* on generation and transmission costs billed to the *DU*, which are in turn billed to the customers. Remittance of such pass-through *VAT* to the generation companies is based on collection of billed receivables from the customers.

23. Related Party Transactions

The *MERALCO Group* has approval process and limits on the amount and extent of related party transactions.

The following summarizes the total amount of transactions, which have been provided and/or contracted by the *MERALCO Group* to/with related parties for the relevant period. The outstanding balances are unsecured, non-interest-bearing and settled in cash.

Pole Attachment Contract with PLDT, Inc. ("PLDT")

MERALCO has a pole attachment contract with *PLDT* similar to pole attachment contracts of *MERALCO* with third parties/ telecommunication companies. Under the pole attachment contract, *PLDT* shall use the contracted cable positions exclusively for its telecommunication cable network facilities.

Sale of Electricity under Various Service Contracts

MERALCO sells electricity to its subsidiaries, associates, joint ventures and related party shareholder groups with operations within the franchise area, namely, *PLDT*, *Metro Pacific* and *JG Summit* and their respective subsidiaries and affiliates. The rates charged to related parties are the same *ERC*-mandated rates applicable to all customers within the franchise area. Also, rate charges of *RES* for generation charge uses the same rate model for other customers.

Purchase of Telecommunication Services from PLDT and Subsidiaries

The *MERALCO Group*'s telecommunications carriers include *PLDT* for its wireline and Smart Communications, Inc. and Digitel Mobile Philippines, Inc., for its fixed and wireless services. Such services are covered by standard service contracts between the telecommunications carriers and each legal entity within the *MERALCO Group*.

Purchase of Goods and Services

In the ordinary course of business, the *MERALCO Group* purchases goods and services from its affiliates and sells power and renders services to such affiliates.

PSA with SBPL

As discussed in Note 30, *MERALCO* has along-term *PSA* with *SBPL*.

Following is a summary of related party transactions in 2021, 2020 and 2019 and the outstanding balances as at December 31, 2021 and 2020:

Category	Amount of Transactions			Outstanding Receivable (Liability)		Terms	Conditions
	2021	2020	2019	2021	2020		
(Amounts in millions)							
Sale of electricity:							
<i>JG Summit Group</i>	₱2,704	₱2,542	₱3,473	₱387	₱455	10-day; noninterest-bearing	Unsecured, no impairment
<i>PLDT Group</i>	1,233	1,192	1,411	85	279	10-day; noninterest-bearing	Unsecured, no impairment
<i>Metro Pacific Group</i>	410	415	552	158	72	10-day; noninterest-bearing	Unsecured, no impairment
Purchases of IT services - <i>Indra Philippines</i>	922	1,228	975	(362)	(208)	30-day; noninterest-bearing	Unsecured
Purchases of meters and devices – <i>Aclara Meters</i>	248	157	–	(23)	(23)	30-day; noninterest-bearing	Unsecured
Purchases of medical services - <i>Colinas Verdes Hospital Managers</i>	238	143	122	–	–	30-day; noninterest-bearing	Unsecured
Revenue from pole attachment - <i>PLDT</i>	586	541	329	73	83	Advance payment	Unsecured, no impairment
Purchases of wireline and wireless services - <i>PLDT Group</i>	90	105	95	(11)	(17)	30-day; noninterest-bearing	Unsecured
Purchases of insurance premium - <i>MPioneer</i>	412	449	356	(3)	–	30-day; noninterest-bearing	Unsecured
Donations to One Meralco Foundation	71	76	137	–	–	None	None
Purchases of power:							
<i>SBPL</i>	15,973	12,902	4,950	(746)	(1,311)	30-day; noninterest-bearing	Unsecured
<i>PEDC</i> ¹	372	1,812	1,788	–	(277)	30-day; noninterest-bearing	Unsecured

¹ On March 31, 2021, MERALCO, through MGen, acquired 86% combined equity in GBPC from MPIC and JG Summit, increasing MGen's equity to 100%.

Advances to FPM Power

FPM Power has a non-interest-bearing loan from *MPG Asia* amounting to US\$110 million (₱5,776 million) as at December 31, 2021 and 2020 which is due and demandable. The allowance for

impairment loss related to this non-interest-bearing loan amounted to ₱5,776 million. The loan remains outstanding as at December 31, 2021 and 2020.

See *Note 15 – Financial and other Current Assets* and *Note 8 – Investments in Associates and Interests in Joint Ventures*.

Transaction with MERALCO Retirement Benefits Fund (“Retirement Fund”)

MERALCO’s Retirement Fund holds 6,000 common shares of *RP Energy* at par value of ₱100 per share, with total carrying amount of ₱600,000 or an equivalent 3% equity interest in *RP Energy*. The fair value of *RP Energy*’s common shares cannot be reliably measured as these are not traded in the financial market. As at December 31, 2021 and 2020, the fair value of the total assets being managed by the Fund amounted to ₱34.6 billion and ₱33.9 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:

	2021	2020	2019
	<i>(Amounts in millions)</i>		
Short-term employee benefits	₱549	₱559	₱548
Long-term employee incentives and retirement benefits	280	137	183
Total compensation to key management personnel	₱829	₱696	₱731

All directors are entitled to a reasonable per diem for their attendance in meetings of the *BOD* and Board Committees plus an additional compensation, provided that the total value of such additional compensation, in whatever form so given, shall not exceed one (1) percent of the income before income tax of *MERALCO* during the preceding year.

Each of the directors is entitled to a per diem of ₱140,000 for every *BOD* meeting attended. Each member of the Audit, Risk Management, Remuneration and Leadership Development, Finance, Related Party Transactions and Nomination and Governance Committees is entitled to a fee of ₱24,000 for every committee meeting attended. Also, the members of the *BOD* are entitled to a stock grant based on a pre-approved number of shares for each director which was implemented beginning May 2013 as approved by the stockholders. The directors have the option to receive the number of shares granted or the equivalent cash value.

As at December 31, 2021, there are no agreements between the *MERALCO Group* and any of its key management personnel providing for benefits upon termination of employment or retirement, except with respect to benefits provided under (i) a defined benefit retirement plan, (ii) a program which aims to address capability refresh and organizational optimization requirements, and (iii) a contributory provident plan. Post-retirement benefits under the defined benefit retirement plan cover employees hired up to December 31, 2003 only. The provident plan, which is implemented on a voluntary basis, covers employees hired beginning January 1, 2004.

24. Revenues and Purchased Power

Revenues

The *MERALCO Group* disaggregates its revenue information in the same manner as it reports its segment information.

See *Note 6 – Segment Information*.

Contract Assets and Contract Liabilities

The *MERALCO Group*'s contract balances are as follows:

	2021	2020
	<i>(Amounts in millions)</i>	
Contract assets:		
Unbilled receivables	₱2,647	₱1,499
Under-recoveries of pass-through charges - net	10,597	7,279
Contract liabilities:		
Nonrefundable liability related to asset funded by customers	866	841
Over-recoveries from transmission, lifeline subsidy and <i>SL</i> charges	597	333

Income recognized from the non-refundable liability related to assets funded by customers amounted to ₱114 million, ₱94 million and ₱94 million for the years ended December 31, 2021, 2020 and 2019, respectively.

Purchased Power

The details of purchased power are as follows:

	2021	2020	2019
	<i>(Amounts in millions)</i>		
Generation costs	₱190,416	₱167,241	₱205,273
Transmission costs	34,499	37,179	35,759
	₱224,915	₱204,420	₱241,032

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

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

The details of purchased power follow:

	2021	2020	2019
	<i>(Amounts in millions)</i>		
“FGPC” and FGP Corp. (“FGP”)	₱51,164	₱43,659	₱54,781
NGCP	34,539	37,230	35,724
South Premiere Power Corporation (“SPPC”)	25,643	24,166	31,903
IEMOP	21,721	14,523	27,084
QPPL	16,289	13,990	17,032
SBPL	15,973	12,902	4,950
San Miguel Energy Corporation (“SMEC”)	15,535	16,639	19,971
AC Energy Philippines, Inc. (“AC Energy”)	10,790	9,023	–
First NatGas Power Corp. (“FNPC”)	9,309	8,456	12,855
Masinloc Power Partners Co. Ltd. (“MPPCL”)	8,522	8,056	12,998
Sem-Calaca Power Corporation (“Sem-Calaca”)	4,933	3,650	5,172
First Gen Hydro Power Corporation (“FGHPC”)	2,507	723	–
PEDC	2,264	1,812	1,788
Therma Luzon, Inc. (“TLF”)	2,219	7,033	12,178
Southwest Luzon Power Generation Corporation	1,982	34	903
Solar Philippines Tarlac Corporation (“Solar Philippines Tarlac”)	425	338	–
Therma Mobile, Inc. (“TMO”)	–	516	1,928
Millenium Energy, Inc. (“MEP”)	–	307	500
Others	1,100	1,363	1,365
	₱224,915	₱204,420	₱241,132

Generation and transmission costs are net of company use amounting to ₱351 million, ₱321 million and ₱363 million for the years ended December 31, 2021, 2020 and 2019, respectively.

Generation and transmission costs over- or under-recoveries result from the lag in the billing and recovery of generation and transmission costs from consumers. As at December 31, 2021 and 2020, the total transmission costs and SL charge over-recoveries included in “Other noncurrent liabilities” account in the consolidated statements of financial position amounted to ₱532 million and ₱241 million, respectively.

25. Expenses and Income

Salaries, Wages and Employee Benefits

	<i>Note</i>	2021	2020	2019
<i>(Amounts in millions)</i>				
Salaries, wages and related employee benefits		₱13,651	₱10,691	₱12,038
Retirement benefits	26	2,140	1,496	929
Other post-employment benefits	26	101	114	139
		₱15,892	₱12,301	₱13,106

Depreciation and Amortization

	<i>Note</i>	2021	2020	2019
<i>(Amounts in millions)</i>				
Utility plant and others	7	₱10,846	₱8,065	₱8,003
Intangible assets	10	1,649	486	723
Investment properties	9	4	4	4
		₱12,499	₱8,555	₱8,730

Other Expenses

	<i>Note</i>	2021	2020	2019
<i>(Amounts in millions)</i>				
Materials used	14	₱2,792	₱1,712	₱2,520
Rent and utilities		971	732	815
Insurance		459	391	386
Transportation and travel		390	255	366
Advertising		200	222	358
Communication	22	157	148	136
Others		1,343	807	1,318
		₱6,312	₱4,267	₱5,899

26. Long-term Employee Benefits

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

	2021	2020
	<i>(Amounts in millions)</i>	
Retirement benefits liability	₱5,625	₱12,013
Other post-employment benefits	2,091	2,007
Long-term incentives	2,541	1,307
	₱10,257	₱15,327

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)

	2021	2020	2019
	<i>(Amounts in millions)</i>		
Current service costs	₱1,579	₱1,194	₱895
Net interest costs (income)	509	255	(8)
Net retirement benefits expense	₱2,088	₱1,449	₱887

Retirement Benefits Liability

	2021	2020
	<i>(Amounts in millions)</i>	
Defined benefit obligation	₱40,192	₱45,918
Fair value of plan assets	(34,567)	(33,905)
Net retirement benefits liability	₱5,625	₱12,013

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

	2021	2020
	<i>(Amounts in millions)</i>	
Retirement benefits liability at beginning of year	₱12,013	₱5,627
Net retirement benefits expense	2,088	1,449
Amounts recognized in <i>OCI</i>	(8,766)	5,144
Effect of consolidation of <i>GBPC</i>	1,055	—
Contributions by employer	(765)	(207)
Net retirement benefits liability at end of year	₱5,625	₱12,013

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

	2021	2020
	<i>(Amounts in millions)</i>	
Defined benefit obligation at beginning of year	₱45,918	₱40,674
Interest costs	1,735	1,795
Current service costs	1,579	1,194
Benefits paid	(2,603)	(2,477)
Effect of consolidation of <i>GBPC</i>	1,595	—
Actuarial losses (gains) due to:		
Changes in financial assumptions	(8,451)	6,596
Experience adjustments	419	(1,864)
Defined benefit obligation at end of year	₱40,192	₱45,918

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

	2021	2020
	<i>(Amounts in millions)</i>	
Fair value of plan assets at beginning of year	₱33,905	₱35,047
Interest income	1,226	1,540
Contributions by employer	765	207
Return on plan assets, excluding amount included in net interest on the net defined benefit obligation and interest income	734	(412)
Effect of consolidation of <i>GBPC</i>	540	—
Benefits paid	(2,603)	(2,477)
Fair value of plan assets at end of year	₱34,567	₱33,905

The Board of Trustees (“BoT”) of the *Retirement Fund* is chaired by the Chairman of *MERALCO*, who is neither an executive nor a beneficiary. The other members of the *BoT* are (i) an executive member of the *BOD*; (ii) two (2) senior executives; (iii) an independent member of the *BOD*; and (iv) a member of the *BOD* who represents the largest shareholder group, none of whom are beneficiaries of the plan.

The *Retirement Fund* follows a conservative approach of investing in fixed income, money market and equity assets to diversify the portfolio in order to minimize risk while maintaining an adequate rate of return. The assets of the *Retirement Fund* are managed by four (4) local and one (1) foreign trustee banks whose common objective is to maximize the long-term expected return of plan

assets. The *BoT*, periodically reviews and approves the strategic mandate of the portfolio to ensure the ability of the *Retirement Fund* to service its short-term and long-term obligations.

The major categories of plan assets are as follows:

	2021	2020
	<i>(Amount in millions)</i>	
Investments quoted in active markets:		
Quoted equity investments:		
Holding firms	₱2,912	₱3,430
Banks	954	1,059
Property	894	877
Telecommunication	601	932
Food, beverages and tobacco	572	359
Electricity, energy, power and water	446	417
Transportation services	284	267
Retail	199	449
Construction, infrastructure and allied services	9	24
Mining	—	7
Others	2,233	1,761
Quoted debt investments:		
“AAA” rated securities	9,886	11,803
Government securities	9,780	8,211
Cash and cash equivalents	2,183	2,120
Receivables	1,760	1,174
Real property	1,853	1,014
Others	1	1
Fair value of plan assets	₱34,567	₱33,905

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)

	2021	2020	2019
	<i>(Amounts in millions)</i>		
Interest costs	₱74	₱88	₱118
Current service costs	27	26	21
	₱101	₱114	₱139

Other Long-term Post-employment Benefits Liability

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

	2021	2020
	<i>(Amounts in millions)</i>	
Balance at beginning of year	₱2,007	₱1,949
Interest costs	74	88
Current service costs	27	26
Benefits paid	(112)	(99)
Actuarial losses due to change in assumptions	95	43
Balance at end of year	₱2,091	₱2,007

Actuarial Assumptions

The principal assumptions used in determining retirement benefits and other long-term post-employment benefits obligations are shown below:

Annual discount rate	4.96%
Future range of annual salary increases	4.00%-11.00%

Sensitivity Analysis

The sensitivity analysis below has been determined based on a method that extrapolates the impact on the defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting year. The calculation of the defined benefit obligation is sensitive to the assumptions set above. The following table summarizes how the impact on the defined benefit obligation at the end of the reporting year would have increased (decreased) as a result of a change in the respective assumptions, keeping all other assumptions constant. There have been no changes in the method and assumptions used in the sensitivity analysis from prior year.

The sensitivity analysis may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation from one another.

	% Change	Effect on Present Value of Defined Benefit Obligation	
		2021	2020
		<i>(Amounts in millions)</i>	
Annual discount rate	+1.0%	(₱4,450)	(₱6,131)
	-1.0%	5,672	7,561
Future range of annual salary increases	+1.0%	1,634	2,473
	-1.0%	(1,442)	(2,177)

Funding

MERALCO contributes to the *Retirement Fund* from time to time such amounts of money required under accepted actuarial principles to maintain the *Retirement Fund* in a sound condition, subject to the provisions of the *Plan*.

The amount of the annual contributions to the *Retirement Fund* is determined through an annual valuation report performed by an independent actuary.

The following is the maturity profile of the undiscounted benefit obligation (amounts in millions):

Less than one (1) year	₱3,965
One (1) year up to five (5) years	16,281
More than five (5) years up to 10 years	18,802
More than 10 years up to 15 years	12,208
More than 15 years up to 20 years	14,527
More than 20 years	35,667

Risk

The *Retirement Fund* is exposed to the following risks:

Credit Risk

The *Retirement Fund*'s exposure to credit risk arises from its financial assets which comprise of cash and cash equivalents, investments and receivables. The credit risk results from the possible default of the issuer of the financial instrument, with a maximum exposure equivalent to the carrying amounts of the instruments.

The credit risk is minimized by ensuring that the exposure to the various chosen financial investment structures is limited primarily to government securities and bonds or notes duly recommended by the Trust Committees of the appointed fund managers of the *Retirement Fund*.

Share Price Risk

The *Retirement Fund*'s exposure to share price risk arises from the shares of stock it holds and are traded at the *PSE*. The 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 *Retirement Fund* may still consider to hold on to such investments until the market recovers.

By having a balanced composition of holdings in the equities portfolio, exposure to industry or sector-related risks is reduced. The mix of various equities in the portfolio reduces volatility and contributes to a more stable return over time. Equity investments are made within the parameters of the investment guidelines approved by the *BoT*. The *BoT* also meets periodically to review the investment portfolio based on financial market conditions. Share prices are also monitored regularly.

Liquidity Risk

Liquidity risk is the risk that the *Retirement Fund* is unable to meet its payment obligations associated with its financial liabilities as they fall due and to replace funds when they are withdrawn. Liquidity risk is being managed to ensure that adequate fixed income and cash deposits are available to service the financial obligations of the *Retirement Fund*. The schedule of the maturities of fixed income investment assets are staggered by tenure or term. Policies are established to ensure that all financial obligations are met, wherein the timing of the maturities of fixed income investments are planned and

matched to the due date of various obligations. Thus, for this investment class, maturities are classified into short-, medium- and long-term. A certain percentage of the portfolio is kept as cash to manage liquidity and settle all currently maturing financial obligations.

Defined Contribution Provident Plan

MERALCO has a defined contributory Provident Plan effective January 1, 2009, intended to be a Supplemental retirement benefit for employees hired beginning 2004, the participation of which is voluntary. Each qualified employee-member who chooses to participate in the plan shall have the option to contribute up to a maximum of 25% of his base salary. *MERALCO* shall match the member's contribution up to 100% of employee's contribution or 10% of the member's monthly base salary, subject to a certain threshold. Upon resignation, the member shall be entitled to the total amount credited to his personal retirement account immediately preceding his actual retirement date, subject to provisions of the Provident Plan. *MERALCO*'s contribution to the Provident Plan amounted to ₱52 million, ₱47 million and ₱42 million for the years ended December 31, 2021, 2020 and 2019, respectively.

Consolidated Retirement Benefits Cost (included in "Salaries, wages and employee benefits" account in the consolidated statements of income)

	2021	2020	2019
	<i>(Amounts in millions)</i>		
Expense recognized for defined benefit plans	₱2,088	₱1,449	₱887
Expense recognized for defined contribution plan	52	47	42
Retirement benefits expense	₱2,140	₱1,496	₱929

Long-term Incentive Plan ("LTIP")

MERALCO's *LTIP* covers qualified employees and is based on *MERALCO Group*'s achievement of specified level of *CCNI* approved by the *BOD* and determined on an aggregate basis for a three (3)-year period as well as employees' attainment of a minimum level of performance rating. Employees invited to *LTIP* must serve a minimum uninterrupted period to be entitled to an award. Further, the employee should be on active employment at the time of pay-out.

27. Financial Assets and Financial Liabilities

Financial assets consist of cash and cash equivalents, short-term investments and trade and other receivables, which are generated directly from operations, advance payments to a supplier, financial assets at *FVOCI* and debt securities at *amortized cost*. The principal financial liabilities consist of bank loans, redeemable preferred shares, trade and nontrade payables, which are incurred to finance operations in the normal course of business. Accounting policies related to financial assets and financial liabilities are set out in *Note 4 – Significant Accounting Policies, Changes and Improvements*.

The following table sets forth the financial assets and financial liabilities:

	Financial Assets at Amortized Cost	<i>FVOCI</i> Financial Assets	Liabilities Carried at Amortized Cost	Total Financial Assets and Liabilities
<i>(Amounts in millions)</i>				
Assets as at December 31, 2021				
<i>Noncurrent</i>				
Financial and other noncurrent assets	₱29,561	₱8,467	₱—	₱38,028
<i>Current</i>				
Cash and cash equivalents	55,007	—	—	55,007
Trade and other receivables	42,386	—	—	42,386
Financial and other current assets	17,747	—	—	17,747
Total Assets	₱144,701	₱8,467	₱—	₱153,168
Liabilities as at December 31, 2021				
<i>Noncurrent</i>				
Interest-bearing long-term financial liabilities - net of current portion	₱—	₱—	₱52,720	₱52,720
Customers' deposits - net of current portion	—	—	30,901	30,901
Refundable service extension costs - net of current portion	—	—	5,334	5,334
<i>Current</i>				
Notes payable	—	—	28,834	28,834
Trade payables and other current liabilities	—	—	71,602	71,602
Customers' refund	—	—	2,929	2,929
Current portion of interest-bearing long-term financial liabilities	—	—	9,114	9,114
Total Liabilities	₱—	₱—	₱201,434	₱201,434

	Financial Assets at Amortized Cost	<i>FVOCI</i> Financial Assets	Liabilities Carried at Amortized Cost	Total Financial Assets and Liabilities
<i>(Amounts in millions)</i>				
Assets as at December 31, 2020				
<i>Noncurrent</i>				
Financial and other noncurrent assets	₱29,540	₱8,941	₱—	₱38,481
<i>Current</i>				
Cash and cash equivalents	50,912	—	—	50,912
Trade and other receivables	56,632	—	—	56,632
Financial and other current assets	8,190	—	—	8,190
Total Assets	₱145,274	₱8,941	₱—	₱154,215
Liabilities as at December 31, 2020				
<i>Noncurrent</i>				
Interest-bearing long-term financial liabilities - net of current portion	₱—	₱—	₱14,809	₱14,809
Customers' deposits - net of current portion	—	—	29,844	29,844
Refundable service extension costs - net of current portion	—	—	6,632	6,632
<i>Current</i>				
Notes payable	—	—	23,373	23,373
Trade payables and other current liabilities	—	—	68,765	68,765
Customers' refund	—	—	2,949	2,949
Current portion of interest-bearing long-term financial liabilities	—	—	1,962	1,962
Total Liabilities	₱—	₱—	₱148,334	₱148,334

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:

	2021		2020	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<i>(Amounts in millions)</i>				
Financial assets				
Debt securities at amortized cost	₱41,461	₱42,856	₱32,131	₱33,005
Financial assets at <i>FVOCI</i>	8,467	8,467	8,941	8,941
Financial assets at amortized cost -				
Restricted cash	4,698	4,698	4,734	4,734
Advance payments to a supplier	705	768	865	997
	₱55,331	₱56,789	₱46,671	₱47,677
Financial liabilities				
Financial liabilities carried at amortized cost -				
Interest-bearing-long-term financial liabilities	₱60,364	₱61,135	₱15,299	₱15,900

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value.

Cash and Cash Equivalents, Trade and Other Receivables, Short-term Investments, Trade Payables and Other Current Liabilities and Notes Payable

Due to the short-term nature of transactions, the fair values of these instruments approximate their carrying amounts as at reporting date.

Advance Payments to a Supplier

The fair values of advance payments to a supplier were computed by discounting the instruments' expected future cash flows using the rates of 4.31% and 2.53% as at December 31, 2021 and 2020, respectively.

Financial Assets at FVOCI

The fair values were determined by reference to market bid quotes as at reporting date.

