



MERALCO

2018 ANNUAL REPORT



**MY ENERGY PARTNER.
MY MERALCO.**

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WHO WE ARE

- The largest private sector electric distribution utility company in the Philippines covering **36 cities and 75 municipalities**
- Franchise area of over **9,685 km²** which includes the country's industrial, commercial, and population centers
- Market capitalization of **PhP428.3 billion** (US\$8.1 billion) at end-2018.
- Celebrates **116 years** in service in 2019
- **Determined to serve**, today and for the future

OUR COVER

Excellence in the work that we do and in the services that we offer remains our commitment as your energy partner. We shall continue to reach for excellence with a long-held corporate value of *Malasakit*, which has guided generations of the Meralco workforce to mold the Company into what it has become today.

FINANCIAL AND OPERATING HIGHLIGHTS

	2014	2015	2016	2017	2018
FINANCIAL INFORMATION (in Million Pesos, Except Per Share Data)					
Revenues					
Sale of electricity	261,740	249,773	249,206	275,172	295,389
Sale of other services	4,596	8,626	7,975	7,384	9,065
	266,336	258,399	257,181	282,556	304,454
Costs and Expenses					
Purchased power	203,242	192,117	189,853	214,558	232,102
Operating expenses	20,187	24,336	24,935	25,567	25,885
Depreciation and amortization	6,093	6,910	7,312	7,520	7,827
Interest and other financial charges (income) - net	669	(322)	(737)	(658)	(798)
Others	9,677	10,482	9,125	7,707	8,893
	239,868	233,523	230,488	254,694	273,909
EBITDA	32,927	31,124	34,049	34,474	37,165
Reported net income	18,053	19,098	19,176	20,384	23,017
Core net income	18,128	18,887	19,583	20,213	22,408
Core earnings per share	16.08	16.76	17.37	17.93	19.88
Cash dividends declared per common share	12.36	15.25	25.08	18.23	13.38
Market price per share at end of year	256.00	320.00	265.00	328.60	380.00
Market capitalization	288,537	360,672	298,681	370,365	428,298
Utility plant and others	120,830	124,913	128,814	133,874	139,846
Interest-bearing long-term financial liabilities	29,642	29,265	28,872	26,670	26,588
Notes payable	400	1,043	11,475	13,586	13,428
Equity attributable to equity holders of parent	79,154	80,276	74,417	73,610	82,042
Capital expenditures	12,582	11,303	11,584	12,127	13,669
OPERATING INFORMATION					
Customer Accounts (in Thousands)					
Residential	5,097	5,296	5,537	5,812	6,086
Commercial	464	474	486	500	514
Industrial	10	10	10	10	10
Streetlights	4	4	5	5	5
	5,575	5,784	6,038	6,327	6,615
Energy Sales (in GWh)					
Residential	10,364	11,121	12,444	13,060	13,555
Commercial	13,814	14,654	15,867	16,597	17,463
Industrial	10,850	11,216	11,697	12,309	13,156
Streetlights	132	133	134	136	139
	35,160	37,124	40,142	42,102	44,313
System Loss (in %)					
Meralco	6.49	6.47	6.35	5.91	5.67
CEDC	4.37	4.01	3.59	2.14	2.77


6.6M
CUSTOMER
ACCOUNTS


PhP37.2B
EBITDA


PhP22.4B
CORE NET INCOME


5.67%
MERALCO SYSTEM LOSS


PhP23.0B
REPORTED NET INCOME


PhP13.38
CASH DIVIDENDS DECLARED
PER COMMON SHARE


2.77%
CEDC SYSTEM LOSS


PhP13.7B
CAPEX


44,313GWh
ENERGY SALES


PhP304.5B
TOTAL REVENUES

MESSAGE FROM THE CHAIRMAN, THE PRESIDENT AND CEO

Fulfilling Our Commitment to Excellence

To our fellow shareholders,

We are pleased to report that 2018 once again proved Meralco's steadfast commitment to excellence. Our sales, operating, and financial results showed another year of record performance, under business conditions which saw slightly lower growth in Gross Domestic Product (GDP) at 6.2%, higher inflation and interest rates, high coal, gas, and fuel prices, and a weaker peso towards the latter part of 2018, and cooler temperature felt during the first four (4) months of the year.

Challenges notwithstanding, we pursued continuous improvement and outperformed previous years' results, buoyed by a Philippine economy still on a good growth trajectory and a mired yet resilient global economy amid socio-political uncertainties.

Consolidated energy sales volume rose to its highest level at 44,313 GWh or 5% more than the 42,102 GWh recorded in 2017. The fast-growing north and south areas of the franchise helped our strong energy sales, where rapidly-expanding Philippine Offshore Gaming Operators (POGO) and Business Process Outsourcing (BPO) services are based.

Meralco's customer base grew by 5% over 2017 to 6,614,814 customer accounts. Peak demand in the Meralco franchise area went up by 6% over 2017 to 7,399 MW.