Debt Securities at Amortized Cost

The fair values were determined by discounting the expected future cash flows using the interest rate as at reporting date.

Meter Deposits and Customers' Refund

Meter deposits and customers' refund are due and demandable. Thus, the fair values of these instruments approximate their carrying amounts.

Bill Deposits

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

Interest-bearing Long-term Financial Liabilities

The fair values of interest-bearing long-term debt (except for redeemable preferred stock) were computed by discounting the instruments' expected future cash flows using the rates ranging from 0.82% to 4.33% and 0.12% to 3.96% as at December 31, 2021 and 2020, respectively.

Redeemable Preferred Stock

The carrying amount of the preferred stock represents the fair value. Such preferred shares have been called and are payable anytime upon presentation by the shareholder of their certification. This is included under "Interest-bearing long-term financial liabilities" account.

Refundable Service Extension Costs

The fair values of refundable service extension costs cannot be reliably measured since the timing of related cash flows cannot be reasonably estimated and are accordingly measured at cost.

Fair Value Hierarchy

Below is the list of financial assets and financial liabilities that are classified using the fair value hierarchy:

	2021				2020			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	<i>(Amounts in millions)</i>							
Financial assets								
Advance payments to a supplier	P–	P768	P–	P768	P–	P997	P–	P997
Restricted cash	–	4,698	–	4,698	–	4,734	–	4,734
Financial assets at <i>FVOCI</i>	6,935	–	1,532	8,467	7,939	–	1,002	8,941
Debt securities at amortized cost	42,856	–	–	42,856	33,005	–	–	33,005
	P49,791	P5,466	P1,532	P56,789	P40,944	P5,731	P1,002	P47,677
Financial liabilities								
Interest-bearing long-term financial liabilities	P–	P61,135	P–	P61,135	P–	P15,900	P–	P15,900

For the years ended December 31, 2021, 2020 and 2019, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurements.

Financial Risk Management Objectives and Policies

The main risks arising from the financial instruments are interest rate risk, foreign currency risk, commodity price risk, credit risk, and liquidity risk. The importance of managing these risks has significantly increased in light of the considerable change and volatility in the Philippine and international financial markets. The *BOD* reviews and approves policies for managing each of these

risks. Management monitors the market price risk arising from all financial instruments. The policies for managing these risks are as follows:

Interest Rate Risk

The *MERALCO Group*'s exposure to the changes in market interest rates relate to changes of fair value of its long-term financial assets and to the fluctuation of future cash flows in relation to its long-term interest-bearing financial liabilities.

MERALCO's policy is to manage its interest rate risk exposure using a mix of fixed and variable rate debts. The strategy, which yields a reasonably lower effective cost based on market conditions, is adopted. Refinancing of fixed rate loans may also be undertaken to manage interest cost. All borrowings bear fixed interest rate as at December 31, 2021 and 2020.

The exposure of *GBPC* and subsidiaries to the risk of changes in market interest rate relates primarily to its long-term debt obligations with variable interest rates. *GBPC* and subsidiaries' loans bear fixed interest rates subject to repricing after a minimum of five years for *CEDC* and *PEDC* and seven years for *TPC*.

Foreign Currency Risk

The revaluation of any of foreign currency-denominated financial assets and financial liabilities as a result of the appreciation or depreciation of the Philippine peso is recognized as foreign exchange gains or losses as at the end of each reporting 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 amount of the *MERALCO Group*'s expenditures for electricity capital projects and a portion of the operating expenses are denominated in foreign currencies, mostly in *U.S.* dollars. As such, a strengthening or weakening of the Philippine peso against the *U.S.* dollar will decrease or increase in Philippine peso terms, the principal amount of the *MERALCO Group*'s foreign currency-denominated liabilities and the related interest expense, foreign currency-denominated capital expenditures and operating expenses.

The following table shows the consolidated foreign currency-denominated financial assets and financial liabilities as at December 31, 2021 and 2020, translated to Philippine peso at ₱51.00 and ₱48.02 to US\$1, respectively.

	2021		2020	
	U.S. Dollar	Peso Equivalent	U.S. Dollar	Peso Equivalent
<i>(Amounts in millions)</i>				
Financial assets:				
Cash and cash equivalents	\$83	₱4,217	\$180	₱8,633
Debt securities at amortized cost	24	1,224	24	1,153
Financial assets at <i>FVOCI</i>	21	1,070	22	1,041
Advance payments to a supplier	14	727	18	856
Short-term investments	9	444	—	—
	151	7,682	244	11,683
Financial liabilities -				
Trade payables and other liabilities	(5)	(240)	(3)	(166)
	\$146	₱7,442	\$241	₱11,517

All of the *MERALCO Group*'s long-term financial liabilities are denominated in Philippine peso. However, an insignificant portion of its trade payables are denominated in *U.S.* dollar. Thus, the impact of ₱1 movement of the Philippine peso against the *U.S.* dollar will not have a significant impact on the *MERALCO Group*'s obligations.

The following table demonstrates the sensitivity to a reasonably possible change in the *U.S.* dollar exchange rate vis-a-vis the Philippine peso, with all other variables held constant, of the *MERALCO Group*'s income before income tax due to changes in the fair value of financial assets and financial liabilities. There is no other impact on the *MERALCO Group*'s equity other than those already affecting the consolidated statements of income.

	2021		2020	
	Appreciation (Depreciation) of U.S. Dollar	Effect on Income before Income Tax	Appreciation (Depreciation) of U.S. Dollar	Effect on Income before Income Tax
	(In %)	(In millions)	(In %)	(In millions)
<i>U.S.</i> dollar-denominated financial assets and financial liabilities	+5 -5	₱372 (372)	+5 -5	₱579 (579)

Foreign exchange gain or loss for the year is computed based on management's best estimate of a +/- 5 percent change in the closing Philippine peso to *U.S.* dollar conversion rate using the balances as at financial reporting date of *U.S.* dollar-denominated cash and cash equivalents, receivables and other assets and liabilities. There has been no change in the methods and assumptions used by management in the above analysis.

Commodity Price Risk

Commodity price risk is the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in world prices or index of the commodity. The exposure of *MERALCO* and *Clark Electric* to price risk is minimal. The cost of fuel is part of *MERALCO*'s and *Clark Electric*'s generation costs that are recoverable through the generation charge in the billings to customers.

Credit Risk

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

Trade and Other Receivables and Contract Assets

MERALCO as a franchise holder serving public interest cannot refuse customer connection. To mitigate risk, the *DSOAR* allows *MERALCO* to collect bill deposit equivalent to one (1) month's consumption to secure credit. Also, as a policy, disconnection notices are sent three (3) days after the bill due date and disconnections are carried out beginning on the third day after receipt of disconnection notice.

Customer credit risk is managed by each business segment subject to *MERALCO Group*'s procedures and controls relating to customer credit risk management. The *MERALCO Group* manages and controls credit risk by setting limits on the amount of risk that it is willing to accept for individual counterparties and by monitoring exposures in relation to such limits.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss pattern (i.e. residential, industrial, commercial). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

The provision matrix is initially based on the *MERALCO Group* business segment's historical observed default rates. Each business segment of the *MERALCO Group* will calibrate the matrix to adjust the historical credit loss experience with forward-looking information.

Due to the economic impact of *COVID-19* pandemic to *MERALCO* consumers together with advisories and issuances from the *DOE* and *ERC* directing *MERALCO* and other *DUs* to extend payment terms and suspend service disconnection activities necessitated reassessment of *MERALCO*'s *ECL* model. *MERALCO* considered resegmentation of all its customer bills starting from the *ECQ* period with the objective of identifying customer groups which were significantly affected by *COVID-19* pandemic based on accumulated number of unpaid bills and measured the expected credit losses considering the expected deferred payment arrangements and expected default upon resumption of service disconnection activities.

At every reporting date, historical observed default rates are updated and changes in the forward-looking estimates are analyzed. The assumptions used in determining the historical default rates, forecast of economic conditions, economic impact of *COVID-19* pandemic to *MERALCO Group* customers and *ECLs* involved significant estimation. The amount of *ECLs* is sensitive to changes in circumstances and forecast of economic conditions. The historical credit loss experience, expected deferred payment arrangements, expected default upon resumption of service disconnection activities and forecast of economic conditions may also not be representative of customers' actual default in the future.

The subsidiaries of *MERALCO* trade only with recognized, creditworthy third parties. It is the *MERALCO Group*'s policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivables are monitored on an ongoing basis to reduce exposure to bad debt.

GBPC and subsidiaries applied the simplified approach under *PFRS 9*, using a 'provision matrix', in measuring expected credit losses which uses a lifetime expected loss allowance for receivables. The expected loss rates are based on the payment profiles of revenues/sales over a period of at least 24 months before the relevant reporting date and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers/counterparties to settle the receivables. *GBPC* and subsidiaries has identified the *GDP*, *CPI* and unemployment rate in the locations in which it sells its services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

No impairment losses resulted from performing collective impairment test, due to the past experience of the *GBPC* and subsidiaries of realizing receivables within the credit period which help reduce the credit risk exposure in case of default by the customers.

Set out below is the information about the credit risk exposure of the *MERALCO Group*'s trade and other receivables and contract assets using a provision matrix:

2021									
	Trade – electelectricity distributed				Energy Generated	Other trade receivables	Nontrade receivables	Total	
	Contract Status								
	Active	Active - Disconnected	Active – Pending to Terminate	Terminated					
<i>ECL Rate</i>	2.41%	5.39%	4.97%	8.22%	22.02%	12.15%	6.50%		
<i>(Amounts in millions, except ECL rate)</i>									
Estimated total gross carrying amount at default	₱24,432	₱3,404	₱4,109	₱3,319	₱5,087	₱6,461	₱4,125	₱50,937	
Expected credit loss	589	183	204	2,775	1,120	785	268	5,924	
2020									
	Billed electric receivables					Over 240 days	Unbilled receivables	Other receivables	Total
	Accumulated Number of Bills								
	0-1 bills	2-3 bills	4-5 bills	6-7 bills	Over 7 bills				
<i>ECL Rate</i>	0.84%	1.03%	1.89%	8.22%	8.52%	77.58%	0.75%	9.67%	
<i>(Amounts in millions, except ECL rate)</i>									
Estimated total gross carrying amount at default	₱5,935	₱7,684	₱7,385	₱7,145	₱7,039	₱2,624	₱1,498	₱8,296	₱47,606
Expected credit loss	50	80	140	587	600	2,035	11	802	4,305

Financial Instruments and Cash and Cash Equivalents

With respect to placements of cash with financial institutions, these institutions are subject to the *MERALCO Group*'s accreditation evaluation based on liquidity and solvency ratios and on the bank's credit rating. The *MERALCO Group* transacts derivatives only with similarly accredited financial institutions. In addition, the *MERALCO Group*'s deposit accounts in banks are insured by the Philippine Deposit Insurance Corporation up to ₱500,000 per bank account.

The *MERALCO Group* invests only in quoted debt securities with very low credit risk. The *MERALCO Group*'s debt instruments at *FVOCI* comprised solely of quoted bonds that are graded in the top investment category (Very Good and Good) by credit rating agencies and therefore, are considered to be low credit risk investments.

Finally, credit quality review procedures are in place to provide regular identification of changes in the creditworthiness of counterparties. Counterparty limits are established and reviewed periodically based on latest available financial information of counterparties, credit ratings and liquidity. The *MERALCO Group*'s credit quality review process allows it to assess any potential loss as a result of the risks to which it may be exposed and to take corrective actions.

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

The table below shows the maximum exposure to credit risk for the components of the consolidated statements of financial position. The maximum exposure is equivalent to the nominal amount of the accounts.

	Gross Maximum Exposure	
	2021	2020
	(Amounts in millions)	
Cash and cash equivalents:		
Cash in banks	₱20,518	₱19,006
Cash equivalents	34,119	31,766
Trade and other receivables:		
Electricity distributed	31,513	49,139
Energy generated	3,967	—
Service contracts	3,049	3,323
Nontrade receivables	3,857	4,170
Other financial assets - current:		
Debt securities at amortized cost	17,121	8,019
Current portion of advance payments to a supplier	182	171
Short-term investments	444	—
Other financial assets - noncurrent:		
Debt securities at amortized cost	24,340	24,112
Financial assets at <i>FVOCI</i>	8,467	8,941
Restricted cash	4,698	4,734
Advance payment to a supplier	523	694
	₱152,798	₱154,075

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:

	2021					
	Neither Past Due nor Impaired					
	High Grade	Standard Grade	Sub-standard Grade	Past Due but not Impaired	Impaired Financial Assets	Total
	(Amounts in millions)					
Cash in banks and cash equivalents	₱54,637	₱—	₱—	₱—	₱—	₱54,637
Trade and other receivables:						
Electricity distributed	6,539	2,732	12,116	10,126	3,751	35,264
Energy generated	3,963	—	—	4	1,120	5,087
Service contracts	986	—	—	2,063	765	3,814
Nontrade receivables	3,246	—	—	611	268	4,125
Financial and other current assets:						
Debt securities at amortized cost	17,121	—	—	—	—	17,121
Current portion of advance payments to a supplier	182	—	—	—	—	182
Short-term investments	444	—	—	—	—	444
Financial and other noncurrent assets:						
Debt securities at amortized cost	24,340	—	—	—	—	24,340
Financial assets at <i>FVOCI</i>	8,467	—	—	—	—	8,467
Restricted cash	4,698	—	—	—	—	4,698
Advance payment to a supplier	523	—	—	—	—	523
	₱125,146	₱2,732	₱12,116	₱12,804	₱5,904	₱158,702

2020						
	Neither Past Due nor Impaired				Impaired Financial Assets	Total
	High Grade	Standard Grade	Sub- standard Grade	Past Due but not Impaired		
	(Amounts in millions)					
Cash in banks and cash equivalents	₱50,772	₱—	₱—	₱—	₱—	₱50,772
Trade and other receivables:						
Electricity distributed	10,413	4,675	20,636	13,415	3,492	52,631
Service contracts	910	—	267	2,146	772	4,095
Nontrade receivables	3,487	38	—	645	30	4,200
Financial and other current assets:						
Debt securities at amortized cost	8,019	—	—	—	—	8,019
Current portion of advance payments to a supplier	171	—	—	—	—	171
Financial and other noncurrent assets:						
Debt securities at amortized cost	24,112	—	—	—	—	24,112
Financial assets at <i>FVOCI</i>	8,941	—	—	—	—	8,941
Restricted cash	4,734	—	—	—	—	4,734
Advance payment to a supplier	694	—	—	—	—	694
	₱112,253	₱4,713	₱20,903	₱16,206	₱4,294	₱158,369

Credit ratings are determined as follows:

▪ High Grade

High grade financial assets include cash in banks, cash equivalents, short-term investments, debt securities at amortized cost investments, *FVOCI* financial assets and advance payments to a supplier transacted with counterparties of good credit rating or bank standing. Consequently, credit risk is minimal. These counterparties include large prime financial institutions, large industrial companies and commercial establishments, and government agencies. For trade receivables, these consist of current month's billings (less than 30 days) that are expected to be collected within 10 days from the time bills are delivered.

▪ Standard Grade

Standard grade financial assets include trade receivables that consist of current month's billings (less than 30 days) that are expected to be collected before due date (10 to 14 days after bill date).

▪ Sub-standard Grade

Sub-standard grade financial assets include trade receivables that consist of current month's billings, which are not expected to be collected within 60 days.

Liquidity Risk

Liquidity risk is the risk that the *MERALCO Group* will be unable to meet its payment obligations when these fall due. The *MERALCO Group* manages this risk through monitoring of cash flows in consideration of future payment of obligations and the collection of its trade receivables. The *MERALCO Group* also ensures that there are sufficient, available and approved working capital lines that it can draw from at any time.

The *MERALCO Group* maintains an adequate amount of cash, cash equivalents and *FVOCI* financial assets, which may be readily converted to cash in any unforeseen interruption of its cash collections.

The *MERALCO Group* also maintains accounts with several relationship banks to avoid significant concentration of funds with one (1) institution.

The following table sets out the maturity profile of the financial liabilities and contract liabilities based on contractual undiscounted payments plus future interest:

2021					
	Less than 3 Months	Over 3–12 Months	Over 1–5 Years	More than 5 Years	Total
<i>(Amounts in millions)</i>					
Notes payable	₱1,402	₱28,529	₱–	₱–	₱29,931
Trade payables and other current liabilities	67,166	–	–	–	67,166
Customers' refund	2,929	–	–	–	2,929
Interest-bearing long-term financial liabilities:					
Fixed rate borrowings	5,359	3,321	20,514	33,957	63,151
Redeemable preferred stock	1,470	–	–	–	1,470
Customers' deposits	720	2,055	6,754	24,147	33,676
Refundable service extension costs	345	1,315	4,405	929	6,994
Nonrefundable liability related to asset funded by customers	127	127	127	485	866
Over-recoveries from transmission, lifeline subsidy and <i>SL</i> charges	–	–	597	–	597
Total undiscounted financial liabilities	₱79,518	₱35,347	₱32,397	₱59,518	₱206,780

2020					
	Less than 3 Months	Over 3–12 Months	Over 1–5 Years	More than 5 Years	Total
<i>(Amounts in millions)</i>					
Notes payable	₱897	₱23,389	₱–	₱–	₱24,286
Trade payables and other current liabilities	56,355	–	–	–	56,355
Customers' refund	2,949	–	–	–	2,949
Interest-bearing long-term financial liabilities:					
Fixed rate borrowings	594	1,108	7,314	11,509	20,525
Redeemable preferred stock	1,472	–	–	–	1,472
Customers' deposits	420	2,155	525	29,319	32,419
Refundable service extension costs	345	5,210	4,405	2,227	12,187
Nonrefundable liability related to asset funded by customers	127	127	127	460	841
Over-recoveries from transmission, lifeline subsidy and <i>SL</i> charges	–	–	333	–	333
Total undiscounted financial liabilities	₱63,159	₱31,989	₱12,704	₱43,515	₱151,367

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 ₱2,460 million will be refunded within a year. This is shown as part of “Trade payables and other current liabilities” account in the consolidated statement of financial position as at December 31, 2021.

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.

	2021	2020
<i>(Amounts in millions, except debt to equity ratio)</i>		
Long-term debt	₱60,364	₱15,299
Notes payable	28,834	23,373
Redeemable preferred stock	1,470	1,472
Debt (a)	₱90,668	₱40,144
Equity attributable to the holders of the parent (b)	₱95,204	₱79,237
Debt to equity ratio(a)/(b)	0.95	0.51

28. Income Taxes and Local Franchise Taxes

Income Taxes

The components of net deferred income tax assets and liabilities are as follows:

	Note	2021	2020
<i>(Amounts in millions)</i>			
Deferred income tax assets:			
Provisions for probable losses and expenses from claims	19 and 22	₱29,147	₱31,326
Unfunded retirement benefits cost and unamortized past service cost	26	2,259	1,839
Accrued employee benefits	26	1,067	915
Allowance for expected credit losses	13	1,184	1,046
Decommissioning liability		219	—
Actuarial losses		89	1,598
Allowance for excess of cost over net realizable value of inventories	14	48	58
Others		647	237
		34,660	37,019
Deferred income tax liabilities:			
Revaluation increment in utility plant, generation plant and others	16	5,519	6,668
Fair value of net assets from acquisition of GBPC	3	5,321	—
Actuarial gains		922	—
Capitalized interest		700	762
Capitalized duties and taxes deducted in advance		412	512
Depreciation method differential		—	2
Others		282	448
		13,156	8,392
		₱21,504	₱28,627

The deferred income tax assets and liabilities are presented in the consolidated statements of financial position as follows:

	2021	2020
	<i>(Amounts in millions)</i>	
Deferred income tax assets - net	₱27,226	₱28,943
Deferred income tax liabilities - net	(5,722)	(316)
	₱21,504	₱28,627

Provision for (benefit from) income tax consists of:

	2021	2020	2019
	<i>(Amounts in millions)</i>		
Current	₱8,728	₱10,295	₱11,503
Deferred	184	(4,029)	(2,960)
	₱8,912	₱6,266	₱8,543

The deferred tax assets charged directly to *OCI* amounted to ₱2,172 million, ₱1,557 million and ₱1,597 million for the years ended December 31, 2021, 2020 and 2019, respectively.

A reconciliation between the provision for income tax computed at statutory income tax rates of 25%, 30% and 30% for the years ended December 31, 2021, 2020 and 2019, respectively, and provision for income tax as shown in the consolidated statements of income is as follows:

	2021	2020	2019
	<i>(Amounts in millions)</i>		
Income tax computed at statutory tax rate	₱8,249	₱6,724	₱9,574
Impact of <i>CREATE</i> bill on provision for:			
Current income tax	(824)	—	—
Deferred income tax	4,525	—	—
Income tax effects of:			
Interest income subjected to lower final tax rate	(478)	(691)	(978)
Nondeductible interest expense	119	285	403
Nondeductible expense	—	1,038	—
Nontaxable income	(93)	(94)	(254)
Equity in net losses of associates and joint ventures	(782)	(370)	446
Difference in calculation of tax deductible costs and expenses	(1,526)	(3,621)	(1,697)
Unrecognized deferred tax assets	(677)	2,772	859
Others	399	223	190
	₱8,912	₱6,266	₱8,543

In 2021 and 2020, *MERALCO* elected to adopt the Optional Standard Deductions (“*OSD*”) in lieu of itemized deductions beginning with its first quarter income tax return.

Certain deferred tax assets and liabilities expected to be recovered or settled in subsequent taxable years, for which the related income and expense were not considered in determining gross income for

income tax purposes, were not recognized. This is because the manner by which *MERALCO* expects to recover or settle the underlying assets and liabilities would not result in any future tax consequence under the current method of computing taxable income.

The deferred income tax assets and liabilities expected to be recovered or settled in taxable years 2023 onwards were measured at the tax rate of 25% since *MERALCO* is expecting to adopt itemized deductions in computing its income tax liabilities for the said taxable years.

Accordingly, *MERALCO*'s net deferred tax assets as at December 31, 2021 and 2020, which were not recognized are as follows:

	2021	2020
	<i>(Amounts in millions)</i>	
Deferred tax assets:		
Provisions for various claims	₱480	₱937
Others	—	624
	480	1,561
Deferred tax liabilities:		
Revaluation increment in utility plant and others	13	30
Capitalized interest	8	20
Capitalized duties and taxes deducted in advance	6	15
Depreciation method differential	—	1
Others	5	7
	32	73
	₱448	₱1,488

The temporary differences for which deferred tax assets have not been recognized pertain to the tax effect of net operating loss carryover ("*NOLCO*") amounting to ₱3,793 million and ₱1,812 million as at December 31, 2021 and 2020, respectively. These are not recognized because the *MERALCO Group* does not expect to utilize such deferred tax assets against sufficient taxable profit.

NOLCO totaling to ₱3,793 million may be claimed as deduction against taxable income as follows:

Date Incurred	Expiry Date	Amount
		<i>(In millions)</i>
December 31, 2019	December 31, 2022	₱623
December 31, 2020	December 31, 2025	1,128
December 31, 2021	December 31, 2026	2,042
		₱3,793

NOLCO amounting to ₱862 million, ₱613 million and ₱465 million expired in 2021, 2020 and 2019, respectively.

On September 30, 2020, the *BIR* issued Revenue Regulations No. 25-2020 implementing Section 4(bbbb) of "Bayanihan to Recover As One Act" which states that the *NOLCO* incurred for taxable years 2020 and 2021 can be carried over and claimed as a deduction from gross income for the next five (5) consecutive taxable years immediately following the year of such loss.

On November 26, 2020, the Senate approved on 3rd and final reading Senate Bill No. 1357, otherwise known as the "Corporate Recovery and Tax Incentives for Enterprises Act" ("*CREATE*"),

which seeks to reduce the corporate income tax rates and to rationalize the current fiscal incentives by making it time-bound, targeted, and performed-based.

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

- Reduction in current income tax rate effective July 1, 2020
- Proprietary educational institutions and hospitals which are nonprofit previously subject to a tax of 10% on their taxable income, shall be imposed a tax rate of 1% beginning July 1, 2020 until June 30, 2023.
- Regional operating headquarters of multinational companies previously subject to a tax of 10% on their taxable shall be subject to the regular corporate income tax effective December 31, 2020
- Effective July 1, 2020 until June 30, 2023, the *MCIT* rate shall be one percent 1%.
- *MERALCO*'s consolidated financial statements as at and for the years ended December 31, 2020 and 2019 were released on March 1, 2021, prior to the signing of the *CREATE* bill into law by President Duterte on March 26, 2021. As such, *MERALCO*'s provision for income tax in 2020 was computed on the basis of the income tax rate of 30% and tax laws that were enacted at the reporting date. The impact of the *CREATE* bill, mainly the difference between the 30% and 25% income tax rates are adjusted in the 2021 provision for current and deferred income tax.

LFT

Consistent with the decisions of the *ERC*, *LFT* is a recoverable charge of the *DU* from the particular province or city imposing and collecting the *LFT*. It is presented as a separate line item in the customer's bill and computed as a percentage of the sum of generation, transmission, distribution services and related *SL* charges.

The Implementing Rules and Regulations ("IRR") issued by the *ERC* provide that *LFT* shall be paid only on its distribution wheeling and captive market supply revenues. Pending the promulgation of guidelines from the relevant government agencies, *MERALCO* is paying *LFT* based on the sum of the foregoing charges in the customers' bill.

In *ERC* Resolution No. 2, Series of 2021, or the Rules on Recovery of Pass-Through Taxes (Real Property, Local Franchise, and Business Taxes) of *DUs*, the *ERC* amended and modified the rules with respect to the recovery of any local franchise tax, including the filing of applications for recovery.

29. Contingencies and Legal Proceedings

Overpayment of Income Tax related to SC Refund

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

The *BIR* then approved the refund of ₱894 million for issuance of tax credit certificates (“*TCCs*”), proportionate to the actual refund of claims to utility customers. The *BIR* initially issued *TCCs* amounting to ₱317 million corresponding to actual refund to customers as at August 31, 2005. In May 2014, the *BIR* issued additional *TCCs* amounting to ₱396 million corresponding to actual refund to customers as at December 31, 2012.

As at December 31, 2021 and 2020, the amount of unissued *TCCs* of ₱181 million is presented as part of “Financial and other noncurrent assets” account in the consolidated statements of financial position.

See *Note 11 – Financial and other Noncurrent Assets*.

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

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

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

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

On July 12, 2013, the *BIR* appealed the *CTA* En Banc’s Amended Decision dated November 13, 2012 and Resolution dated May 22, 2013 via Petition for Review with the *SC*. As at February 28, 2022, 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 (“*LGUs*”) assessed *MERALCO* for deficiency *RPT* on certain assets. The assets include electric transformers, distribution wires, insulators, and poles, collectively referred to as *TWIP*. Of these *LGUs*, 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 *LGUs* are pending with their respective administrative bodies or government offices.

In 2016, *MERALCO* began the process of settlement with the affected *LGUs*. *MERALCO* has filed for the recovery of the resulting *RPT* payments to certain *LGUs* 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. Hearings have been completed and *MERALCO* filed its intervention and submitted its comments. A similar Petition was likewise filed by the Philippine Rural Electric Cooperative Association (“*PHILRECA*”) on April 17, 2019. In *ERC* Resolution No. 2, Series of 2021, or the Rules on Recovery of Pass-Through Taxes (Real Property, Local Franchise, and Business Taxes) of *DUs*, the *ERC* approved a revised mechanism for the recovery of real property taxes. For *DUs* under *PBR*, the rules shall apply to the recovery of real property taxes of machineries only until the next regulatory reset process when the real property taxes would be excluded from the financial building blocks in the annual revenue requirement. However, the said rules did not cover the recovery of payments of real property taxes for the years before the promulgation of the rules.

MERALCO has filed for recovery of such *RPT* paid in accordance with the rules promulgated by the *ERC*. For recovery of real property taxes for the years before the promulgation of the rules, *MERALCO* intends to recover the same in accordance with the rules as may be promulgated by the *ERC* to address the regulatory reset process for the Lapsed Period.

On July 6, 2021, *PEPOA* filed a Petition for rule-making proposing to amend certain provisions of *ERC* Resolution No. 02, Series of 2021 on the recovery of pass-through local taxes consisting of *RPT*, *LFT*, and business tax. Among the main points raised by *PEPOA* is that: (i) the local taxes (*RPT*, *LFT* and business tax) levied by *LGUs* on years prior to the Resolution’s issuance (ie. tax arrearages) should be fully recoverable as pass-through costs, and (ii) the *RPT* assessed by *LGUs* on assets located outside the *DU*’s franchise area but are used to provide public service within the franchise area should also be fully recoverable as pass-through costs. *MERALCO* submitted its comments on September 15, 2021 and the public consultations were conducted by the *ERC* on September 28, 2021 and October 12, 2021. As at February 28, 2022, the Petition is pending with the *ERC*.

See Note 19 – Provisions.

Mediation with NPC

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

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

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

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

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

The mediation resulted in the signing of a Settlement Agreement ("*SA*") between the parties on July 15, 2003. The *SA* was approved by the respective *BODs* of *NPC* and *MERALCO*. The net settlement amount of ₱14,320 million was agreed upon by *NPC* and *MERALCO* and manifested before the *ERC* through a Joint Compliance dated January 19, 2006. The implementation of the *SA* is subject to the approval of the *ERC*.

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

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

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

The parties have filed their respective memoranda. As at February 28, 2022, *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 (2)-part transmission line, which completed the 230 *kV* line loop within Metro Manila. The two (2) main parts are the Araneta to Balintawak leg and the Sucat to Araneta leg, which cuts through Dasmariñas Village, Makati City.

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

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

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

This case remains pending and is still at the pre-trial stage. During the pre-trial stage, *Plaintiffs* filed a Manifestation stating that they are pursuing the deposition of a supposed expert in electromagnetic field through oral examination without leave of court in late January or early February 2016 or on such date as all the parties may agree amongst themselves at the Consulate Office of the Philippines in Vancouver, Canada. *NPC* and intervenors filed their Opposition and Counter-Manifestation. Intervenor *NGCP* filed a Motion to Prohibit the Taking of the Deposition of the said expert. Intervenor *MERALCO* intends to file its Comment/Opposition in due course. As at February 28, 2022, *MERALCO* is awaiting further action of the *SC* on the matter.

Petition for Dispute Resolution against PEMC, TransCo, NPC and PSALM

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

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

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

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

In an Order dated March 4, 2013, the *ERC* approved the methodology proposed by *MERALCO* and *PEMC* in computing the double charged amount on line losses by deducting 2.98% from the *NPC-TOU* amount. Accordingly, the *ERC* determined that the computed double charge amount to be collected from *NPC* is ₱5.2 billion, covering the period November 2006 to August 2012 until actual cessation of the collection of the 2.98% line loss charge in the *NPC-TOU* rates imposed on *MERALCO*. In this regard, *NPC* was directed by the *ERC* to refund said amount by remitting to *MERALCO* the equivalent amount of ₱73.9 million per month until the over-recoveries are fully refunded. In the said Order, the *ERC* likewise determined that the amount to be collected from the successor generating companies ("SGCs") is ₱4.7 billion. Additionally, *MERALCO* was directed to file a petition against the following SGCs: *MPPCL*, Aboitiz Power Renewables, Inc. ("*APRP*"), *TLI*, *SMEC* and *Sem-Calaca*, within 30 days from receipt thereof, to recover the line loss collected by them. On April 19, 2013, *MERALCO* filed a Motion for Clarification with the *ERC* regarding the directives contained in the March 4, 2013 Order. On April 30, 2013 and May 8, 2013, *PSALM* and *NPC*, respectively, filed motions seeking reconsideration of the March 4, 2013 Order. *MERALCO* filed a motion seeking for an additional 15 days from its receipt of the *ERC*'s Order resolving its Motion for Clarification, within which to file its Petition against the SGCs.

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

On September 12, 2013, *MERALCO* filed a Manifestation with Motion with the *ERC* seeking approval of its proposal to offset the amount of ₱73.9 million per month against its monthly remittances to *PSALM*. *PSALM* and *NPC* filed their comments *Ad Cautelam* and Comment and Opposition *Ad Cautelam*, respectively, on *MERALCO*'s Manifestation with Motion. On

November 4, 2013, *MERALCO* filed its reply. As at February 28, 2022, *MERALCO*'s Manifestation with Motion is pending resolution by the *ERC*.

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

On February 3, 2014, *MERALCO* filed a Comment with Opposition to the Application for *TRO* or Writ of Preliminary Injunction dated January 30, 2014. *PEMC* filed a Comment and Opposition Re: Petition for Certiorari with Urgent *TRO* and/or Writ of Preliminary Mandatory Injunction dated January 6, 2014. On June 4, 2014, the *CA* issued a Resolution declaring that *PSALM* is deemed to have waived the filing of a Reply to the comment and opposition of *MERALCO* and *PEMC* and directing the parties to submit their simultaneous memoranda within 15 days from notice. On December 1, 2014, the *CA* issued a decision dismissing the Petition for Certiorari filed by *PSALM* against the *ERC*, *MERALCO* and *PEMC* and affirming the *ERC*'s ruling on the refund of the ₱5.2 billion of transmission line losses double charged by *PSALM* and *NPC*. On January 30, 2015, *PSALM* filed its *MR* on the December 1, 2014 Decision of the *CA*. *MERALCO* has filed its Opposition to the *MR*. In a Resolution dated August 11, 2015, the *CA* denied *PSALM*'s *MR*. On October 27, 2015, *MERALCO* received *PSALM*'s Petition for Review with the *SC*. The Petition has been given due course and the parties have filed their respective memoranda. As at February 28, 2022, *MERALCO* is still awaiting further action of the *SC* on the Petition.

Petition for Dispute Resolution against SPPC, MPPCL, APRI, TLI, SMEC and Sem-Calaca

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

On October 8, 2013, *MERALCO* received the *SGCs* Manifestation and Motion, which sought, among other things, the cancellation of the scheduled initial hearing of the case, including the submission of the parties respective Pre-trial Briefs, until the final resolution of the *SGC*'s Joint Motion to Dismiss. On October 11, 2013, *MERALCO* filed its pre-trial brief. On October 14, 2013, *MERALCO* filed its Opposition to the *SGC*'s Manifestation and Motion. On October 24, 2013, *MERALCO* received the *SGC*'s Reply to its Comment on the Joint Motion to Dismiss. On October 29, 2013, *MERALCO* filed its Rejoinder. Thereafter, the *SGC*'s filed their Sur-Rejoinder dated November 4, 2013. As at February 28, 2022, 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. On July 1, 2020, *MERALCO* received the *SC* Resolution dated March 11, 2020, affirming the *CA* decision that upheld *ERC*'s order directing that the *WESM* settlement price for the 3rd and 4th billing months be set at *NPC-TOU* rates. Entry of Judgment has been rendered and the resolution has become final and executory on October 14, 2020.

Petition for Dispute Resolution with NPC on Premium Charges

On June 2, 2009, *MERALCO* filed a Petition for Dispute Resolution against *NPC* and *PSALM* with respect to *NPC*'s imposition of premium charges for the alleged excess energy it supplied to *MERALCO* covering the billing periods May 2005 to June 2006. The premium charges amounting to ₱315 million during the May-June 2005 billing periods have been paid but are the subject of a protest by *MERALCO*, and premium charges of ₱318 million during the November 2005, February 2006 and April to June 2006 billing periods are being disputed and withheld by *MERALCO*. *MERALCO* believes that there is no basis for the imposition of the premium charges. The hearings on this case have been completed. As at February 28, 2022, the Petition is pending resolution by the *ERC*.

SC TRO on MERALCO's December 2013 Billing Rate Increase

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

On December 19, 2013, several party-list representatives of the House of Representatives filed a Petition against *MERALCO*, *ERC* and *DOE* before the *SC*, questioning the *ERC* clearance granted to *MERALCO* to charge the resulting price increase, alleging the lack of hearing and due process. It also sought for the declaration of the unconstitutionality of the *EPIRA*, which essentially declared the generation and supply sectors competitive and open, and not considered public utilities. A similar petition was filed by a consumer group and several private homeowners' associations challenging also the legality of the *AGRA* that the *ERC* had promulgated. Both petitions prayed for the issuance of *TRO*, and a Writ of Preliminary Injunction.

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

On February 18, 2014, acting on the motion filed by the Petitioners, the *SC* extended for another 60 days or until April 22, 2014, the *TRO* that it originally issued against *MERALCO* and *ERC* on December 23, 2013. The *TRO* was also similarly applied to the generating companies, specifically

MPPCL, SMEC, SPPC, FGPC, and the NGCP, and the PEMC (the administrator of WESM and market operator at that time) who were all enjoined from collecting from MERALCO the deferred amounts representing the ₱4.15 per kWh price increase for the November 2013 supply month.

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

On March 3, 2014, the *ERC* issued an Order voiding the Luzon *WESM* prices during the November and December 2013 supply months on the basis of the preliminary findings of its Investigating Unit (“*IU*”) that these are not reasonable, rational and competitive, and imposing the use of regulated rates for the said period. *PEMC* was given seven (7) days upon receipt of the Order to calculate these regulated prices and implement the same in the revised *WESM* bills of the concerned *DUs* in Luzon. *PEMC*’s recalculated power bills for the supply month of December 2013 resulted in a net reduction of the December 2013 supply month bill of the *WESM* by ₱9.3 billion. Due to the pendency of the *TRO*, no adjustment was made to the *WESM* bill of *MERALCO* for the November 2013 supply month. The timing of amounts to be credited to *MERALCO* is dependent on the reimbursement of *PEMC* from associated generator companies. However, several generating companies, including *MPPCL*, *SN Aboitiz Power, Inc.*, *Team (Philippines) Energy Corporation*, *PanAsia Energy, Inc.* (“*PanAsia*”), and *SMEC*, have filed *MRs* questioning the Order dated March 3, 2014. *MERALCO* has filed a consolidated comment to these *MRs*. In an Order dated October 15, 2014, the *ERC* denied the *MRs*. The generating companies have appealed the Orders with the *CA*. *MERALCO* has filed a motion to intervene and a comment in intervention. The *CA* consolidated the cases filed by the generation companies. In a Decision dated November 7, 2017, the *CA* set aside *ERC* Orders dated March 3, 2014, March 27, 2014, May 9, 2014 and October 15, 2014 and declared the orders null and void. The Decision then reinstated and declared valid *WESM* prices for the November and December 2013 supply months. *MERALCO* and the *ERC* have filed their respective motions for reconsideration. Several consumers also intervened in the case and filed their respective motions for reconsideration. In a Resolution dated March 29, 2019, the *CA* denied the motions for reconsideration and upheld its Decision dated November 7, 2017.

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

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

On April 22, 2014, the *SC* extended indefinitely the *TRO* issued on December 23, 2013 and February 18, 2014 and directed generating companies, *NGCP* and *PEMC* not to collect from *MERALCO*. As at February 28, 2022, 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 (“*PCC*”) which has original and primary jurisdiction over competition-related cases in the energy sector. On August 23, 2016, *MERALCO* filed an Urgent Motion Ad Cautelam for suspension of proceeding including period to file pre-trial brief and judicial affidavit.

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

In an Order dated February 2, 2017, the *ERC* denied the motion to dismiss and asserted jurisdiction over the Complaint. *MERALCO* filed its *MR* to the Order on February 23, 2017. In an Order dated June 20, 2017, the *ERC* denied the *MR*. On September 19, 2017, *MERALCO* filed a Petition for Certiorari with the *CA*. In a Resolution dated October 2, 2017, the *CA* required respondents to file their Comment on the Petition within 10 days and held in abeyance its resolution on the prayer for injunctive relief until the comments have been filed. *MERALCO* was likewise given five (5) days to file its reply. In a Manifestation dated October 23, 2017, the *ERC* stated that it is a nominal party in the case as the quasi-judicial tribunal that issued the assailed ordinances. The *IU* filed its own

Comment dated December 19, 2017. In a Manifestation and Motion dated December 22, 2017, the *OSG* informed the *CA* that it will no longer represent the *IU* and will instead participate as “tribune of the people”. In the meantime, *TMO* also filed a separate Petition for Review on Certiorari with the *CA*. In a Resolution dated January 10, 2018, the *CA* ordered the consolidation of the petitions of *TMO* and *MERALCO*. In a Decision dated May 23, 2018, the *CA* denied the consolidated Petitions filed by *MERALCO*, *TMO*, and *APRI*, and ruled that the jurisdiction to resolve the *IU* cases remains with the *ERC* because the Philippine Competition Act (“*PCA*”) does not apply retroactively.

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

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

The *ERC* has elevated the matter to the *SC*. *MERALCO*, *TMO* and *APRI* have all filed their respective manifestations before the *SC*. As at February 28, 2022, *MERALCO* is awaiting further action by the *SC* on the matter.

In the meantime, the *ERC* called for a conference on March 26, 2021 in order to discuss updates and developments regarding the case. On April 14, 2021, *MERALCO* filed an Urgent Motion Ad Cautelam to Suspend Proceedings in view of the pendency of the case before the *SC*. The *ERC* then issued an Order dated August 13, 2021, setting the pre-trial conference on August 27, 2021. *MERALCO* filed a Manifestation and Urgent Omnibus Motion Ad Cautelam to (A) Resolve the Urgent Motion Ad Cautelam to Suspend Proceedings dated April 14, 2021 and (B) Cancel the August 27, 2021 Pre-Trial Conference dated August 20, 2021. The pre-trial conference proceeded on August 27, 2021. However, the *ERC* stated that, after the pre-trial conference and before the case can proceed with trial on the merits, the *ERC* will first resolve *MERALCO*’s motions. The *ERC* also issued an open court order denying the motion of the *ERC IU* that the case be resolved through the submission of the position papers and other supporting documents. The *ERC IU* filed a Motion for Reconsideration to which *MERALCO* filed an opposition. As at February 28, 2022, *MERALCO* is awaiting further action by the *ERC* on the matter.

SPPC versus 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* had 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, *PSALM* terminated the said Agreement. *SPPC* filed a complaint at the *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 *MRs* 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 a *MR* dated

November 6, 2015 of the Order admitting *MERALCO*'s intervention. *RTC-Mandaluyong* issued an Order dated June 27, 2016 denying the *MRs*. *PSALM* elevated these orders to the *CA* through a Petition for Certiorari. In a Resolution 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-Mandaluyong*.

On July 26, 2019, *PSALM* filed a Petition for Certiorari to assail the September 24, 2018 Order and April 29, 2019 Order of the *RTC* which directed *PSALM* to respond to *SPPC*'s interrogatories and submit certain documents. *PSALM* subsequently filed an Amended Petition on March 14, 2020. In a Resolution dated June 17, 2020, the *CA* directed the respondents to file their comment to the Amended Petition. *MERALCO* filed its Compliance with Motion to Drop Party-Respondent on July 13, 2020. In a Resolution dated February 1, 2021, the *CA* granted *MERALCO*'s motion.

In the meantime, on February 14, 2020, *MERALCO* filed its Motion to Withdraw as *MERALCO* no longer possessed any legal interest in the subject matter of the case as its *PSA* with *SPPC* subject of the dispute already expired. While *PSALM* has no objection to *MERALCO*'s withdrawal from the case, *SPPC* requested for time to file its comment. In an Order dated July 20, 2020, the *RTC* granted *MERALCO*'s Motion to Withdraw.

Ombudsman Cases Against MERALCO Directors

On January 30, 2018, *MERALCO* received an Order dated January 22, 2018 from the Office of the Ombudsman directing *MERALCO*'s directors to comment on a complaint-affidavit for syndicated estafa filed by certain consumer group which charged that there was conspiracy between *MERALCO* directors and the *ERC* regarding the alleged misappropriation of the bill deposits received from *MERALCO* consumers. On February 9, 2018, *MERALCO*'s directors filed their Counter-Affidavits where they refuted the arguments of the consumer group. In a Resolution dated May 18, 2018, the criminal complaint for syndicated estafa was dismissed for insufficiency of evidence. The case was referred to the *COA* for the conduct of audit on the bill deposits collected by *MERALCO* from the public consumers and to inform the Ombudsman of the compliance therewith. The consumer group filed a Motion for Partial Reconsideration dated June 16, 2018 to which *MERALCO* filed its Comment. The consumer group's Motion for Partial Reconsideration was denied through an Order dated July 30, 2018. *NASECORE* filed an *Urgent Motion for Immediate Execution* dated September 21, 2018 praying that the Ombudsman issue a writ of execution to implement the *Resolution* dated May 18, 2018 which directed the Commission on Audit to conduct an audit. As at February 28, 2022, there has been no further action by the Ombudsman in this case. There has also been no action by the Commission on Audit on this matter.

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

Others

Liabilities for certain local taxes amounting to ₱423 million and ₱1,535 million as at December 31, 2021 and 2020, respectively, are included in the “Other noncurrent liabilities” account in the consolidated statements of financial position.

Management and its internal and external counsels believe that the probable resolution of these issues will not materially affect *MERALCO*’s financial position and results of operations.

30. Significant Contracts and Commitments

MERALCO

Independent Power Producers (“IPPs”)

FGPC and FGP

In compliance with the *DOE*’s program to create a market for Camago-Malampaya gas field and enable its development, *MERALCO* contracted 1,500 *MW* of the 2,700 *MW* output of the Malampaya gas field.

Accordingly, *MERALCO* entered into separate 25-year *PPAs* with *FGPC* (March 14, 1995) and *FGP* (July 22, 1999) for a minimum number of *kWh* of the net electric output of the Sta. Rita and San Lorenzo power plants, respectively, from the start of their commercial operations. The *PPA* with *FGPC* terminates on August 17, 2025, while that of *FGP* ends on October 1, 2027.

On January 7, 2004, *MERALCO*, *FGP* and *FGPC* signed an Amendment to their respective *PPAs*. The negotiations resulted in certain new conditions including the assumption of *FGP* and *FGPC* of community taxes at current tax rate, and subject to certain conditions increasing the discounts on excess generation, payment of higher penalties for non-performance up to a capped amount, recovery of accumulated deemed delivered energy until 2011 resulting in the non-charging of *MERALCO* of excess generation charge for such energy delivered beyond the contracted amount but within a 90% capacity quota. The amended terms under the respective *PPAs* of *FGP* and *FGPC* were approved by the *ERC* on May 31, 2006.

Under the respective *PPAs* of *FGP* and *FGPC*, the fixed capacity fees and fixed operating and maintenance fees are recognized monthly based on the actual Net Dependable Capacity tested and proven, which is usually conducted on a semi-annual basis.

QPPL

MERALCO entered into a *PPA* with *QPPL* on August 12, 1994, which was subsequently amended on December 1, 1996. The *PPA* is for a period of 25 years from the start of commercial operations up to May 31, 2025.

In a Letter Agreement signed on February 21, 2008, the amount billable by *QPPL* included a transmission line charge reduction in lieu of a previous rebate program. The Letter Agreement also provides that *MERALCO* shall advance to *QPPL* US\$2.85 million per annum for 10 years beginning 2008 to assist *QPPL* in consideration of the difference between the transmission line charge specified in the Transmission Line Agreement (“*TLA*”) and the *ERC*-approved transmission line charge in March 2003. *QPPL* shall repay *MERALCO* the same amount at the end of the 10-year period in equal

annual payments without adjustment. However, if *MERALCO* is able to dispatch *QPPL* at a plant capacity factor of no less than 86% in any particular year, *MERALCO* shall not be required to pay US\$2.85 million on that year. This arrangement did not have any impact on the rates to be charged to consumers and hence, did not require any amendment in the *PPA*, as approved by the *ERC*.

See *Note 11 – Financial and other Noncurrent Assets*.

Committed Energy Volume to be Purchased

The following are forecasted purchases/payments to *FGPC*, *FGP* and *QPPL* corresponding to the Minimum Energy Quantity (“*MEQ*”) provisions of the contracts. The forecasted fixed payments include capacity charge and fixed operation and maintenance cost escalated using the *U.S.* and *Philippine Consumer Price Index*.

Year	MEQ	Equivalent Amount
	<i>(In million kwh)</i>	<i>(In Millions)</i>
2022	15,327	₱27,741
2023	15,327	28,216
2024	15,360	28,732
2025	10,742	18,682
2026-2031	7,497	11,677

PSAs with Privatized Plants and IPPAs

The *PSAs* signed with *MPPCL*, *TLI*, *SPPC*, *Sem-Calaca* and *SMEC* were approved by the *ERC* on December 17, 2012. However, *SPPC*, *Sem-Calaca* and *SMEC* filed *MRs* with respect to the *ERC* decisions on the *PSAs*. In an Order dated December 16, 2013, the *ERC* denied the Motion for Partial Reconsideration on the *PSA* with *SMEC*. Both *MERALCO* and *SMEC* filed separation motions with respect to such order. In an Order dated May 29, 2018, the *ERC* partially granted the Motion for Partial Reconsideration on the *PSA* with *Sem-Calaca*. On July 25, 2018, *MERALCO* filed a motion for clarification of the said Order which, as at February 28, 2022, remains pending for resolution of the *ERC*. Meanwhile, the term of the *PSA* with *Sem-Calaca* expired on December 25, 2018, while the *PSAs* with *SPPC*, *TLI* and *SMEC* expired on December 25, 2019.

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*. In its order dated September 11, 2019, the *ERC* denied the motion filed by *MERALCO* to extend the *TLI PSA*.

On December 6, 2019, *MERALCO* and *TLI* executed a new short-term *PSA* for the purchase of 250 *MW* capacity and energy from *TLI*'s power plant for the period of December 26, 2019 to December 25, 2020. On December 19, 2019, the *DOE* issued a Certificate of Exemption from *CSP* in favor of *MERALCO* for the new short-term *PSA*. On December 23, 2019, *MERALCO* filed an application with the *ERC* for the approval of its new short-term *PSA* with *TLI*. On August 7, 2020, *MERALCO* and *TLI* filed a Joint Manifestation with Motion with the *ERC* seeking approval of the extension of the *PSA* for five days or until December 30, 2020. As at February 28, 2022, hearings have been completed. The case, including the motion, is still pending approval of 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)
2022	2,737	₱62,485
2023	2,647	63,352
2024	3,047	65,760
2025	3,026	62,695
2026-2031	18,750	382,636

The *ERC*, for the *MPPCL* case, issued an Order dated October 11, 2016 resolving to consider *MERALCO*'s "Manifestation and Motion" as a new application for approval of *PSA*. In view of the said Order, *MERALCO* and *MPPCL* filed a Joint Application for approval of the Supplemental Agreement extending the term of their *PSA* for an additional three (3) years. On December 19, 2019, *MERALCO* and *MPPCL* entered into an Agreement to Amend the Supplemental Agreement, whereby the Parties resolved to extend the *PSA* for an additional period of one (1) year reckoned from the date of the approval by the *ERC* of the said Agreement to Amend. On June 8, 2020, *MERALCO* and *MPPCL* filed a Joint Manifestation and Omnibus Motion to seek *ERC* approval of said Agreement to Amend. On April 14, 2021, due to exigent and emergency reasons (e.g. unforecasted supply deficiency and to account for outages of power plants with bilateral contracts with *MERALCO*), *MERALCO* and *MPPCL* further agreed to enter into an Amendment Agreement to amend the December 19, 2019 Agreement to Amend, to instead extend the *PSA* for an additional period of one (1) year from May 26, 2021. On even date, (a) *MERALCO* and *MPPCL* filed a Joint Manifestation and Omnibus Motion to seek *ERC* approval of the said Amendment Agreement; and (b) *MERALCO* sought confirmation from the *DOE* that the extension of the *ERC*-approved 2011 *PSA*, as embodied in the Amendment Agreement, is exempted from the conduct of a *CSP*. In its letter dated July 30, 2021, the *DOE* denied *MERALCO*'s request for certificate of exemption from *CSP*. As at February 28, 2022, the *ERC* has yet to act on the parties' Joint Manifestation and Omnibus Motion.

Philippine Power and Development Company ("Philpodeco")

On May 15, 2014, *MERALCO* and *Philpodeco* executed a *PSA*. *Philpodeco* operates three (3) run-of-river hydro power plants, namely: (i) Palakpakin, a 448 *kW* hydro power plant located at Barangay Prinza, Calauan, Laguna; (ii) Calibato, a 75 *kW* Calibato hydro power plant located at Barangay Sto. Angel, San Pablo City, Laguna; and (iii) Balugbog, a 528 *kW* hydro power plant located at Barangay Palina, Nagcarlan, Laguna. The *PSA* has a term of five (5) years from the delivery period commencement date.

On June 2, 2014, *MERALCO* filed an application with the *ERC* for the approval of its *PSA* with *Philpodeco*. This *PSA* provides that *MERALCO* shall accept all the energy deliveries of *Philpodeco* as measured by the latter's billing meter. Hearings on this case have been completed and *MERALCO* has submitted its *FOE*. On January 25, 2019, *MERALCO* filed an Urgent Motion to Resolve the case. On May 22, 2019, *MERALCO* filed a Manifestation with Motion to Resolve seeking *ERC* confirmation of the extension of the term of the *PSA* with *Philpodeco* from May 15, 2019 to October 25, 2019. On October 24, 2019, *MERALCO* wrote *DOE* asking for exemption from the requirement for *CSP* for a further extension of the term of the *PSA* with *Philpodeco* from October 25, 2019 to May 15, 2020. On the same date, *MERALCO* also filed a Manifestation with Motion to Resolve seeking *ERC* confirmation of the said extension of term. In its letter to *Philpodeco* dated December 18, 2019, the *DOE* has taken the position that "xxx [u]nder Section 45(b) of Republic

Act No. 9136, ERC is the sole authority mandated to review and approve PSAs.” On May 15, 2020, the *PSA* with *Philpodeco* expired. As at February 28, 2022, the case is pending decision by the *ERC*.

Bacavalley Energy Inc. (“BEI”)

MERALCO signed a *CSE* with *BEI* on November 12, 2010. *BEI* owns and operates a four (4) *MW* renewable energy generation facility powered by landfill gas in San Pedro, Laguna. The *CSE* has a term of two (2) years from the delivery period commencement date.

Purchases from *BEI*, an embedded renewable energy generator, are *VAT* zero-rated and exempt from power delivery service charge. *MERALCO* filed an application for the approval of the *CSE* with the *ERC*, for the provisional implementation of the contract on December 15, 2010. In an order dated January 31, 2011, the *ERC* provisionally approved the said application.

After a series of negotiations, *MERALCO* and *BEI* signed the Letter Agreements dated March 1, 2013 and March 5, 2013, extending the *CSE* between said parties for another two (2) years from March 16, 2013, or until March 15, 2015. In its Order December 9, 2013, the *ERC* allowed the *CSE* to be extended until March 15, 2015. On March 12, 2015, *MERALCO* and *BEI* executed a Letter of Agreement extending the *CSE* until March 15, 2016. On March 16, 2015, *MERALCO* filed a Manifestation with Motion to the *ERC* for approval of the extended term. On March 1, 2016, *BEI* requested for the extension of the *CSE* for another two (2) years. In its letter dated April 7, 2016, *MERALCO* denied *BEI*’s request to extend the *CSE*. On May 18, 2018 and January 25, 2019, *MERALCO* filed Urgent Motions to Resolve the case. As at February 28, 2022, the contract term has expired and the case is pending decision by the *ERC*.

Pangea Green Energy Philippines, Inc. (“PGEP”)

On May 31, 2012, *MERALCO* signed a *CSE* with *PGEP*, a biomass power plant located in Payatas, Quezon City using methane gas extracted from the Payatas landfill as its fuel. Its plant has a total nominal generating capacity of 1,236 *kW*. The *CSE* is for a period of two (2) years from the delivery period commencement date.

On June 15, 2012, *MERALCO* filed an application for approval of the *CSE*. On August 28, 2012, the *ERC* issued an Order provisionally approving the application. On August 29, 2013, the *ERC* extended the provisional authority in its Order dated August 12, 2013. On March 2, 2015, *MERALCO* and *PGEP* executed a Letter of Agreement extending the *CSE* until February 29, 2016. On March 4, 2015, *MERALCO* filed a Manifestation with Motion with the *ERC* for the approval of the extended term. On September 16, 2015, *MERALCO* received a letter from *PGEP* seeking the termination of the *CSE* effective October 15, 2015. The termination of the *CSE* was thereafter formalized in the Letter Agreement dated October 29, 2015 where the parties agreed to terminate the *CSE* effective October 9, 2015, which was *PGEP*’s Facility Registration Date with the *WESM*. On January 8, 2016, *MERALCO* filed a Manifestation with Motion with the *ERC* seeking approval of the extended term of March 4, 2015 until October 9, 2015. On May 17, 2018 and January 25, 2019, *MERALCO* filed Urgent Motions to Resolve the case. In its Order dated February 18, 2019, the *ERC* directed *MERALCO* to submit certain documents to facilitate its evaluation of the application. On March 29, 2019, *MERALCO* filed its Compliance with Manifestation. As at February 28, 2022, the contract term has expired and the case is pending decision by the *ERC*.

TMO

On March 4, 2013, *MERALCO* signed an Interconnection Agreement with *TMO* for their 243 *MW* generating facility at the Navotas Fish Port Complex, Navotas City, which is an interconnection at

MERALCO's Grace Park-Malabon 115 kV line. TMO is an embedded generator. TMO shall construct at its own cost, operate and maintain the 115 kV line connecting its generating facility to MERALCO's system. TMO and MERALCO subsequently signed a Supplement to the Interconnection Agreement dated July 3, 2014 covering the construction of a second line from the connection point at the Grace Park-Malabon 115 kV line to the TMO switchyard.

On September 27, 2013, *MERALCO* signed a *PSA* with *TMO* for the output of the barge-mounted, bunker oil-fired diesel engines moored at the Fish Port Complex in Navotas, Manila. On September 30, 2013, *MERALCO* filed an application with the *ERC* for the approval of the *PSA*. In an Order dated November 4, 2013, the *ERC* granted the prayer for provisional authority. After hearing and submission of the required documents, including the *FOE*, the case is now submitted for decision.

On December 17, 2014, *MERALCO* and *TMO* entered into an Amendment to the *PSA* based on the power situation outlook for 2015 and 2016 issued by the *NGCP* that the reserve capacity will be below the Contingency Reserves due to the maintenance shutdowns and forced outages of major power plants in Luzon. The amendment to the *PSA* was filed for approval with the *ERC* on January 21, 2015. In an Order dated April 6, 2015, the *ERC* approved the amendment in the *PSA* between *MERALCO* and *TMO* with modification. In an Order dated July 1, 2015, the *ERC* clarified that the provisional approval, while not specifically modifying nor stating any condition with respect to the implementation of the outage provisions of the amendment, covers the increase in outage allowance and the minor change in operating procedures.

On June 16, 2015, *MERALCO* received the Omnibus Motion for Partial Reconsideration and Deferment of Implementation of the Order dated April 6, 2015; Urgent Resolution of the Application; and Confidential Treatment filed by *TMO*.

In an Order dated April 5, 2016, the *ERC* ruled that the provisional authority granted to *MERALCO* and *TMO* is extended unless revoked or made permanent. On June 10, 2016 and July 5, 2016, respectively, *MERALCO* and *TMO* filed a Motion for Clarification of the *ERC* Order dated April 5, 2016. Said motions are still pending decision by the *ERC*. On January 3, 2017, *MERALCO* filed a Manifestation with Motion informing the *ERC* of the extension of the term of the *PSA* from June 26, 2017 to June 25, 2018. In an Order dated June 6, 2017, the *ERC* noted *MERALCO's* Manifestation and Motion and confirmed one (1) year extension of the *PSA*. *MERALCO* and *TMO* were further directed to strictly comply with the provisions of *ERC* Resolution No. 1, Series of 2016, in particular, the one (1) time limit for renewal of the *PSA*. As at February 28, 2022, the contract term has expired and the case is pending decision by the *ERC*.

SBPL

On September 26, 2019, *MERALCO* and *SBPL* began implementation of the *PSA* which was approved by the *ERC*, subject to *ERC's* subsequent issuance of a certificate of compliance to replace the provisional authority to operate. The *PSA* is for a period of 20 years from the start of commercial operations up to September 25, 2039.

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. On March 4, 2015, the Joint Application for approval of said *PSA* was filed with the *ERC*. On August 10, 2020, *MERALCO* and *BGI* filed a joint manifestation with the *ERC*, manifesting that the Joint Application for approval of the *PSA* is deemed moot considering the provisions of the *PSA* are rendered inapplicable and unenforceable given the expiration of the *PSA* without an approval from the *ERC*. As at February 28, 2022, the case is still pending decision by the *ERC*.

Montalban Methane Power Corporation (“MMPC”)

On May 13, 2009, *MERALCO* filed an Application with the *ERC* for approval of its *CSE* with *MMPC* which the *ERC* approved with modification in its Decision dated December 3, 2012. In a Letter Agreement dated June 6, 2013, the *CSE* was extended until September 11, 2013 and parties agreed to automatically renew the *CSE* for a series of 3-month terms unless *MMPC* informs *MERALCO* in writing no longer than 30 days before the lapse of each 3-month term that it no longer intends to extend the *CSE*. Upon information from *MMPC*, in a Letter Agreement dated January 21, 2015, the parties agreed to terminate the *CSE* effective January 26, 2015. However, despite the termination of the *CSE*, *MMPC* was still able to inject energy to *MERALCO*'s distribution system. In its letter dated June 9, 2015, *MMPC* sought the *ERC*'s assistance to, among other things, recover reasonable charges for the energy that was generated and injected by *MMPC* to *MERALCO*'s distribution system. In a letter dated July 20, 2015, the *ERC* suggested that *MERALCO* and *MMPC* discuss and agree on the possible mechanism for the compensation of energy generated and injected by *MMPC* to *MERALCO*'s distribution system. Pursuant to the directive of the *ERC*, *MERALCO* and *MMPC* entered into a Memorandum of Agreement (“*MOA*”) covering the payment of energy generated and injected by *MMPC* to *MERALCO*'s distribution system. On July 1, 2020, *MERALCO* received the *ERC* Decision dated November 5, 2019 approving the collection from the customers of the payment of energy generated and injected by *MMPC* to *MERALCO*'s distribution system in five (5) equal monthly installments and the remittance of the same to *MMPC*, beginning the billing period following *MERALCO*'s receipt of the Decision. As at February 28, 2022, the collection of the payment and remittance of the same to *MMPC* have been completed.

PEDC

On April 26, 2016, *MERALCO* signed a 20-year *PSA* with *PEDC* for the purchase of up to 70 *MW* of electric output from the 150 *MW* coal-fired power generating facility in Brgy. Ingore, La Paz, Iloilo. In its letter dated November 23, 2016, the *ERC* informed *MERALCO* that the *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 the *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 March 3, 2017, *PEDC* filed a Motion partially seeking reconsideration of the provisional rate approved under the *PSA*. On October 3, 2017, *PEDC* filed a Supplemental Motion for Reconsideration. On April 30, 2018, *MERALCO* received *PEDC*'s Manifestation and Motion praying that *MERALCO* be authorized by the *ERC* to collect from its customers the difference between the provisional rate approved by the *ERC* and the rates originally applied for under the *PSA*. As at February 28, 2022, further *ERC* action is pending.

In the meantime, on May 17, 2019, *MERALCO* received the *SC* Decision in *Alyansa Para sa Bagong Pilipinas, Inc. vs. ERC, et al.* (G.R. No. 227670, 3 May 2019) that effectively required all *PSA* applications for *ERC* approval filed on or after June 30, 2015 to undergo *CSP*, which includes the *MERALCO* and *PEDC PSA*, following the *DOE* Circular 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” (“*2018 DOE Circular*”), which was published on February 9, 2018.

Consequently, on October 8, 2019, *MERALCO* filed a Manifestation that it has requested *DOE* for exemption from *CSP* for a *PSA* with *PEDC* for an additional period up to one (1) year and preparations for the implemented term of their *PSA* (i.e., not covered by *CSP* exemption) is already underway. On January 15, 2020, the *DOE* issued a *CSP* exemption for a period of one (1) year from

August 26, 2019 to August 25, 2020. In several Joint Manifestations filed by *MERALCO* and *PEDC*, the parties manifested that the *PSA* will continue until implementation of the new *PSA* resulting from the *CSP*. As at February 28, 2022, the *ERC* has not issued a directive to stop the continuation of the *PSA* pending the conduct of the *CSP*.

On September 30, 2021, *MERALCO*'s Third Party Bids and Awards Committee ("*TPBAC*") published the Invitation to Bid for the contract period ending on January 25, 2037, to abide by the *SC* Decision in G.R. No. 227670, and comply with *CSP* prescribed in the *2018 DOE Circular*. On November 22, 2021, *PEDC* received from the *TPBAC* a Notice of Award in its favor after submitting the lowest bid and passing the post-qualification evaluation. On November 29, 2021, *MERALCO* signed a new 15-year *PSA* with *PEDC* for 70 *MW* of contract capacity. The application for approval of the new *PSA* with *PEDC* was filed on January 20, 2022. As at February 28, 2022, the joint application for approval of *MERALCO*'s new *PSA* with *PEDC* is scheduled for hearings on March 8, 2022 and March 15, 2022.

First Bulacan

On May 12, 2021, *MERALCO* and *First Bulacan* began implementation of the *PSA* which was approved by the *ERC*, subject to *ERC*'s subsequent issuance of a certificate of compliance to replace the provisional authority to operate. The *PSA* is for a period of 20 years from the start of commercial operations.

Solar Philippines Tanauan Corporation ("Solar Philippines Tanauan")

On December 22, 2016, *MERALCO* signed a 20-year *PSA* with *Solar Philippines Tanauan* for the purchase of 50 *MW* of electric output from its solar plant in Tanauan, Batangas. On February 27, 2017, after conduct of a *CSP* wherein *Solar Philippines Tanauan* was declared as the winning power supplier, the application for approval of the *PSA* with *Solar Philippines Tanauan* was filed. In a Decision promulgated on February 28, 2020, the *ERC* approved the *PSA* with modification.

Solar Philippines Tarlac Phase I

On October 6, 2017, after being declared the winning power supplier in a *CSP*, *MERALCO* signed a 20-year *PSA* with *Solar Philippines Tarlac* for the purchase of up to 85 *MW* of electric output from Phase one (1) of its solar plant in Tarlac. The application for approval of the *PSA* with *Solar Philippines Tarlac* was filed on October 19, 2017. Hearings have been completed and parties await *ERC* resolution on *Solar Philippines Tarlac*'s opposition to a consumer group's intervention, which shall prompt submission of case for final decision. Meanwhile, in an Order promulgated on June 8, 2018, the *ERC* granted Interim Relief to provisionally implement the *PSA*. On July 3, 2018, *Solar Philippines Tarlac* filed a Motion for Partial Reconsideration of the said Order. *MERALCO* and *Solar Philippines Tarlac* agreed on a way forward, subject to resolution of the Motion for Partial Reconsideration, and began implementation of the *PSA* on August 20, 2018. On July 13, 2018, *MERALCO* filed its *Comment with Opposition* in so far as the adjustment of the timelines under the *PSA* is concerned. On November 26, 2018, a consumer group filed its *Comment with Opposition*, likewise with respect to *Solar Philippines Tarlac*'s motion for the adjustment of the timelines under the *PSA*. In its Order dated January 23, 2019, the *ERC* partially granted the Motion for Partial Reconsideration filed by *Solar Philippines Tarlac* and allowed the 2% annual escalation under the *PSA*. On June 25, 2019, the *ERC* promulgated its Order leaving the adjustment of the timelines set under the *PSA* to the discretion of *MERALCO* and *Solar Philippines Tarlac*. Meanwhile, the 20-year term of the *PSA* began on commencement date last August 20, 2018. As at February 28, 2022, the parties are awaiting *ERC*'s final decision on the Joint Application.

FNPC

Following conduct and completion of a *CSP*, *MERALCO* confirmed effectivity of the *PSA* with *FNPC* dated December 13, 2017, for the purchase of 414 *MW* electric energy generated by the San Gabriel Gas Plant beginning *ERC* approval and ending on February 23, 2024. A joint application for approval of the *PSA* with *FNPC* was filed on March 19, 2018. Pursuant to an *ERC* Order granting interim relief, on June 26, 2018, *MERALCO* and *FNPC* began implementing the *PSA*. As at February 28, 2022, hearings have been completed and the case is pending decision by the *ERC*.

Solar Philippines Tarlac Phase 2

On February 22, 2019, after being declared the winning power supplier in a *CSP*, *MERALCO* signed a 20-year *PSA* with *Solar Philippines Tarlac* for the purchase of up to 50 *MW* of electric output from Phase 2 of its solar plant in Tarlac. The application for approval of the *PSA* with *Solar Philippines Tarlac* was filed on March 18, 2019. As at February 28, 2022, the case is pending decision by the *ERC*.

SMEC, AC Energy and SPPC – Baseload PSAs

On September 13, 2019, after being declared the winning power suppliers in a *CSP*, *MERALCO* signed three (3) *PSAs* for baseload capacity with *AC Energy* for 200 *MW*, *SMEC* for 330 *MW*, and *SPPC* for 670 *MW*. On October 22, 2019, the joint applications for approval of these three (3) baseload *PSAs* were filed before the *ERC*. In its letters to *MERALCO*, all dated December 23, 2019, the *ERC* granted provisional authority to implement *MERALCO*'s three (3) *PSAs* for baseload capacity with *AC Energy*, *SPPC* and *SMEC*. On January 30, 2020, *MERALCO* received the orders of the *ERC* granting provisional authority to implement *MERALCO*'s *PSA* for baseload capacity with *AC Energy*. On March 16, 2020, *MERALCO* received the orders of the *ERC* granting provisional authority to implement *MERALCO*'s *PSAs* for baseload capacity with *SPPC* and *SMEC*. In its Orders dated November 26, 2020, the *ERC* granted interim relief authorizing continued implementation of the *PSAs*, until revoked or until the issuance of a final decision by the *ERC*. As at February 28, 2022, the three (3) *PSA* applications are pending final decision by the *ERC*.

FGHPC, AC Energy and SPPC – Mid-merit PSAs

On September 16, 2019, after being declared the winning power suppliers in a *CSP*, *MERALCO* signed three (3) *PSAs* for mid-merit capacity with *FGHPC* for 100 *MW*, *AC Energy* for 110 *MW*, and *SPPC* for 290 *MW*. On October 22, 2019, the joint applications for approval of these three (3) *PSAs* were filed before the *ERC*. On January 30, 2020, *MERALCO* received the orders of the *ERC* granting provisional authority to implement *MERALCO*'s the *PSA* for mid-merit capacity with *AC Energy*. On March 16, 2020, *MERALCO* received the orders of the *ERC* granting provisional authority to implement *MERALCO*'s other *PSAs* for mid-merit capacity with *FGHPC* and *SPPC*. In its Orders dated November 26, 2020, the *ERC* granted interim relief authorizing continued implementation of the *PSAs*, until revoked or until the issuance of a final decision by the *ERC*. As at February 28, 2022, the three (3) *PSA* applications are pending final decision by the *ERC*.

Excellent Energy Resources, Inc. ("EERI") and MPPCL - Baseload PSAs

On March 2, 2021, after being declared the winning power suppliers in a *CSP* 1,800 *MW* baseload capacity from greenfield power plants was conducted, *MERALCO* signed two (2) *PSAs* with *EERI* with commercial operations date in December 2024 for 1,200 *MW*, and with *MPPCL* with commercial operations date in May 2025 for 600 *MW*. The joint applications for approval of

MERALCO's PSAs with MPPCL and EERI were filed with the *ERC* on March 18, 2021 and March 24, 2021, respectively. As at February 28, 2022, the two (2) *PSA* applications are pending final decision by the *ERC*.

Interim Power Supply Agreements ("IPSAs")

On January 24, 2017, in view of the Malampaya shutdown that was to coincide with the scheduled outage of other plants, *MERALCO* signed an *IPSA* with Strategic Power Development Corporation ("*SPDC*") for the supply of 100 *MW* per hour of electric power from 0901H to 1000H and from 2001H to 2100H, and 150 *MW* per hour of electric power from 1001H to 2000H, from January 28, 2017 until February 16, 2017. An application for approval of such *IPSA* was filed before the *ERC* on February 9, 2017. The said *IPSA* was effective immediately, on the condition that disallowances and penalties that the *ERC* may impose as a result thereof shall be for the account of *SPDC*. *MERALCO* and *SPDC*, in a letter agreement dated February 15, 2017, agreed to extend the term of the *IPSA* until March 25, 2017 under the same terms and conditions of the *IPSA*. On February 16, 2017, *MERALCO* and *SPDC* filed a Joint Manifestation with Motion with the *ERC* apprising the Honorable Commission of the extended term and praying that the same be duly considered and approved accordingly. The hearings on this case have been completed and *MERALCO* filed its *FOE* on July 21, 2017. As at February 28, 2022, the contract term has expired and *MERALCO* awaits the *ERC's* final decision on the *IPSA*.

On April 15, 2019, in view of the *NGCP* forecast that low voltage situations will occur for the weekdays of May up to the first half of June 2019 every time the Luzon peak demand exceeds 11,200 *MW*, *MERALCO* signed two (2) separate *IPSAs* with: (i) *MEI* for the purchase of 70 *MW* of electric power, subject to a net dependable capacity test, from April 26, 2019 to June 25, 2019, from *MEI's* Gas Turbine Power Plant in Navotas Fishport Complex, Navotas City; and (ii) *TMO* for the purchase of up to 200,000 *kW* contract capacity and associated energy, subject to restatement based on the results of capacity test, from April 26, 2019 to April 25, 2020, from *TMO's* 242 *MW*-installed capacity, barge-mounted, bunker-fired diesel power generating and interconnection facilities in Navotas City. For the said *IPSAs*, *MERALCO* also received the *DOE's* grant of exemption from the requirement for *CSP*. The applications for approval of said *IPSAs* were filed before the *ERC* on April 17, 2019. In accordance with the said *IPSAs*, with the filing of the joint applications and *DOE's* exemption, the mutual obligations to sell and purchase power under said agreements were implemented beginning April 26, 2019. On July 1, 2019, *MERALCO* filed its Compliance with Formal Offer of Evidence on the *TMO IPSA* Joint Application. In addition, in light of the declarations of yellow and red alerts in the Luzon Grid by *NGCP*, *MERALCO* and *MEI*, in a Letter Agreement dated June 20, 2019, agreed to extend their *IPSA* until September 25, 2019. Further, given continuing declarations of yellow and red alerts in the Luzon grid by *NGCP*, *MERALCO* and *MEI*, in a Letter Agreement dated September 23, 2019, agreed to further extend their *IPSA* until April 25, 2020. *MERALCO* also received the *DOE's* grant of exemption from the requirement for *CSP* for said periods. In a Letter Agreement dated January 28, 2020, *MERALCO* and *MEI* agreed on another extension of their *IPSA* from April 26, 2020 to June 25, 2020 in view of *DOE's* forecast, presented to *MERALCO* in a meeting with the *DOE* on January 16, 2020, which showed red alert situation in the Luzon grid for the period from April to June 2020. *MERALCO* wrote *DOE* on January 29, 2020 to request for exemption from the requirement for *CSP* for said period. However, the *PSA* with *MEI* was not extended as the *DOE* did not issue any exemption to be able to further extend the *PSA*. Thus, on April 25, 2020, the *PSA* with *MEI* expired. On even date, the *PSA* with *TMO* also expired. As at February 28, 2022, the cases remain pending with the *ERC*.

On September 28, 2021, in view of the Malampaya shutdown set for October 2021 that was to coincide with the scheduled outage of other plants, *MERALCO* signed a Contract for Supply of Electric Energy ("*CSEE*") with *PSALM* for the supply of 90 *MW* for the period of ten (10) months

from September 26, 2021 to July 25, 2022. On even date, the *DOE* issued a Certificate of Exemption from *CSP* in favor of *MERALCO* for the *CSEE*. With the *DOE*'s grant of exemption from the requirement for *CSP*, the parties began implementation of the *CSEE* on September 29, 2021. The application for approval of the *CSEE* with *PSALM* was filed on December 29, 2021. As at February 28, 2022, the hearings with the *ERC* of the application for approval of the *CSEE* with *PSALM* are on-going.

On February 4, 2022, after being declared the winning power supplier in a *CSP*, *MERALCO* signed a 5-month *PSA* with *SPPC* for 170 *MW* contract capacity. As at February 28, 2022, the joint application for approval of *MERALCO*'s emergency *PSA* with *SPPC* is undergoing virtual pre-filing procedures with the *ERC*.

Clark Electric

SMEC

On March 20, 2013, *Clark Electric* and *SMEC*, as the *IPP* Administrator of the Sual coal-fired thermal power plant, entered into a *PSA* through December 25, 2019, unless terminated earlier in accordance with the terms of the Agreement. The initial contracted capacity from the plant was pegged at 55 *MW* which may be increased up to 70 *MW*.

On July 09, 2015, *Clark Electric* and *SMEC* filed a joint application for the amendment of the *PSA*, which prayed that *Clark Electric* be allowed to get additional supply from *SMEC* as replacement power during scheduled maintenance shutdown of the Sual Power Plant Unit 1 at rate lower than that of the *WESM* rate. Although a decision has yet to be granted by the *ERC* with respect to the said application, it has, nonetheless, granted *Clark Electric*'s application for Interim Power Supply Agreements for the replacement power during the outage of Sual Power Plant Unit 1 in 2016 and in 2017 through the *ERC* orders dated September 20, 2016 and September 13, 2017, respectively.

With the effectivity of *RCOA*, the various contestable customers shifted their power supply sourcing from *Clark Electric* to their respective *RES*. In line with the switching, *Clark Electric* and *SMEC* agreed to gradually lower the *PSA* contracted capacity by an aggregate of 40 *MW* in 2017 to manage the electric retail rates of its captive customers.

On October 10, 2019, *Clark Electric* and *SMEC* jointly filed an Extremely Urgent Motion for the Confirmation of the *PSA* Extension in which the *ERC* resolved to grant an interim relief to extend the implementation of the *PSA* from December 26, 2019 to December 25, 2020. The said *PSA* ended on December 25, 2020.

SPDC

On February 20, 2017, *Clark Electric* executed a *PSA* with *SPDC*, the *IPP* Administrator of the 345 *MW* San Roque Hydroelectric Power Plant in Barangay San Roque, San Miguel, Pangasinan. *Clark Electric* and *SPDC* agreed that the latter shall supply a total of 25 *MW*, consisting of 20 *MW* (firm) and 5 *MW* (non-firm) capacities during Mondays to Saturdays, excluding national holidays from trading intervals 0901H to 2100H. On May 29, 2019 and May 30, 2019, *Clark Electric* and *SPDC* received, respectively, the *ERC*'s Order dated December 19, 2019, which granted interim relief to implement the *PSA*. In view of this, the parties immediately implemented the *PSA* beginning July 2019 billing period.

On December 10, 2019, *Clark Electric* and *SPDC* filed an Extremely Urgent Motion for the Confirmation of the *PSA* Extension praying for the confirmation of the extension of the *PSA* effective

December 26, 2019 to December 25, 2020. On December 19, 2019, the *ERC* issued an order which granted an interim relief to implement the said extension.

On June 17, 2020, *Clark Electric* and *SPDC* filed a Joint Ex-Parte Manifestation to the *ERC* to address the significant reduction in electric demand across the *Clark Electric* franchise area and to spare *Clark Electric*'s customers from high generation charges during the implementation of *ECQ*. Under the Supplemental Agreement, the parties agreed that for the periods affected by the *ECQ* commencing from April 07, 2020 until June 30, 2020 or earlier upon resumption of *Clark Electric*'s normal demand, *Clark Electric* will only pay *SPDC* the energy actually taken and consumed from its take or pay 20 MW (firm) power requirement under the *SPDC PSA* and the unpaid amount shall be banked and consumed by *Clark Electric* after the *ECQ* billing periods, in a least cost manner. Relative thereto, the unpaid amounts during the *ECQ* billing periods may be consumed by *Clark Electric* through replacement power consumed during scheduled maintenance outage of Sual Power Plant Unit 1. Accordingly, since the maintenance outage of Sual Power Plant Unit 1, which was initially scheduled on October 13, 2020, was deferred to a later date, the banked energy will not be fully utilized by *Clark Electric* on or before the expiration date. In line with this and in view of the expiration of the *SPDC PSA* on December 25, 2020, *Clark Electric* proposed to utilize the remaining balance of the banked energy under the Supplemental Agreement after the expiration date through the extension of the term of the *SPDC PSA* from December 26, 2020 until the banked energy is fully consumed. On December 23, 2020, *Clark Electric* and *SPDC* filed a Joint Ex-Parte Manifestation to the *ERC* to allow the implementation of the 2017 *PSA* beyond the contract expiration date until the banked energy is consumed. The *PSA* between *Clark Electric* and *SPDC* ended on December 25, 2020.

SCPC

On August 28, 2020, *Clark Electric* conducted a *CSP* for the procurement of 20 MW of baseload power supply for a contract term of ten (10) years commencing on December 26, 2020. *SCPC* was selected as the winning bidder for submitting the least cost bid.

On October 26, 2020, *Clark Electric* executed a *PSA* with *SCPC*, the power generation company which owns, operates and maintains the 600 MW Batangas Coal-Fired Thermal Power Plant located in Calaca, Batangas. On October 30, 2020, *Clark Electric* and *SCPC* filed a Joint Application with Motion for Confidential Treatment of Information and Prayer for Provisional Authority for the approval of their *PSA*. Accordingly, the *ERC* has set the expository presentation and pre-trial conference on March 4 and 11, 2021, respectively.

On January 25, 2021, *Clark Electric* and *SCPC*, jointly filed an urgent ex-parte motion for the issuance of provisional authority to implement the *PSA*. On March 1, 2021, the *ERC* granted the provisional authority to implement the *PSA* between *Clark Electric* and *SCPC*.

SPDC

On August 28, 2020, *Clark Electric* conducted a *CSP* for the procurement of its 25 MW of mid-merit power supply requirement for a contract term of five (5) years commencing on December 26, 2020. *SPDC* was selected as the winning bidder for submitting the least cost.

On October 23, 2020, *Clark Electric* executed a *PSA* with *SPDC* for the supply of 25 MW contract capacity and associated energy beginning December 26, 2020. The *PSA* was jointly filed by *Clark Electric* and *SPDC* on October 28, 2020 with Motion for Confidential Treatment of Information and Prayer for Provisional Authority for the approval of their *PSA*. Thus, the expository presentation and pre-trial conference was set by *ERC* on March 9 and 16, 2021, respectively.

On January 25, 2021, *Clark Electric* and *SPDC*, jointly filed an urgent ex-parte motion for the issuance of provisional authority to implement the *PSA*. The provisional authority was granted by the *ERC* through its Order which was promulgated on June 11, 2021.

TransCo/NGCP

Clark Electric executed a Transmission Service Agreement on December 26, 2013 with *NGCP* for the provision of necessary transmission services in accordance with the *OATS* rules for five (5) years until December 25, 2018. This was renewed for another five years until December 25, 2023.

Supply and Equipment Loan Agreement with Shell

Panay Power Corporation (“*PPC*”) has a Supply and Equipment Loan Agreement with Shell, whereby Shell will supply *PPC*’s total requirements of petroleum products at prices based on the formula indicated in the agreement. The agreement also provides that Shell will install at *PPC*’s premises the equipment and facilities for the storage and servicing of products purchased at no cost to *PPC*. The agreement is effective for 15 years and ended until 2013, subject to pricing review every five years. As *PPC* has not utilized the contracted quantity, the *PPC*’s bid committee approved the renewal of the agreement for another five years or until the contracted quantity is fully utilized. Under the new contract, pricing is subject to review every year.

Long-term Coal Supply Agreements (“CSA”)

In order to ensure that there is an adequate supply of coal to operate the power plants, the respective operating plants entered into several long-term contracts with local and foreign coal suppliers. The long-term supply agreements are as follows:

PEDC

Supplier	Coal Type	Contract Duration	Price Basis	Quantity per Year
Semirara Mining and Power Corporation	Local	2021	GNewC Index with Forex	105,000 MT
PT Sakti Nusantara Bakti	Indonesia	2017 - 2026	New C Index	150,000 MT
Samsung C&T Corporation	Indonesia	2020 - 2024	GNewC Index	100,000 MT
Galaxy Resources and Trading Corp. (“ <i>Galaxy</i> ”)	Indonesia	2020 - 2025	GNewC Index	200,000 MT

CEDC

Supplier	Coal Type	Contract Duration	Price Basis	Quantity per Year
Semirara Mining and Power Corporation	Local	2021	GNewC Index with Forex	105,000 MT
PT Adaro	Indonesia	2020 - 2024	GNewC Index	165,000 MT
PT Antang Gunung Meratus	Indonesia	2020 - 2024	GNewC	275,000 MT
PT Antang Gunung Meratus	Indonesia	2021 - 2025	GNewC	110,000 MT
Kideco	Indonesia	2021 - 2025	GNewC	110,000 MT
Galaxy	Indonesia	2021 - 2025	GNewC	55,000 MT
RWood Resources	Indonesia	2021 - 2025	GNewC	55,000 MT

TPC

Supplier	Coal Type	Contract Duration	Price Basis	Quantity per Year
Semirara Mining and Power Corporation	Local	2021	GNewC Index with Forex	157,000 MT
Kideco	Indonesia	2021 - 2025	GNewC	110,000 MT
PT Antang Gunung Meratus	Indonesia	2021 - 2025	GNewC	55,000 MT
Galaxy	Indonesia	2021 - 2025	GNewC	110,000 MT
RWood Resources	Indonesia	2021 - 2025	GNewC	110,000 MT

Cagbalete Island Microgrid Electrification Expansion Capital Expenditure Project (“Cagbalete Microgrid Project”)

On July 23, 2019, *MERALCO* inaugurated the first phase of its power microgrid in Cagbalete Island, Quezon Province as part of its continuing initiative of rural energization using sustainable energy. The microgrid is a hybrid generating plant that features a 60 *kW PV* system, 150 *kWh* battery energy storage system and two (2) units of 30 *kW* diesel generators, which shall provide 24 x 7 power to the residents of the island.

On May 31, 2019, *MERALCO* filed an application dated May 29, 2019 to implement the proposed *Cagbalete Microgrid Expansion Project* to allow *MERALCO* to serve the rest of the residents in Cagbalete Island. The *Cagbalete Microgrid Expansion Project* with an estimated cost of ₱219 million, will utilize a scaled-up hybrid generation system by similarly using solar photovoltaic (“*PV*”) panels, diesel generators and lithium-ion battery storage as main components. Hearings have been completed and *MERALCO* filed its *FOE* on August 15, 2019. In an Order dated August 27, 2020, the *ERC* requested additional information regarding the *Cagbalete Microgrid Expansion Project*. *MERALCO* filed its Compliance on October 15, 2020. On November 20, 2020, *MERALCO* filed another Manifestation reiterating the urgency of immediately implementing the *Cagbalete Microgrid Expansion Project*. On May 12, 2021, *MERALCO* filed a Manifestation with Urgent Motion for Resolution to urge the *ERC* to resolve the instant Application. On May 19, 2021, *MERALCO* submitted the letter from the Office of Municipal Mayor of Mauban, Quezon Province which certified that no generation company has applied to the Municipality of Mauban to secure a permit in order to build and operate an electricity generating facility in the island of Cagbalete. On May 31, 2021, *MERALCO* filed a Supplemental Submission and Very Urgent Motion for Resolution to urge the *ERC* to resolve the instant Application. As at February 28, 2022, *MERALCO* is awaiting further action by the *ERC*.

Lease Agreement with CDC

On June 23, 2004, *Clark Electric* entered into a lease agreement with *CDC* for the lease of land and structures for the period of 18 years beginning July 2005, renewable for 25 years upon mutual agreement of both parties.

Beginning July 2004, as stated in the lease agreement, *CDC* charges guarantee fees equivalent to ₱0.05 per *kWh* sold for the first eight (8) years, ₱0.075 per *kWh* for the next four (4) years, and ₱0.12 per *kWh* for the succeeding six (6) years.

IMC with PELCO II

On February 12, 2014, *Comstech* entered into an *IMC* with *PELCO II* for a period of 20 years. *PELCO II* is an electric cooperative with franchise to distribute electric power in certain municipalities of Pampanga.

Pursuant to the *IMC*, *Comstech* shall render technical and management services for the operation, maintenance and management and improvement of *PELCO II*'s electric distribution. As consideration for its technical, consultancy and management services, *Comstech* is entitled to a performance-based remuneration and management fee based on a certain percentage of the operating revenues of *PELCO II*.

Agreement and Registration with PEZA

MERALCO has a concession agreement with *PEZA* for 25 years, whereby *MERALCO* has been contracted to operate the distribution system of *CEZ* beginning May 26, 2014.

MERALCO executed a tripartite agreement with *PEZA* and *TLI* for the billing and settlement of the supply of power from *TLI* to *CEZ* and its locators. Said tripartite agreement is from December 26, 2019 until December 25, 2021. With the extension of the *PSA* of *PEZA* with *TLI* for another year to expire on December 25, 2022, the tripartite agreement is likewise extended until December 25, 2022.

On December 29, 2014, *MERALCO* secured its Certificate of Registration No.10-01-U from *PEZA*, which confirms *MERALCO* as an Ecozone Utilities Enterprise at the *CEZ*.

Joint Venture Agreement with New Clark City

On April 3, 2019, *Shin Clark* signed a Joint Venture Agreement with the *BCDA* for the construction, operation and maintenance of the electric distribution system in New Clark City.

Shin Clark completed the construction of Phase 1A of the Interim Electrical Distribution facilities, which consists of (i) a 33 *MVA*, 69 *kV*-13.8 *kV* interim substation; (ii) 2.2 kilometers of 13.8 *kV* overhead lines; and (iii) 1.5 kilometers of 13.8 *kV* underground line.

On September 15, 2021, *BCDA* secured the endorsement from the Governance Commission for Government Owned and Controlled Corporation for the incorporation of the joint venture company. As at February 28, 2022, the remaining documents for the incorporation are being completed for filing with the *SEC*.

31. Earnings Per Share Attributable to Equity Holders of the Parent

Basic and diluted earnings per share are calculated as follows:

	2021	2020	2019
	<i>(Amounts in millions)</i>		
Net income attributable to equity holders of the Parent (a)	₱23,498	₱16,316	₱23,285
Weighted average common shares outstanding (b)	1,127	1,127	1,127
Per Share Amounts:			
Basic and diluted earnings per share (a/b)	₱20.85	₱14.48	₱20.66

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 2021 and 2020.

There are no other transactions involving common shares or potential common shares between the reporting date and the date of completion of these consolidated financial statements.

32. Other Matters

RCOA

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

On March 31, 2014, the *ERC* issued a Resolution on the Withdrawal of the Rules on Customer Switching and the Retention of the Code of Conduct for Competitive Retail Market Participants. On the same date, *ERC* also issued a Resolution adopting the Rules on the Establishment of Customer Information by the Central Registration Body (“*CRB*”) and Reportorial Requirements, mandating all *DUs* to submit to the *ERC* and *CRB* information on end-users with (i) monthly average peak demand of at least one (1) *MW* for the preceding 12 months; and (ii) monthly average peak demand of 750 *kW* but not greater than 999 *kW*. The *ERC* will use these information as basis for issuance of 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 a Department Circular “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, the *ERC* filed a Petition for Certiorari and Prohibition with prayer for *TRO* and/or *WPI* before the *SC*, which asserted that *RTC-Pasig* has no jurisdiction to take cognizance of *MERALCO*’s Petition, citing Sec. 78 of the *EPIRA*. A similar petition was subsequently filed by the *DOE* before the *SC*.

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

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

On November 24, 2016, the *ERC* promulgated a resolution moving the contestability date of end users with an average monthly peak demand of at least one (1) *MW* from December 31, 2016 to February 26, 2017. On January 17, 2017, *MERALCO*, through its counsel, received an *SC* Resolution dated December 5, 2016, which consolidated the *SC DOE* Petition with the *SC ERC* Petition. The same resolution also denied the Motion for Partial Reconsideration filed by *MERALCO*.

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

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

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

On December 22, 2017, *MERALCO* wrote *ERC* and *DOE* to seek guidance on the impact of the *DOE* Circulars in the light of the *TRO* issued by the *SC*. On January 17, 2018, the *DOE* responded that there is no legal impediment to the implementation of the *DOE* Circulars but it defers to the *OSG* for guidance on the legal aspect of the issuances. As at February 28, 2022, the *ERC* has yet to respond to *MERALCO*'s letter.

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

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

Pre-Emptive Mitigating Measure in the WESM

In December 2014, in its Resolution No. 20, Series of 2014, the *ERC* adopted and established a permanent pre-emptive mitigation measure in the *WESM*. The *ERC* set a cumulative price threshold ("*CPT*") amounting to an average spot price of ₱9,000 per *MWh* over a rolling 7-day period or 168-hour trading interval. Once this *CPT* for said period is breached, it triggers the imposition of a price cap amounting to ₱6,245 per *MWh*. The price cap shall be imposed until after a determination that succeeding *GWAP* rolling average is already below the *CPT*. The pre-emptive measure has taken effect beginning January 9, 2015.

The imposition of the mitigating measure was questioned by the Philippine Independent Power Producers Association ("*PIPPA*") in the *RTC-Pasig* through a Petition for Declaratory Relief with Application for *TRO* and/or Writ of Preliminary Injunction. The Petition prayed for, among others, that the *ERC* Resolutions pertaining to the secondary cap mechanism be declared void *ab initio*. The original petition was subsequently amended to reflect the promulgation of the subsequent *ERC* resolutions extending the effectivity of the *WESM* price cap. On July 21, 2014, *MERALCO* filed its Motion for Leave to Intervene and to Admit Attached Comment in Intervention. The *RTC-Pasig* admitted *MERALCO*'s intervention and comment in its Order dated October 28, 2014. However, in a Motion for Leave to Admit Supplement Petition, *PIPPA* moved for leave to file a supplemental petition to include *ERC* Resolution No. 20, Series of 2014 which provides for a permanent mitigating measure in the *WESM*. In an Order dated May 5, 2015, the *RTC-Pasig*

denied the Motion for Leave to File and Admit Supplemental Petition. *PIPPA* filed a Motion for Partial Reconsideration which was denied by the *RTC-Pasig* in its Resolution dated September 10, 2015. *PIPPA* filed a Petition for Certiorari with the *CA*. The *CA* denied the Petition for Certiorari in its Decision dated June 9, 2017. *PIPPA* filed a *MR* dated July 19, 2017. In a Resolution dated August 16, 2017, the parties were directed to file their comments to the *PIPPA*'s *MR*. *MERALCO* has filed its comment on the *MR*. On April 4, 2018, the *CA* rendered a resolution denying the *MR* filed by *PIPPA*.

On September 29, 2015, the *WESM* Tripartite Committee issued a Joint Resolution further extending the interim offer price cap of ₱32,000 per *MWh* until December 31, 2015. In its Joint Resolution No. 3, Series of 2015, the *WESM* Tripartite Committee resolved to set the *WESM* offer price cap at ₱32,000 per *MWh* and the *WESM* offer price floor of negative ₱10,000 per *MWh* effective January 2016, provided that an annual review shall be undertaken considering the relevant costs assumptions at the time of review.

On December 7, 2015, the *RTC-Pasig* rendered a Decision dismissing the Petition for Declaratory Relief. The *MR* filed by *PIPPA* was denied in a Resolution dated June 16, 2016. *PIPPA* appealed the *RTC-Pasig* Decision with the *SC*. *MERALCO* has filed its comment thereto. *PIPPA* filed a Consolidated Reply on July 17, 2017. As at February 28, 2022, the case is pending before the *SC*.

On May 9, 2017, the *ERC* issued Resolution No. 4, Series of 2017, entitled, "A Resolution Adopting Amendments to the Pre-emptive Mitigating Measure in the *WESM*". They adopted a recalculated cumulative price threshold level of ₱1,080,000 and a shorter five (5)-day (120-hour) rolling average period. This is equivalent to ₱9,000 per *MWh* over said period.

The *ERC* has expressed its intent to further amend the pre-emptive mitigating measure in the *WESM* to increase consumer safety nets against price spikes. The highlight of the amendments would be the lowering of the rolling average period from five (5) days to three (3) days, and the regional/island imposition of the Secondary Price Cap mechanism when the grid interconnection is on outage. In its Resolution No. 7, Series of 2021, promulgated on July 28, 2021, the *ERC* shortened the rolling average period to seventy-two (72) hours and approved the regional/island imposition of the Secondary Price Cap mechanism.

PEZA – ERC Jurisdiction

On September 13, 2007, *PEZA* issued "Guidelines in the Registration of Electric Power Generation Facilities/Utilities/Entities Operating Inside the Ecozones" and "Guidelines for the Supply of Electric Power in Ecozones" ("*Guidelines*"). Under these Guidelines, *PEZA* effectively bestowed upon itself franchising and regulatory powers in Ecozones operating within the legislative franchise areas of *DUs* which are under the legislatively-authorized regulatory jurisdiction of the *ERC*. The *Guidelines* are the subject of an injunction case filed by the *DUs* in *RTC-Pasig*.

On February 4, 2015, the *RTC-Pasig* issued an Order setting a clarificatory hearing on April 15, 2015. During the said hearing, *MERALCO* manifested that it previously filed a Motion to Withdraw as plaintiff on the basis of letter agreements between *MERALCO* and *PEZA*, which is pending before the *RTC-Pasig*. *MERALCO* submitted the Tripartite Agreement among *PEZA*, *PEPOA* and *MERALCO* for approval of the *RTC-Pasig*. In a Decision dated July 3, 2015, the *RTC-Pasig* approved the Compromise Agreement between *PEZA*, *PEPOA* and *MERALCO*. In the hearing on February 10, 2016, the *RTC-Pasig* dismissed the petition upon motion by *PEZA*. The *ERC* filed a *MR* which is pending resolution by the *RTC-Pasig*.

Purchase of Subtransmission Assets (“STAs”)

On April 17, 2012, *MERALCO* and *TransCo* filed a joint application for the approval of the Batch 4 contract to sell with the *ERC*. On April 22, 2013, the *ERC* issued a Decision on *MERALCO*’s joint application for the acquisition of the Batch 4 contract to sell. On June 21, 2013 and July 3, 2013, *MERALCO* and *TransCo* filed a Motion for Partial Reconsideration and *MR*, respectively, regarding the exclusion of certain facilities for acquisition.

On May 22, 2014, *MERALCO* and *TransCo* received an *ERC* Order dated May 5, 2014 denying *MERALCO* and *TransCo*’s Motions. On June 5, 2014, *MERALCO* filed a clarificatory motion and a *MR* of the May 5, 2014 *ERC* Order, which was denied by the *ERC* through an Order dated June 16, 2014. On October 10, 2014, *MERALCO* filed a Motion to Reopen Proceedings for the reception of new evidence to support *MERALCO*’s position on the acquisition of excluded *STAs*. The Motion was heard by the *ERC* on October 17, 2014. After the parties have submitted their respective comments and pleadings, the *ERC* conducted another hearing on February 23, 2015.

In an Order dated March 4, 2015, the *ERC* considered but denied the new and substantive allegations in *MERALCO*’s Motion to Reopen Proceedings. *MERALCO* then filed a Petition for Review with the *CA* to question the Orders of the *ERC*. In a Decision dated August 12, 2016, the *CA* dismissed the Petition. On September 17, 2016, *MERALCO* filed a *MR*. In an Amended Decision dated September 15, 2017, the *CA* granted *MERALCO*’s *MR* and approved the sale of the Dasmarinas-Abubot-Rosario 115 *kV* line and Rosario substation equipment in favor of *MERALCO*. *NGCP* filed a *MR* (of the Amended Decision) dated October 4, 2017. In a Resolution dated May 31, 2018, the *CA* denied the *MR*. *NGCP* filed a Petition for Review with the *SC*.

On March 20, 2015, *MERALCO* filed a case for “Interpleader with Consignation and Specific Performance” against *TransCo* and the Municipality of Labrador, Pangasinan (“*Labrador*”) with the *RTC-Pasig*, praying for the *RTC-Pasig* to (i) accept and approved the consignation of the amount of ₱194.1 million; (ii) declare *MERALCO* to have paid in full the purchase price of the sale of *TransCo*’s assets; (iii) direct *TransCo* to execute the corresponding Deeds of Absolute Sale; and (iv) direct *Labrador* and *TransCo* to interplead their respective claims. On April 14 and 20, 2015, *Labrador* and *TransCo* filed their respective Motions to Dismiss on the ground of impropriety of the filing of the Interpleader and on the ground of *litis pendentia*. *MERALCO* received an Order from *RTC-Pasig* granting the Motions to Dismiss of both *TransCo* and *Labrador*. *MERALCO* filed a *MR* which was denied by the *RTC-Pasig*. *MERALCO* appealed the Decision with the *CA*, which granted the appeal, and remanded the interpleader case to the trial court for proper disposition. The *CA* decision already attained finality as of May 25, 2018.

TransCo and *MERALCO* executed the Deeds of Absolute Sale (“*DOAS*”) on December 10, 2020, covering the Batch 2 and Batch 4 *STAs*. Hence, *MERALCO* has acquired and is in full possession of these assets. In a letter dated October 26, 2021, *NGCP* likewise confirmed that, with the turn-over of these assets, the corresponding Connection Charges and Residual Sub-Transmission Charges (“*CC/RSTC*”) of *MERALCO* starting the December 2021 billing month will be correspondingly adjusted.

On December 15, 2016, *MERALCO* and *TransCo* filed a joint application for the approval of the Batch 3 contract to sell with the *ERC*. Hearings were conducted on August 10, 2018 and October 15, 2018. The *ERC* has yet to set the next scheduled hearing of the case.

FiT

Pursuant to RA No. 9513, or the Renewable Energy Act of 2008 (“RE Act”), the ERC issued Resolution No. 16, Series of 2010, Adopting the *FiT* Rules, on July 23, 2010. As defined under the *FiT* Rules, the *FiT* system is a renewable energy policy that offers guaranteed payments on a fixed rate per *kWh* for electricity from wind, solar, ocean, hydropower and biomass energy sources, excluding any generation for own use.

To fund the *FiT* payments to eligible RE developers, a *FiT-All* charge shall be imposed on all end-users. The *FiT-All* will be established by the ERC upon petition by *TransCo*, which had been designated as the *FiT* Fund Administrator.

On February 5, 2014, the ERC released the *FiT-All* disbursement and Collection Guidelines (“*FiT Guidelines*”) to supplement the *FiT* Rules. This set of guidelines will govern how the *FiT-All* will be calculated using the formulae provided. It will also outline the process of billing and collecting the *FiT-All* from the electricity consumers, the remittance to a specified fund, the disbursement from the *FiT-All* fund and the payment to eligible RE developers.

Starting 2014, *TransCo* applied for the following *FiT-All* rates with the ERC, and ERC rendered a Decision approving the following *FiT-All* rates for the respective years:

Year	Applied Rate per <i>kWh</i>	Approved Rate per <i>kWh</i>	Date Approved
2019	0.2780	0.0495	October 28, 2019
2020	0.2278	0.0983	November 23, 2020
2021	0.1881	–	Pending final decision
2022	0.3320 or 0.3165 (alternative rate in consideration of Covid 19)	–	Hearings are ongoing

On December 23, 2014, *MERALCO* received a copy of a Petition for Prohibition and Certiorari filed with the SC against the ERC, DOE, *TransCo*, NREB and *MERALCO*. The Petition seeks (i) the issuance of a TRO and/or WPI, and after giving due course to the Petition, a Writ of Prohibition to enjoin the respondents from implementing the *FiT-All*, the *FiT* Rules and *FiT* Guidelines; and (ii) the annulment of the *FiT* Rules and *FiT* Guidelines. With the parties’ submission of their respective memoranda, the case is now pending decision. As at February 28, 2022, the said petition is pending with the SC.

In a Decision dated October 6, 2015, the ERC set the Wind *FiT* at ₱7.40 per *kWh*. *MERALCO* filed a MR on the Decision. As at February 28, 2022, the MR is pending further action of the ERC.

On September 29, 2016, Alternergy Wind One Corporation, Petrowind Energy, Inc. and Trans-Asia Renewable Energy Corporation filed a Petition to Initiate Rule-Making to adjust the Wind *FiT* rate of ₱7.40 per *kWh* to ₱7.93 per *kWh*. *MERALCO* filed an intervention in the case. The hearing on the Petition was set on January 6, 2017. *MERALCO*’s motion on the propriety of the petition has been submitted for the resolution of the ERC. As at February 28, 2022, the said petition is ongoing and remains pending with the ERC.

On May 26, 2020, through Resolution No. 6, Series of 2020, the ERC issued the *FiT* adjustments for the years 2016, 2017, 2018, 2019 and 2020 using 2014 as the base year for the consumer price index

(“*CPP*”) and foreign exchange adjustments, pursuant to Section 2.10 of the *FiT* Rules. The said *FiT* adjustments are to be recovered for a period of five (5) years. By way of example, the Wind *FiT* for ₱7.40 per *kWh* will be ₱8.53 per *kWh* for year 2020 and the Solar *FiT* for ₱8.69 per *kWh* will be ₱10.12 per *kWh* for year 2020.

In its Decision dated November 28, 2020, the *ERC* set the modified *FiT2* rate to be applicable from January 1, 2018 to December 31, 2019. The modified Run of River (“*ROR*”) Hydro *FiT2* rate is ₱5.8705 per *kWh* while for Biomass *FiT2*, the rate is ₱6.19 *kWh*.

Renewable Portfolio Standards (RPS)

In accordance with the *RE* Act, the *DOE* issued Department Circular No. DC2017-12-0015 “Promulgating the Rules and Guidelines Governing the Establishment of the Renewable Portfolio Standards for On-Grid Areas” or the *RPS* Rules on December 22, 2017. On June 30, 2020, *MERALCO* submitted its *RPS* Form for 2020 to the *DOE* as part of its compliance with the *RPS* Rules. The *RPS* form contains *MERALCO*’s computation of its requirements, as well as plans to comply with the requirements. *MERALCO* intends to fully comply with its *RPS* obligations while minimizing the rate impact to its customers.

MERALCO is also preparing to register with the Renewable Energy Market or “*REM*”. On August 18, 2020, the *DOE* issued an advisory on the Recalibration of the Commercial Operations of the *REM*. According to the advisory, the *REM* will be launched in June 2021. As at February 28, 2022, the *REM* is not yet operational.

Green Energy Option Program (GEOP)

Pursuant to the *RE* Act, the *DOE* issued Department Circular No. DC2018-07-0019 “Promulgating the Rules and Guidelines Governing the Establishment of the Green Energy Option Program Pursuant to the Renewable Energy Act of 2008” or the *GEOP* Rules on July 18, 2018. On April 22, 2020, the *DOE* also issued Department Circular No. DC2020-04-0009, “Guidelines Governing the Issuance of Operating Permits to Renewable Energy Suppliers under the *GEOP*” as a supplement to the *GEOP* Rules.

On November 24, 2020, the *ERC* released a draft “Resolution Adopting the *GEOP* Rules”. This is in accordance with Section 15(e) of the *DOE*’s *GEOP* Rules stating that “The *ERC* shall issue the necessary regulatory framework particularly in setting the technical and interconnection standards and wheeling fees, to effect and achieve the objectives of the *GEOP*.” On December 7 and 8, 2020, the *ERC* conducted public consultations on the draft. On August 17, 2021, the *ERC* released its *ERC* Resolution No. 8, Series of 2021 (dated April 22, 2021) and put into effect its regulatory framework to govern the *GEOP*. The rules became effective on September 3, 2021.

Recovery of National Power Corporation’s (“NPC”) Stranded Contract Costs

In an Order dated May 22, 2018, the *ERC* approved *PSALM*’s petition for the recovery of *NPC*’s stranded contract costs portion of the universal charge (“*UC-SCC*”). Accordingly, *PSALM* is hereby authorized to recover the stranded contract costs for Luzon, Visayas and Mindanao grids totaling ₱8,547 million with a monthly rate of ₱0.1938 per *kWh* starting May 2018 billing period until the full amount has been recovered.

On January 14, 2019, *MERALCO* received a letter dated December 28, 2018 from *PSALM* advising *MERALCO* to cease the implementation of the collection of the ₱0.1938 per *kWh* for the recovery of the additional *SCC* effective January 2019 as it already recovered the full amount of the stranded

contract costs. This was after *MERALCO* had already completed the billing program for January 2019. Accordingly, on February 6, 2019, *MERALCO* wrote *ERC* proposing to reverse the said collections of the additional *UC-SCC*. On February 7, 2019, *MERALCO* received a letter from the *ERC* which allowed the full reversal of the subject *UC-SCC* in its February billing equivalent to ₱0.3876 per *kWh*, without prejudice to further validation by the *ERC* as to the final amounts due.

In its letter dated January 15, 2020, *MERALCO* informed the *ERC* that it accumulated additional total excess *UC-SCC* collections in the amount of ₱545 million and proposed to implement another reversal to its customers in the amount of ₱0.1453 per *kWh* for the month of February 2020. In its letter dated February 6, 2020, the *ERC* directed *MERALCO* to implement the refund, subject to post-validation. *MERALCO* was then directed to provide additional information as well as status report to the *ERC* with respect to the implementation of refund. *MERALCO* implemented the refund starting its March 2020 billing.

On March 4, 2020, *MERALCO* received a letter dated March 3, 2020, directing it to comment on a petition filed by a consumer group which sought to stop the collection of *UC-SCC* and stranded debts portion of the universal charge ("*UC-SD*") from consumers because of the Murang Kuryente Act. *MERALCO* filed its comment on March 16, 2020.

In a Decision dated April 10, 2019, the *ERC* approved with modification *PSALM*'s petition for the availment of the *NPC*'s stranded contract costs portion of the universal charge for calendar year 2014. *PSALM* is hereby authorized to recover the *UC-SCC* for Luzon, Visayas and Mindanao grids totaling ₱5,117 million with a monthly rate of ₱0.0543 per *kWh* within a period of 12 months.

In separate Orders dated May 28, 2020, the *ERC* dismissed *PSALM*'s petitions for the availment of the *NPC*'s stranded contract costs portion of the universal charge for calendar years 2015 to 2018 due to the promulgation of the Murang Kuryente Act.

Net Metering Program

The *RE* Act mandates the *DUs* to provide the mechanism for the "physical connection and commercial arrangements necessary to ensure the success of the *RE* programs", specifically the Net Metering Program. The *RE* Act defines Net Metering as "a system, appropriate for distributed generation, in which a distribution grid user has a two-way connection to the grid and is only charged for his net electricity consumption and is credited for any overall contribution to the electricity grid". By their nature, net metering installations will be small (less than 100 *kW*) and will likely be adopted by households and small business end-users of *DUs*.

After consultations with stakeholders, the *ERC* issued on July 3, 2013 its Resolution No. 09, Series of 2013, entitled, "A Resolution Adopting the Rules enabling the Net Metering Program for Renewable Energy". The Rules will govern the *DUs*' implementation of the Net Metering Program. Included in the Rules are the interconnection standards that shall provide technical guidance to address engineering, electric system reliability, and safety concerns for net metering interconnections. However, the final pricing methodology to determine the rate at which energy exported back to the distribution system by Net Metering Program participants will be addressed in another set of rules by the *ERC* in due course. In the meantime, the *DUs*' blended generation cost equivalent to the generation charge shall be used as the preliminary reference price in the net metering agreement. The Rules took effect on July 24, 2013. Under *ERC* Resolution No. 6, Series of 2019, entitled, "A Resolution Adopting the Amendments to the Rules enabling the Net Metering Program for Renewable Energy", the *ERC* adopted amendments to the Net Metering Rules. On June 23, 2020, the *ERC* issued Resolution No. 5, Series of 2020 entitled, "A Resolution Clarifying *ERC* Resolution No. 6, Series of 2019, entitled "A Resolution Adopting the amendments to the Rules Enabling the Net-

Metering Program for Renewable Energy". As at December 31, 2021, *MERALCO* has already installed 5,034 meters and energized 4,599 net metering customers.

Interruptible Load Program ("ILP")

In an *ERC* Order dated April 11, 2014, the *ERC* approved with modification *MERALCO*'s request that it be allowed to adopt and implement the *ILP*. *ILP* protocols, compensation and recovery mechanism are governed by *ERC* Resolution No. 5, Series of 2015 "A Resolution Adopting the Amended Rules to Govern the Interruptible Load Program", *DOE* Circular No. DC2015-06-0003 "Providing the Interim Manner for Declaring Bilateral Contract Quantities in the Wholesale Electricity Spot Market and Directing the Philippine Electricity Market Corporation to Establish Necessary Protocols to Complement the Interruptible Load Program" and *ERC* Resolution No. 3, Series of 2019 "A Resolution Clarifying Section 3, Article III of the Amended Interruptible Load Program Rules".

As at December 31, 2021, there are 124 companies with a total committed de-loading capacity of 563.09 *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 28, 2022, the *ERC* has yet to resolve *MERALCO*'s Motion for Partial Reconsideration.

On October 29, 2019, *MERALCO* filed an application, with prayer for provisional authority, for continuing authority to (a) issue bonds or other evidence of indebtedness; and (b) whenever necessary, to mortgage, pledge or encumber any of its property to any creditor in connection with its authority to issue bonds or any other evidence of long-term indebtedness. Hearings have been completed and *MERALCO* filed its *FOE*. On January 21, 2021, *MERALCO* filed its Manifestation with Urgent Motion to Resolution. As at February 28, 2022, *MERALCO* is awaiting final approval of the *ERC*.

CSP Requirement for PSAs

On February 9, 2018, the *DOE* published the *2018 DOE Circular*. Upon effectivity of the Circular, all prospective *PSAs* in grid and off-grid areas shall be procured through *CSP*. The *CSP* under the *2018 DOE Circular* involves publication of invitation to bid, pre-bid conference, bid evaluation, and pre-/post-qualification of winning bidder. Exemption from *CSP* may be granted by the *DOE* in the following instances:

- i. Generation project owned by the *DU* funded by grant or donations
- ii. Negotiated procurement of emergency supply
- iii. Generation project embedded in the *DU*, utilizing indigenous energy resources in the franchise area of the *DU* and subject to a maximum capacity of 10 *MW* per Luzon *DU* and 5 *MW* per Visayas and Mindanao *DU* (introduced by the *2021 Revised CSP Circular*, see discussion below)
- iv. Provision of supply in off-grid areas prior to the entry of new power providers
- v. Provision of supply by *PSALM* through bilateral contracts for power produced from undisposed generating assets and *IPP* contracts sanctioned by *EPIRA*.

PSAs that were granted exemption from *CSP* by reason of need for emergency supply shall be implemented by the *DU* immediately without prejudice to the evaluation and final decision of the *ERC*.

The *DU*'s *CSP* may be managed by a Third Party Bids and Awards Committee ("*TPBAC*") or a Third Party Administrator ("*TPA*"). The *DU*'s *TPBAC* shall be composed of the following (a) one (1) *DU* officer or employee knowledgeable in the technical operations of the *DU*; (b) One (1) *DU* officer or employee with knowledge and/or experience with any local or international competitive bidding procedures; (c) one (1) lawyer; (d) one (1) finance officer or accountant that has knowledge on electricity pricing; and (e) one (1) technical person, or a person with knowledge and/or experience with any local or international competitive bidding procedures. Any two of the last three (3) members shall be captive customer representatives. The selection process of the representatives of the captive customers to the *DU*'s *TPBAC* shall be submitted to the *DOE* for approval. The *DOE* has already approved the selection process of *MERALCO*'s *TPBAC* captive customer representatives.

Direct negotiations may be made by the *DUs* after at least two (2) failed *CSPs* and there is no outstanding dispute on the conducted *CSP*. A *CSP* is considered failed when during its conduct:

- i. No proposal was received by the *DU*
- ii. Only one (1) generator submitted an offer
- iii. Competitive offers of prospective generators failed to meet the requirements prescribed in the bid document

On October 14, 2021, the *DOE* published a *DOE Circular* entitled "Amending Certain Provisions of and Supplementing [the *2018 DOE Circular*] on the Competitive Selection Process in the Procurement by the Distribution Utilities of Power Supply Agreement for the Captive Market" ("*2021 Revised CSP Circular*"). The *2021 Revised CSP Circular* mainly improved the procedural process and flow prescribed under the *2018 DOE Circular* and, most importantly, introduced a new alternative mode of *CSP* – a competitive challenge for unsolicited proposals ("*USP*"), if the *USP* offers a New Technology and does not exceed twenty-five percent (25%) of the distribution utility's peak demand for the year of the *USP*'s required commercial operations minus any capacity previously procured through *USP* for commercial operations in the same year.

New Technology is defined under the *2021 Revised CSP Circular* as referring to “a technology that is novel or a novel use or arrangement of existing technology that has not yet been commercially operating or applied in the country upon effectivity of the Circular. Such technology, whether in whole or in part, is compliant to international test standards in the power generation industry.”

Under the *2021 Revised CSP Circular*, each CSP shall be completed within seven (7) months from the time of the publication of the Invitation to Bid until filing of the PSA to the ERC.

Meanwhile, following the *2018 DOE Circular*, MERALCO constituted its TPBAC to conduct CSP in accordance with the *2018 DOE Circular* and its submitted Power Supply Procurement Plan.

SC Petitions on CSP

On September 5, 2019, representatives of the *Bayan Muna* partylist filed a petition with the SC claiming that the *2018 DOE Circular*, which repealed portions of the *2015 CSP Circular*, is void for violating policies/provisions intended to protect consumers under *EPIRA* and the Constitution (the “*Bayan Muna Petition*”). The *Bayan Muna Petition* also sought for the issuance of TRO and/or writ of preliminary injunction to prevent continuation of the on-going CSPs of MERALCO and some electric cooperatives. On December 17, 2019, MERALCO filed its Comment to the *Bayan Muna Petition*.

On March 3, 2021, MERALCO received a copy of the petition dated February 17, 2021 filed with the SC by representatives of various consumer groups led by the Power for People (P4P) Coalition (the “*P4P Petition*”) against the DOE and MERALCO’s TPBAC. The petition claims that the terms of reference for the 1,800 MW baseload CSP completed in March 2021 are unfavorable to the consumers and non-compliant with the *2018 DOE Circular* and that it would not result in the least cost of electricity. The *P4P Petition* also sought for the issuance of TRO and/or writ of preliminary injunction to prevent continuation and/or nullify the 1,800 MW baseload CSP of MERALCO. In a Resolution dated March 18, 2021, the SC dismissed the *P4P Petition*. The SC held that the issues raised by P4P are factual in nature, which require the SC to inquire into wisdom of the terms of reference. Hence, the petition was deemed premature as P4P itself admitted that DOE has yet to act on its protest letter and the ERC has yet to determine reasonableness of the rates resulting from the CSP.

True-up Adjustments of Fuel and Purchased Power Costs (“TAFPPC”) and Foreign Exchange-Related Costs (“TAFxA”)

On June 20, 2017, the ERC issued a Decision, a copy of which was received by MERALCO on December 29, 2017, authorizing PSALM to recover, within a 60-month period, the amount of ₱3,592 million in the Luzon grid, among others, as part of the TAFPPC and TAFxA; and directed all distribution utilities to comply with the directive.

On January 1, 2018, MERALCO filed a Motion for Partial Reconsideration praying for the suspension of the Order and requesting that MERALCO be allowed to charge the recovery to all types of customers, regardless of whether they were covered or not during the relevant test periods. As at February 28, 2022, the ERC has yet to act on the Motion.

ECQ/MECQ due to COVID-19 Pandemic

In March 2020, President Rodrigo Duterte issued Proclamation Nos. 922 and 929, series of 2020, which declared a State of Public Health Emergency throughout the Philippines due to *COVID-19* and imposed ECQ on the entire Luzon island, beginning March 16, 2020 until April 12, 2020. All

citizens, residents, tourists and establishment owners were urged to act within the bounds of law and to comply with the lawful directives and advisories to be issued by appropriate government agencies to prevent further transmission of *COVID-19* and to ensure the safety and well-being of all. On April 7, 2020, the Office of the President of the Republic of the Philippines through the Office of Executive Secretary issued a Memorandum extending the *ECQ* until April 30, 2020. Under Executive Order No. 112, Series of 2020, President Duterte extended the *ECQ* in high risk areas, including National Capital Region (“*NCR*”) from May 1, 2020 to May 15, 2020. Thereafter, *Modified ECQ* (“*MECQ*”) was declared in high risk areas, including *NCR*, from May 15, 2020 until May 30, 2020.

In line with the foregoing Government pronouncements, the *DOE* and *ERC* issued several advisories and guidelines to electric power industry stakeholders.

Meanwhile, on various dates beginning as early as March 16, 2020, *MERALCO* sent out notices of event of force majeure to power suppliers for its *ERC*-approved *PSAs* currently being implemented. These notices explained that based on the respective *PSAs* entered into by *MERALCO* and its power suppliers, *MERALCO* is entitled to claim relief by reason of an event of force majeure given the prevailing circumstances.

On September 11, 2020, President Duterte signed into law Republic Act No. 11494, the *Bayanihan to Recover as One Act* (“*Bayanihan 2*”) which serves as the government’s second coronavirus pandemic relief measure. In an Advisory dated September 23, 2020, the *DOE* directed power sector entities to observe the grace period and staggered payment for unpaid bills provided under the *Bayanihan 2*. The *DOE* also requested the *ERC* to issue necessary procedures and guidelines for the implementation of the Advisory in line with the policies and purpose of the *Bayanihan 2*. On October 29, 2020, the *ERC* issued an Advisory regarding *Bayanihan 2* with directives on non-disconnection of service due to non-payment of bills; implementation of a minimum 30-day grace period and a 3-month installment plan for the payment of *ECQ/MECQ* bills. *MERALCO* complied with these directives.

In an Advisory dated February 5, 2021, the *DOE* directed all distribution utilities to implement a non-disconnection policy due to non-payment of bills for all electricity consumer whose consumption levels are within the lifeline rate set by the *ERC*. The policy shall apply to all unpaid regular bills and installment payments relative to various advisories of *DOE* and *ERC*. As clarified with the *DOE*, with respect to *MERALCO*’s customers, the non-disconnection policy shall apply to *MERALCO*’s residential customers with an average consumption of 100 *kWh* and below in their November 2020, December 2020 and January 2021 bills. *MERALCO* extended the no disconnection policy until May 14, 2021.

The latest advisory issued by the *ERC* was on September 16, 2021. In this Advisory, the *ERC* made the following directives:

- a. *DUs* are directed to cause the conduct of actual meter reading of their customers’ electricity consumption;
- b. *DUs* should provide their meter readers and other frontline personnel with complete Personal Protective Equipment (“*PPE*”) and other logistical requirements, such as transportation, in order to ensure the safety and smooth performance of their duties; and
- c. *DUs* are directed to submit a report to the *ERC* on their compliance to the above directives on a monthly basis.

Clean Air Act

The Clean Air Act and the related *IRR* contain provisions that have an impact on the industry as a whole and to *TPC*, *PPC*, *GRPI*, *PEDC* and *CEDC* (“the Operating Subsidiaries of *GBPC*”) in particular, that needs to be complied with within 44 months from the effectivity date or by July 2004. Based on the assessment made on the Operating Subsidiaries of *GBPC*’s existing facilities, the Operating Subsidiaries of *GBPC* believe that they comply with the provisions of the Clean Air Act and the related *IRR*.

Energy Regulation (ER) 1-94

Based on *ER 1-94* and the *IRR* of the *EPIRA*, generation companies are mandated to provide benefits to its host communities, equivalent to ₱0.01 per *kWh* of energy generated and sold. The operating subsidiaries of *GBPC* accrue the required benefits to their host community (included under “Trade payables and other current liabilities” account in the consolidated statements of financial position) prospectively from the date of effectivity of *ER 1-94*. Such amount accrued is remitted to the trust account of the *DOE* upon their audit.

33. Notes to Consolidated Statements of Cash Flows

	2021			2020		
	Interest-bearing long-term financial liabilities	Notes payable	Dividends payable	Interest-bearing long-term financial liabilities	Notes payable	Dividends payable
	<i>(Amounts in millions)</i>					
Balance at beginning of year	₱16,771	₱23,373	₱1,251	₱17,860	₱23,393	₱1,037
Payments	(7,388)	(17,419)	(13,748)	(3,662)	(199)	(16,796)
Availments	24,513	22,880	—	2,578	179	—
Dividend declarations	—	—	14,518	—	—	17,010
Preferred stock redemption	(2)	—	—	(7)	—	—
Reclassifications	—	—	—	—	—	—
Interest accretion	(153)	—	—	2	—	—
Effect of consolidation of <i>GBPC</i>	28,323	—	—	—	—	—
Amortization of fair value on the acquisition of <i>GBPC</i>	(230)	—	—	—	—	—
Balance at end of year	₱61,834	₱28,834	₱2,021	₱16,771	₱23,373	₱1,251

34. Event After the Financial Reporting Date

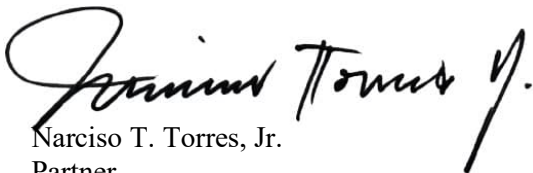
On February 28, 2022, the *BOD* of *MERALCO* approved the declaration of cash dividends of ₱10.226 a share to all shareholders of record as at March 30, 2022, payable on April 26, 2022.

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES

The Stockholders and the Board of Directors
Manila Electric Company and Subsidiaries
Lopez Building, Ortigas Avenue
Barangay Ugong, Pasig City, Metro Manila

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Manila Electric Company and its subsidiaries (the Group) as at December 31, 2021 and 2020, and for each of the three years in the period ended December 31, 2021, included in this Form 17-A, and have issued our report thereon dated February 28, 2022. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The schedules listed in the Index to the Financial Statements and Supplementary Schedules are the responsibility of the Group's management. These schedules are presented for purposes of complying with the Revised Securities Regulation Code Rule 68, and are not part of the basic consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, fairly state, in all material respects, the financial information required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



Narciso T. Torres, Jr.

Partner

CPA Certificate No. 84208

Tax Identification No. 102-099-147

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

SEC Partner Accreditation No. 84208-SEC (Group A)

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

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

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

BIR Accreditation No. 08-001998-111-2020, November 27, 2020, valid until November 26, 2023

PTR No. 8854376, January 3, 2022, Makati City

February 28, 2022

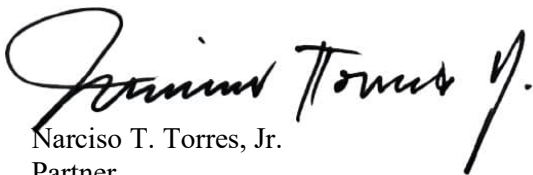


INDEPENDENT AUDITOR'S REPORT ON COMPONENTS OF FINANCIAL SOUNDNESS INDICATORS

The Stockholders and the Board of Directors
Manila Electric Company and Subsidiaries
Lopez Building, Ortigas Avenue
Barangay Ugong, Pasig City, Metro Manila

We have audited in accordance with Philippine Standards on Auditing, the financial statements of Manila Electric Company and its subsidiaries (the Group) as at December 31, 2021 and 2020, and for each of the three years in the period ended December 31, 2021, and have issued our report thereon dated February 28, 2022. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The Supplementary Schedule on Financial Soundness Indicators, including their definitions, formulas, calculation, and their appropriateness or usefulness to the intended users, are the responsibility of the Group's management. These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRSs) and may not be comparable to similarly titled measures presented by other companies. This schedule is presented for the purpose of complying with the Revised Securities Regulation Code Rule 68 issued by the Securities and Exchange Commission, and is not a required part of the basic consolidated financial statements prepared in accordance with PFRSs. The components of these financial soundness indicators have been traced to the Group's consolidated financial statements as at December 31, 2021 and 2020 and for each of the three years in the period ended December 31, 2021 and no material exceptions were noted.

SYCIP GORRES VELAYO & CO.



Narciso T. Torres, Jr.

Partner

CPA Certificate No. 84208

Tax Identification No. 102-099-147

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

SEC Partner Accreditation No. 84208-SEC (Group A)

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

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

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

BIR Accreditation No. 08-001998-111-2020, November 27, 2020, valid until November 26, 2023

PTR No. 8854376, January 3, 2022, Makati City

February 28, 2022



MANILA ELECTRIC COMPANY AND SUBSIDIARIES
Schedule A: Financial Assets
As at December 31, 2021
(Amounts in Millions Pesos)

Name of Issuing Entity and Association of Each Issue	Number of Shares or Principal Amount of Bonds and Notes	Amount shown in the Statement of Financial Position	Value based on Market Quotation at End of Reporting Period	Income Received and Accrued
Cash and cash equivalents:				
Cash in banks	not applicable	20,518	20,518	54
Cash equivalents	not applicable	34,119	34,119	461
Trade and other receivables:				
Electricity distributed	not applicable	31,513	31,513	-
Energy generated	not applicable	3,967	3,967	-
Service contracts	not applicable	3,049	3,049	-
Nontrade receivables	not applicable	3,857	3,857	-
Debt securities at amortized cost:				
Government securities	various	33,009	34,017	549
Private debt securities	various	8,452	8,089	672
Financial assets at FVOCI:				
Government securities	various	3	3	-
Mutual funds	various	3,075	3,075	44
Unit investment trust funds	various	1,110	1,110	16
Corporate bonds	various	2,384	2,384	35
Ordinary and club shares	various	1,895	1,895	-
Other financial assets:				
Short-term investments	not applicable	444	444	
Restricted cash	not applicable	4,698	4,698	
Advance payments to a supplier	not applicable	705	768	
		152,798	153,506	1,831

MANILA ELECTRIC COMPANY AND SUBSIDIARIES
Schedule C: Accounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements
As at December 31, 2021
(Amounts in Millions Pesos)

Name of Related Party	January 1, 2021	Additions / Reclassifications	Collections	Amount written			December 31, 2021
				off	Current	Noncurrent	
Comstech Integration Alliance, Inc.	31	100	-	-	131	-	131
Vantage Energy Solutions and Management, Inc.	51	62	-	-	113	-	113
MRAIL, Inc.	16	1	-	-	17	-	17
eSakay, Inc.	17	-	(13)	-	4	-	4
Miescor Logistics, Inc.	19	-	(6)	-	13	-	13
Meralco Energy Inc.	19	-	(3)	-	16	-	16
Meralco Industrial Engineering Services Corporation	30	4	-	-	34	-	34
Corporate Information Solutions, Inc.	14	-	(1)	-	13	-	13
Miescor Builders, Inc.	-	2	-	-	2	-	2
MSpectrum, Inc.	2	3	-	-	5	-	5
Meralco Financial Services	-	30	-	-	30	-	30
Radius Telecoms, Inc.	-	6	-	-	6	-	6
	199	208	(23)	-	384	-	384

MANILA ELECTRIC COMPANY AND SUBSIDIARIES
Schedule D: Interest Bearing Long-term Financial Liabilities
As at December 31, 2021
(Amounts In Million Pesos)

Title of issue and type of obligation	Interest Rate	Amount authorized by indenture	Amount shown under "Current portion of interest-bearing long-term financial liabilities" in the Consolidated Statement of Financial Position	Amount shown under "Interest-bearing long-term financial liabilities - net of current portion" in the Consolidated Statement of Financial Position
Fixed Rate Loans:				
P11,500 Million, 7-Year Bonds	4.3750%	11,500	-	-
P7,000 Million, 12-Year Bonds	4.8750%	7,000	-	7,000
P7,200 Million, 10-Year Note Facility	4.5000%	7,200	360	4,320
P18,000 Million, 15-Year Term Facility	5.0000%	18,000	450	17,460
P11,000 Million, 12-Year Term Facility	6.25-6.29%	11,000	906	6,923
P16,000 Million, 10-Year Term Facility	4.6600%	16,000	580	4,930
P14,000 Million, 12-Year Term Facility	6.57-10.81%	14,000	4,200	-
P4,500 Million, 12-Year Term Facility	6.5800%	4,500	290	3,860
P7,000 Million, 12-Year Term Facility	7.50-7.58%	7,000	544	3,325
P1,500 Million, 10-Year Term Facility	6.06-6.12%	1,500	153	461
P2,881 Million, 30-Year Term Loan Facility	5.05%-6.22%	2,881	87	2,754
P600 Million, 10-Year Term Loan Facility	4.6500%	600	30	450
P350 Million, 5-Year Note Facility	5.5000%	350	70	70
P130 Million, 7-Year Term Loan Facility	5.5000%	130	-	-
P375 Million, 7-Year Term Loan Facility	4.8850%	375	27	356
P27 Million, 7-Year Term Loan Facility	6.0000%	27	3	20
Fair value adjustment in relation to the purchase of GBPC			-	1,092
Redeemable Preferred Stock	10.0000%		1,470	-
Total			9,170	53,021
Less Unamortized debt issue cost			56	301
Balance at the end of the year			9,114	52,720

Note: The number of periodic payments of the fixed rate loans are disclosed in Note 16 - Interest-bearing Long-term Financial Liabilities in the Consolidated Financial Statements.

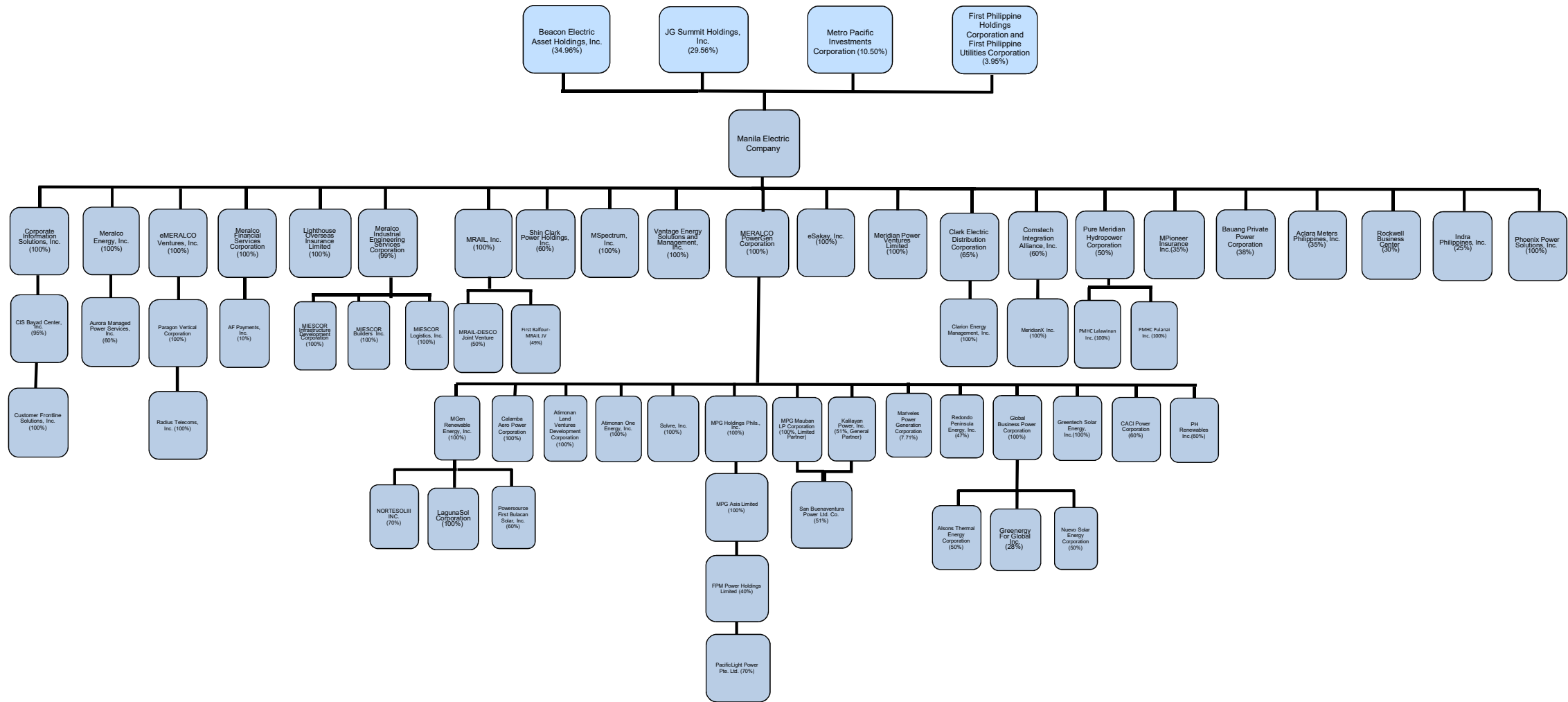
MANILA ELECTRIC COMPANY AND SUBSIDIARIES
Schedule G. Capital Stock
As at December 31, 2021
(Amounts in millions)

Title of Issue	Number of shares authorized	Number of shares issued and outstanding as shown under related balance sheet caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by related parties	Directors, officers and employees	Others
Common Stock	1,250	1,127	-	846	1	280

MANILA ELECTRIC COMPANY
Schedule H: Reconciliation of Retained Earnings Available for Dividend Declaration
As at December 31, 2021
(Amounts in millions)

Unappropriated retained earnings, as adjusted to available for dividends declaration as at January 1, 2021	P <u>8,877</u>
Add: Net income actually earned/realized during the year	<u>21,300</u>
Net income during the year closed to retained earnings	21,300
Add: Non-actual/unrealized income net of tax:	
Movement of deferred tax assets	1,921
Impact of discounting on certain liabilities	<u>1,414</u>
Subtotal	<u>3,335</u>
Less: Non-actual losses	
Unrealized foreign exchange loss	(251)
Depreciation of revaluation increment on utility plant and others - net of tax	<u>(940)</u>
Subtotal	<u>(1,191)</u>
Net income actually earned during the year	23,444
Less:	
Dividends declared during the year	<u>(14,518)</u>
Unappropriated retained earnings available for dividend declaration as at December 31, 2021	P <u><u>17,803</u></u>

MANILA ELECTRIC COMPANY AND SUBSIDIARIES
Schedule I: Map Showing the Relationships among the Companies within the Group
As at December 31, 2021



MANILA ELECTRIC COMPANY AND SUBSIDIARIES

Schedule of Financial Soundness Indicators
As at December 31, 2021, 2020 and 2019

	2021	2020	2019
Current Ratio ⁽¹⁾	0.85 : 1.00	0.90 : 1.00	0.92 : 1.00
Acid ratio ⁽²⁾	0.75 : 1.00	0.83 : 1.00	0.85 : 1.00
Solvency Ratio ⁽³⁾	0.12 : 1.00	0.13 : 1.00	0.16 : 1.00
Debt to Equity Ratio ⁽⁴⁾	0.95 : 1.00	0.51 : 1.00	0.49 : 1.00
Asset to Equity Ratio ⁽⁵⁾	4.93x	4.93x	4.24x
Interest Coverage Ratio ⁽⁶⁾	9.26x	13.60x	18.83x
Profit margin Ratio ⁽⁷⁾	0.07x	0.06x	0.07x
Return on Equity ⁽⁸⁾	0.25x	0.21x	0.28x
Return on Assets ⁽⁹⁾	0.05x	0.04x	0.07x
EBITDA Margin ⁽¹⁰⁾	13.63%	10.84%	12.87%

⁽¹⁾ Current ratio is measured as current assets divided by current liabilities.

⁽²⁾ Acid ratio is measured as current assets minus inventory and prepayments divided by current liabilities.

⁽³⁾ Solvency ratio is measured as net income plus non-cash expenses divided to total liabilities.

⁽⁴⁾ Debt to equity ratio is measured as total debts divided to total equity attributable to equity holders of the parent.

⁽⁵⁾ Asset to equity ratio is measured as total assets divided by total equity attributable to equity holders of the parent.

⁽⁶⁾ Interest coverage ratio is measured as earnings before interest and taxes, divided by total interest and other financial charges.

⁽⁷⁾ Profit margin ratio is computed by dividing net income attributable to equity holders of the parent with total revenues.

⁽⁸⁾ Return on equity is measured as net income attributable to equity holders of the parent with total equity attributable to equity holders of the parent.

⁽⁹⁾ Return on assets is measured as net income attributable to equity holders of the parent with total assets.

⁽¹⁰⁾ EBITDA margin is measured as EBITDA divided by total revenues.

EBITDA is measured as net income excluding depreciation and amortization, impairment of noncurrent assets, interest and other financial charges, interest and other financial income, equity in net earnings or losses of associates and joint ventures, foreign exchange gains or losses, mark-to-market gains or losses, provision for income tax and other non-recurring gains or losses, if any.

MANILA ELECTRIC COMPANY AND SUBSIDIARIES

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	March 31, 2022 (Unaudited)	December 31, 2021 (Audited)
<i>(Amounts in millions)</i>		
ASSETS		
Noncurrent Assets		
Utility plant, generation plant and others	₱228,625	₱225,779
Investments in associates and interests in joint ventures	25,800	23,450
Investment properties	1,495	1,496
Intangible assets	15,103	15,387
Deferred tax assets – net	28,021	27,226
Financial and other noncurrent assets	57,080	53,125
Total Noncurrent Assets	356,124	346,463
Current Assets		
Cash and cash equivalents	58,034	55,007
Trade and other receivables	49,242	45,013
Inventories	10,006	9,817
Financial and other current assets	28,717	27,182
Total Current Assets	145,999	137,019
Total Assets	₱502,123	₱483,482
EQUITY AND LIABILITIES		
Equity Attributable to Equity Holders of the Parent		
Common stock	₱11,273	₱11,273
Additional paid-in capital	4,111	4,111
Equity reserve	(116)	(116)
Employee stock purchase plan	1,049	1,049
Unrealized fair value gains on financial assets at fair value through other comprehensive income (“FVOCI”)	476	502
Remeasurement adjustments on retirement and other post-employment liabilities	2,721	2,681
Share in remeasurement adjustments on associates’ retirement liabilities	(26)	(25)
Cumulative translation adjustments of associates	306	306
Cumulative translation adjustments of subsidiaries	39	40
Treasury shares	(11)	(11)
Retained earnings	69,432	75,394
Equity Attributable to Equity Holders of the Parent	89,254	95,204
Non-controlling Interests	10,244	10,239
Total Equity	99,498	105,443

(Forward)

	March 31, 2022 (Unaudited)	December 31, 2021 (Audited)
<i>(Amounts in millions)</i>		
Noncurrent Liabilities		
Interest-bearing long-term financial liabilities - net of current portion	₱52,102	₱52,720
Customers' deposits - net of current portion	30,982	30,901
Long-term employee benefits	10,926	10,257
Provisions	14,073	13,554
Refundable service extension costs - net of current portion	5,285	5,334
Deferred tax liabilities - net	5,639	5,722
Other noncurrent liabilities	100,983	97,981
Total Noncurrent Liabilities	219,990	216,469
Current Liabilities		
Notes payable	28,471	28,834
Trade payables and other current liabilities	142,521	119,056
Customers' refund	2,926	2,929
Income tax payable	3,241	1,637
Current portion of interest-bearing long-term financial liabilities	5,476	9,114
Total Current Liabilities	182,635	161,570
Total Liabilities	402,625	378,039
Total Liabilities and Equity	₱502,123	₱483,482

MANILA ELECTRIC COMPANY AND SUBSIDIARIES**UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF INCOME**

	Unaudited	
	For the Three Months	
	Ended March 31	
	2022	2021
	<i>(Amounts in millions, except per share data)</i>	
REVENUES		
Sale of electricity	₱83,272	₱62,484
Sale of other services	2,633	2,228
	85,905	64,712
COSTS AND EXPENSES		
Purchased power	61,657	47,482
Salaries, wages and employee benefits	3,977	3,605
Provision for probable losses and expenses from claims	3,794	(1,279)
Coal and fuel	3,466	—
Depreciation and amortization	3,279	2,050
Contracted services	1,777	1,625
Taxes, fees and permits	877	572
Power plant operations and maintenance cost	447	—
Other expenses	1,563	1,249
	80,837	55,304
OTHER INCOME (EXPENSES)		
Interest and other financial income	432	481
Interest and other financial charges	(1,019)	(463)
Equity in net earnings of associates and joint ventures	2,115	293
Foreign exchange gains	224	70
Others	288	326
	2,040	707
INCOME BEFORE INCOME TAX	7,108	10,115
PROVISION FOR (BENEFIT FROM) INCOME TAX		
Current	2,330	1,143
Deferred	(881)	4,615
	1,449	5,758
NET INCOME	₱5,659	₱4,357
Attributable To		
Equity holders of the Parent	₱5,564	₱4,334
Non-controlling interests	95	23
	₱5,659	₱4,357
Earnings Per Share Attributable to Equity Holders of the Parent		
Basic	₱4.94	₱3.85
Diluted	4.94	3.85

MANILA ELECTRIC COMPANY AND SUBSIDIARIES

**UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF
COMPREHENSIVE INCOME**

	Unaudited	
	For the Three Months Ended March 31	
	2022	2022
	<i>(Amounts in millions)</i>	
NET INCOME	₱5,659	₱4,357
OTHER COMPREHENSIVE INCOME (LOSSES)		
Items that will be reclassified to profit or loss in subsequent periods:		
Unrealized fair value gains (losses) on fair value through other comprehensive ("FVOCI") financial assets	(43)	23
Cumulative translation adjustments of subsidiaries	(1)	2
Net other comprehensive income (loss) that will be reclassified to profit or loss in subsequent periods	(44)	25
Items that will not be reclassified to profit or loss in subsequent periods:		
Remeasurement adjustments on retirement and other post-employment liabilities	53	(361)
Income tax effect	(13)	90
	40	(271)
Unrealized fair value gains on equity securities at FVOCI	19	19
Income tax effect	(2)	(2)
	17	17
Share in remeasurement adjustments on associates' retirement liabilities	(1)	—
Net other comprehensive income (loss) that will not be reclassified to profit or loss in subsequent periods	56	(254)
OTHER COMPREHENSIVE INCOME (LOSS), NET OF INCOME TAX	12	(229)
TOTAL COMPREHENSIVE INCOME, NET OF INCOME TAX	₱5,671	₱4,128
Total Comprehensive Income Attributable To		
Equity holders of the Parent	₱5,576	₱4,105
Non-controlling interests	95	23
	₱5,671	₱4,128

MANILA ELECTRIC COMPANY AND SUBSIDIARIES

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE THREE MONTHS ENDED MARCH 31, 2022 AND 2021

	Equity Attributable to Equity Holders of the Parent													
	Common Stock	Additional Paid-in Capital	Equity Reserve	Employee Stock Purchase Plan	Unrealized Fair Value Gains (Losses) on Financial Assets at FVOCI	Remeasure- ment Adjustments on Retirement and Other Post- Employment Liabilities	Share in Remeasure- ment Adjustments on Associates' Retirement Liabilities	Cumulative Translation Adjustments of Associates	Cumulative Translation Adjustments of Subsidiaries	Treasury Shares	Retained Earnings	Equity Attributable to Equity Holders of the Parent	Non- controlling Interests	Total Equity
	(Amounts in millions)													
At January 1, 2022	₱11,273	₱4,111	(₱116)	₱1,049	₱502	₱2,681	(₱25)	₱306	₱40	(₱11)	₱75,394	₱95,204	₱10,239	₱105,443
Net income	—	—	—	—	—	—	—	—	—	—	5,564	5,564	95	5,659
Other comprehensive income (loss)	—	—	—	—	(26)	40	(1)	—	(1)	—	—	12	—	12
Total comprehensive income (loss)	—	—	—	—	(26)	40	(1)	—	(1)	—	5,564	5,576	95	5,671
Dividends	—	—	—	—	—	—	—	—	—	—	(11,526)	(11,526)	(100)	(11,626)
Others	—	—	—	—	—	—	—	—	—	—	—	—	10	10
	—	—	—	—	—	—	—	—	—	—	(11,526)	(11,526)	(90)	(11,616)
At March 31, 2022	₱11,273	₱4,111	(₱116)	₱1,049	₱476	₱2,721	(₱26)	₱306	₱39	(₱11)	₱69,432	₱89,254	₱10,244	₱99,498
At January 1, 2021	₱11,273	₱4,111	(₱116)	₱1,049	₱324	(₱3,822)	(₱13)	₱6	₱22	(₱11)	₱66,414	₱79,237	₱1,494	₱80,731
Net income	—	—	—	—	—	—	—	—	—	—	4,334	4,334	23	4,357
Other comprehensive income (loss)	—	—	—	—	40	(271)	—	—	2	—	—	(229)	—	(229)
Total comprehensive income (loss)	—	—	—	—	40	(271)	—	—	2	—	4,334	4,105	23	4,128
Dividends	—	—	—	—	—	—	—	—	—	—	(8,818)	(8,818)	—	(8,818)
Effect of consolidation of Global Business Power Corporation ("GBPC")	—	—	—	—	—	—	—	—	—	—	—	—	5,461	5,461
	—	—	—	—	—	—	—	—	—	—	(8,818)	(8,818)	5,461	(3,357)
At March 31, 2021	₱11,273	₱4,111	(₱116)	₱1,049	₱364	(₱4,093)	(₱13)	₱6	₱24	(₱11)	₱61,930	₱74,524	₱6,978	₱81,502

MANILA ELECTRIC COMPANY AND SUBSIDIARIES

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

	Unaudited	
	For the Three Months Ended March 31	
	2022	2021
	<i>(Amounts in millions)</i>	
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	₱7,108	₱10,115
Adjustments for:		
Depreciation and amortization	3,279	2,050
Equity in net earnings of associates and joint ventures	(2,115)	(293)
Interest and other financial charges	1,019	463
Provision for probable losses and expenses from claims - net	685	(1,347)
Interest and other financial income	(432)	(481)
Others	(6)	(26)
Operating income before working capital changes	9,538	10,481
Decrease (increase) in:		
Trade and other receivables	(9,577)	11,157
Inventories	(189)	302
Financial and other current assets	(6,918)	(384)
Increase (decrease) in:		
Trade payables and other current liabilities	18,685	(10,720)
Customers' deposits	223	407
Customers' refund	(3)	(30)
Long-term employee benefits	702	695
Net cash flows provided by operating activities	12,461	11,908
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of Global Business Power Corporation ("GBPC") – net of GBPC's cash upon acquisition	–	(9,824)
Additions to:		
Financial assets at <i>FVOCI</i>	(10,741)	(10,858)
Debt securities at amortized cost	(9,405)	(11,863)
Utility plant and others	(5,731)	(4,032)
Short-term investments	(1,168)	–
Investments in associates and interests in joint ventures	(226)	(860)
Intangible assets	(143)	(141)
Investment properties	–	(1)
Proceeds from maturity of:		
Financial assets at <i>FVOCI</i>	10,717	14,394
Debt securities at amortized cost	10,508	2,793
Short-term investments	435	–
Interest and other financial income received	427	553
Proceeds from disposal of utility plant and others	127	27
Dividends received from associates and joint ventures	–	23
Increase (decrease) in minority interests	(89)	15
Decrease (increase) in financial and other noncurrent assets	(175)	926
Net cash used in investing activities	(5,464)	(18,848)

(Forward)

	Unaudited	
	For the Three Months Ended March 31	
	2022	2021
	<i>(Amounts in millions)</i>	
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from availment of:		
Interest-bearing long-term financial liabilities	₱32	₱114
Notes payable	–	22,000
Payments of:		
Interest-bearing long-term financial liabilities	(4,288)	(66)
Notes payable	(363)	(26)
Interest and other financial charges	(1)	(13)
Dividends	–	(1)
Increase (decrease) in other noncurrent liabilities	684	(2,892)
Net cash provided by (used in) financing activities	(3,936)	19,116
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,061	12,176
CASH AND CASH EQUIVALENTS		
AT BEGINNING OF PERIOD	55,007	50,912
NET UNREALIZED FOREIGN EXCHANGE GAINS	(34)	(77)
CASH AND CASH EQUIVALENTS		
AT END OF PERIOD	₱58,034	₱63,011

CERTIFICATION OF INDEPENDENT DIRECTOR

I, **ARTEMIO V. PANGANIBAN**, Filipino, of legal age, and a resident of 1203 Acacia Street, Dasmariñas Village, Makati City, Philippines, after having been duly sworn to in accordance with law do hereby declare that:

1. I am a nominee for independent director of MANILA ELECTRIC COMPANY (MERALCO) and have been its independent director since 2008.
2. I am affiliated with the following listed companies or organizations:

Company/Organization	Position/Relationship	Period of Service
GMA Network, Inc.	Independent Director	2007 to present
Metro Pacific Investments Corp.	Independent Director	2007 to present
GMA Holdings, Inc.	Independent Director	2009 to present
Petron Corporation	Independent Director	2010 to present
Asian Terminals, Inc.	Independent Director	2010 to present
PLDT, Inc.	Independent Director	2013 to present
JG Summit Holdings, Inc.	Independent Director	2021 to present
RL Commercial REIT, Inc.	Independent Director	2021 to present
Jollibee Foods Corporation	Non-Executive Director	2012 to present
Metropolitan Bank and Trust Co.	Senior Adviser	2007 to present
Bank of the Philippine Islands	Member, Advisory Council	2016 to present
DoubleDragon Properties Corp.	Adviser	2014 to present
MerryMart Consumer Corp.	Adviser	2020 to present

For my full bio-data, log on to my personal website: cjpanganiban.com

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of MERALCO, as provided for in Section 38 of the Securities Regulation Code, its Implementing Rules and Regulations and other SEC issuances.
4. To the best of my knowledge, I am not related to any director, officer or a substantial shareholder of MERALCO.
5. To the best of my knowledge, I am not the subject of any criminal or administrative investigation or proceeding pending in court.
6. To the best of my knowledge, I am neither an officer nor an employee of any government agency or government-owned and controlled corporation
7. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code and its Implementing Rules and Regulations, Code of Corporate Governance and other SEC issuances.

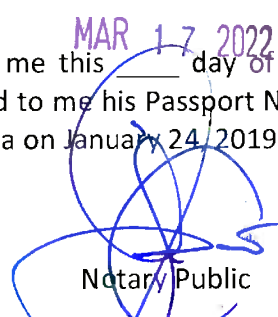
8. I shall inform the Corporate Secretary of MERALCO of any changes in the above-mentioned information within five (5) days from its occurrence.

MAR 17 2022

Done this ____ day of March 2022.


ARTEMIO V. PANGANIBAN
Affiant

MAR 17 2022
SUBSCRIBED AND SWORN to before me this ____ day of March 2022, affiant personally appeared before me and exhibited to me his Passport No. P0388884B issued by the Department of Foreign Affairs in Manila on January 24, 2019.


Notary Public

ISAGANI C. CORUNA II
NOTARY PUBLIC

Appointment No. 140 (2021-2022)

Pasig, San Juan and Pateros

Issued on 05 July 2021 at Pasig City

Roll of Attorneys No. 63124

IBP No. 179340; 01/21/2022; RSM

PTR No. 6131478; 01/06/2022, Pasig City
Purok, Lopez Blg., Ordoñez Ave., Pasig City

Doc. No. 498;

Page No. 16;

Book No. V;

Series of 2022.

CERTIFICATION OF INDEPENDENT DIRECTOR

I, **Lydia Balatbat Echaуз**, Filipino, of legal age, and a resident of 836 Torres Street, Barangay Addition Hills, Mandaluyong City, after having been duly sworn to in accordance with law do hereby declare that:

1. I am a nominee for independent director of MANILA ELECTRIC COMPANY (MERALCO).
2. I am affiliated with the following listed companies or organizations:

Company/Organization	Position/Relationship	Period of Service
D&L Industries, Inc.	Independent Director	2017 to Present
Pilipinas Shell Petroleum Corp.	Independent Director	2017 to Present

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of MERALCO, as provided for in Section 38 of the Securities Regulation Code, its Implementing Rules and Regulations and other SEC issuances.

4. To the best of my knowledge, I am not related to any director, officer or a substantial shareholder of MERALCO.

5. To the best of my knowledge, I am not subject of any criminal or administrative investigation or proceeding pending in court.

6. To the best of my knowledge, I am neither an officer nor an employee of any government agency or government-owned and controlled corporation.

7. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code and its Implementing Rules and Regulations, Code of Corporate Governance and other SEC issuances.

8. I shall inform the Corporate Secretary of MERALCO of any changes in the above-mentioned information within five (5) days from its occurrence.

Done this 9th day of March 2022.


LYDIA B. ECHAUZ
Affiant

SUBSCRIBED AND SWORN to before me this MAR 18 2022 day of March 2022, affiant personally appeared before me and exhibited to me her 118-039-639-000 issued by the Bureau of Internal Revenue (BIR) as his competent evidence of identity.


Notary Public
ATTY. GABRIEL ALFONSO C. ENRIQUEZ
Notary Public
Pasig, San Juan and Pateros
Issued on December 20, 2019 at Pasig City
Appointment No. 54 (2020-2021)
Roll No. 64589/IBP No. 179317 /1-21-2022 RSM Chapter
PTR No. 2136044/1-21-2022 Pasig City
MCLE VII-0001099-10/17/2019
8th Floor Lopez Bldg. Ortigas Avenue. Pasig City

Doc. No. 230 ;
Page No. 47 ;
Book No. VIII ;
Series of 2022.

CERTIFICATION OF INDEPENDENT DIRECTOR

I, **Pedro Roxas**, Filipino, of legal age, and a resident of 6 Ipil Road, Forbes Park, Makati City, after having been duly sworn to in accordance with law do hereby declare that:

- 1. I am a nominee for independent director of **MANILA ELECTRIC COMPANY (MERALCO)**.
- 2. I am affiliated with the following listed companies or organizations:

COMPANY	POSITION	PERIOD OF SERVICE
1. Roxas Holdings, Inc	Chairman	1982 - Present
2. Roxas & Company, Inc	Executive Chairman	1995 - Present
3. Roxaco Land Corporation	Executive Chairman	1995 - Present
4. Club Punta Fuego, Inc	Executive Chairman	1995 - Present
5. Fundacion Santiago	Executive Chairman	1993 - Present
6. Philippine Sugar Millers Association	Executive Chairman	1995 – 1997/2005 – Present
7. MERALCO	Independent Director	May 2, 2010 - Present
8. CEMEX Holdings, Inc	Independent Director	June 3, 2016 - Present
9. MAPFRE Insular Insurance Corp	Independent Director	March, 2018 - Present
10. Brightnote Assets Corp	Independent Director	1999 - Present
11. MPIC	Independent Director	May, 2021 - Present

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of MERALCO, as provided for in Section 38 of the Securities Regulation Code, its Implementing Rules and Regulations and other SEC issuances.

4. To the best of my knowledge, I am not related to any director, officer or a substantial shareholder of MERALCO.

5. To the best of my knowledge, I am not subject of any criminal or administrative investigation or proceeding pending in court.

6. To the best of my knowledge, I am neither an officer nor an employee of any government agency or government-owned and controlled corporation.

7. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code and its Implementing Rules and Regulations, Code of Corporate Governance and other SEC issuances.

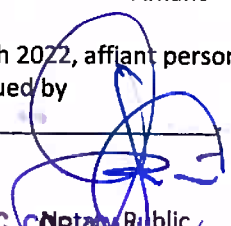
8. I shall inform the Corporate Secretary of MERALCO of any changes in the above-mentioned information within five (5) days from its occurrence.

Done this 15th day of March 2022.


PEDRO O. ROXAS
Affiant

MAR 15 2022

SUBSCRIBE AND SWORN to before me this 15 day of March 2022, affiant personally appeared before me and exhibited to me her _____ issued by _____ in on _____


ISAGANI C. CORTES, Notary Public
Appointment No. 140 (2021-2022)
Pasig, San Juan and Pateros
Issued on 05 July 2021 at Pasig City
Roll of Attorneys No. 63123
IBP No. 179340; 01/21/2022; RSM
Tik No. 8131478; 01/06/2022; Pasig City
Lopez Bldg., Ortigas Ave., Pasig

Doc. No. 471;
Page No. 96;
Book No. _____;
Series of 2022.

REPUBLIC OF THE PHILIPPINES)
PASIG CITY) S.S.

SECRETARY'S CERTIFICATE

I, WILLIAM S. PAMINTUAN, a duly elected, qualified and incumbent Assistant Corporate Secretary of the Manila Electric Company (MERALCO), a private corporation duly organized and existing under and by virtue of the laws of the Republic of the Philippines, do hereby certify that:

At the regular meeting of the Board of Directors of the Company held at its principal office on February 7, 2022, at which meeting a quorum was present, the following resolutions were approved and that said resolutions are in full force and effect on the date hereof:

“RESOLVED, that the Board of Directors authorize and approve, as it hereby authorizes and approves, the conduct of virtual Annual Stockholders’ Meeting (ASM) on May 31, 2022, that is, through remote communication or other alternative modes of communication in accordance with the Securities and Exchange Commission (SEC) Memorandum Circular No. 6 (2020) imposed by the President of the Philippines to minimize undue exposure of the public, in this event the Company’s stakeholders, to COVID-19.”

“RESOLVED, AS IT IS HEREBY RESOLVED, that the Company’s stockholders of record be allowed to participate in the Annual Stockholders’ Meeting and to exercise their right to vote upon any agenda item, through remote communication, or *in absentia*, and for this purpose, their remote or *in absentia* participation be considered in the determination of quorum.”

“RESOLVED, FINALLY, that the Corporate Secretary or any Assistant Corporate Secretary of the Company be, as he is hereby authorized to furnish under the seal of the Company certified copies of the foregoing resolutions to any firm, corporation, or government office or agency which may lawfully require the same in connection with the execution or implementation of the foregoing resolutions.

IN WITNESS WHEREOF, this Certificate was signed this 7th day of February 2022 at Pasig City.


WILLIAM S. PAMINTUAN
Assistant Corporate Secretary

SUBSCRIBED AND SWORN to before me this FEB 07 2022 day of February 2022, affiant exhibiting to me his Taxpayer Identification Number (TIN) 146-473-562 issued by the Bureau of Internal Revenue (BIR) as his competent evidence of identity.

Doc. No. 319 ;
Page No. 45 ;
Book No. VII ;
Series of 2022.


ATTY. CRISOPHER B. ARPON
Notary Public
For and in Pasig, Pateros and San Juan
Appointment No. 11 (2019-2020) January 14, 2019
At Pasig City until December 31, 2020
Roll No. 41620/IBP No. 102739 1/9/2020 RSM Chapter
PTR No. 6569113 1/25/2020 Pasig City
MCLE No. VII-0001089 10/17/2019
6th Floor, Lopez 2147, Crogas Avenue, Pasig City

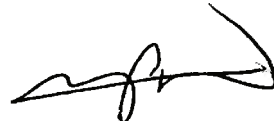
REPUBLIC OF THE PHILIPPINES)
PASIG CITY) S.S.

CERTIFICATION

I, **WILLIAM S. PAMINTUAN**, of legal age, Filipino, in my capacity as the duly elected and incumbent Assistant Corporate Secretary of **MANILA ELECTRIC COMPANY ("MERALCO")**, a corporation duly organized and existing under Philippine laws, with principal office at the Lopez building, Ortigas Avenue, Barangay Ugong, Pasig City, Metro Manila, and with SEC Reg. No. PW-102, do hereby certify under oath that MERALCO has no directors or officers, connected with any government agencies or instrumentalities.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the corporate seal of MERALCO at Pasig City, Philippines, on this _____ day of March 2022.

MAR 08 2022



WILLIAM S. PAMINTUAN
Assistant Corporate Secretary

SUBSCRIBED AND SWORN to before me this _____ day of March 2022 in Pasig City; affiant, William S. Pamintuan, exhibited to me his Passport no. P2095480B valid until May 4, 2029.

MAR 08 2022

Doc. No. 447 ;
Page No. 91 ;
Book No. vll ;
Series of 2022 ;


ATTY. CRISTOPHER B. ARPON
Notary Public
For and in Pasig, Pateros and San Juan
Appointment No. 11 (2019-2020) January 14, 2019
At Pasig City until December 31, 2020
Roll No. 41626/18P No. 102739 1/9/2020 RSM Chapter
PTR No. 6569113 1/25/2020 Pasig City
MCLE No. VII-0741089 10/17/2019
5th Floor Lopez Bldg. Ortigas Avenue, Pasig City