Our Consolidated Core Net Income (CCNI) was at PhP22.4 billion, 11% higher than the PhP20.2 billion in 2017. Consolidated Reported Net Income stood at PhP23.0 billion or 13% better than the PhP20.4 billion in 2017. Core Earnings Per Share reached PhP19.88 in 2018, while Reported Earnings Per Share was at PhP20.42. Consolidated Core EBITDA in 2018 rose 8% to PhP37.4 billion from PhP34.6 billion in 2017. Core EBITDA margin was stable at 12% on consolidated revenues.

With a growing customer base and load growth, the persistent demand for adequate, reliable, and least-cost power supply, and the requirement for network hardening and resiliency, public safety, enhanced customer experience and related technology and innovation, we continue to reinvest heavily in capital expenditures (CAPEX). Consolidated CAPEX amounted to PhP13.7 billion in 2018 which was 13% higher over 2017. The amount included the partial approval by the Energy Regulatory Commission (ERC) of PhP24.2 billion out of an almost PhP73.0 billion that Meralco had filed for the entire 4th Regulatory Period (RP), which covers July 1, 2015 to June 30, 2019. While awaiting the ERC approval, we also manifested CAPEX aggregating almost PhP10.0 billion for projects needing immediate implementation. Our CAPEX also included facilities and lines to support embedded renewable energy (RE) plants, with total capacity at 180.3 MW that is 6% higher compared with 2017.

Meralco's system loss rate extended its record-breaking performance for the eighth consecutive year at a 116-year all-time low of 5.67%. The relentless drive to invest the necessary capital expenditures to help reduce technical loss, and to work with law enforcement agencies and local barangays to minimize pilferage of electricity enabled the Company to continuously lower system loss to a level outperforming



"We pursued continuous improvement and outperformed previous years' results."



“The positive outcomes for 2018 enabled excellent returns to about 43,000 Meralco shareholders.”

the much tighter regulatory cap of 7.5% (6.5% distribution feeder cap for private Distribution Utilities plus 1% substation and subtransmission loss) that took effect in June 2018. Achieving a level lower than the regulatory cap has benefited our customers, who have realized cumulative savings of PhP39.6 billion or an average savings of PhP0.11 per kWh since 2008.

Improvements in our system loss rate and other operating performance metrics were also made possible by continuous sizeable investment in various major CAPEX projects to upgrade and expand our electric system infrastructure, such as sub transmission lines and substations. The projects effectively increased power transformer capacity by 385 MVA and circuit length by 136.7 km.

Reflecting the positive outcomes in operating and financial performance is our strong balance sheet. Cash and Cash equivalents as at year-end was PhP36.5 billion, excluding investment in debt securities at amortized cost and fair value through other comprehensive income financial assets and other cash placements, that are classified under other noncurrent assets and other current assets according to their maturities.

The total interest-bearing debt is slightly lower at PhP40.1 billion at end-2018, of which PhP15.5 billion is due to mature within 2019.

Two (2) of our non-electric subsidiaries, CIS Bayad Center, Inc. (Bayad Center) and Radius Telecoms, Inc. (Radius), provided meaningful additions to Meralco's CCNI.

CIS Bayad Center, 95%-owned by Meralco's wholly-owned subsidiary Corporate Information Solutions, Inc. (CIS), strengthened its biller base to 290 from 269. With a wide range of strategic biller-partners including utilities, government agencies, credit companies, and lending institutions, among others, Bayad Center's bills payment facility has now adopted a digital platform. It ended 2018 with 33,280 customer payment touchpoints consisting of more than 600 co-owned and branded stores, 678 automated payment machines (APM), over 2,000 retail machines deployed in neighborhood establishments, and over 29,000 corporate partners. Bayad Center's consolidated revenues stood at PhP1.7 billion in 2018, or an 8% increase over 2017.

LETTER FROM THE PRESIDENT AND CEO

To our Shareholders,

Kindly allow me, as I relinquish my post at the end of Meralco's AGM, to express my sincerest gratitude to our most respected Chairman, Mr. Manuel V. Pangilinan, our Board of Directors, my colleagues in Meralco and Subsidiaries, and to you, our Shareholders, for the immense privilege and pleasure of leading this truly vital and strategic institution.

Our Company has surmounted formidable challenges for over 116 years, and has emerged stronger than ever, creating great value for our customers, our Shareholders, and our own people. This success, we owe to all of you for your trust and confidence. With your continued support, I have absolute confidence that your Company, your Meralco will scale even greater heights.

Maraming Salamat po.

Radius, our operating telecommunications arm, recorded revenues of PhP1.3 billion, which is 20% higher than in 2017. The increase was attributed mainly to an expanded customer base with the completed installation and bandwidth upgrade of additional fiber circuits.

The positive outcomes for 2018 enabled excellent returns to about 43,000 Meralco shareholders. Total cash dividends paid from 2018 CCNI amounted to PhP15.905 per share, or an 80% payout. Meralco share price went up 16%, closing 2018 at PhP380.00 per share over 2017's year-closing price of PhP328.60 per share. For 2018, cash dividend yield reckoned on the 2018 year-end share price was at 4%. Meralco ended the year with a market capitalization of PhP428.3 billion.

THE 2018 PHILIPPINE ECONOMY

GROSS DOMESTIC PRODUCT (GDP)



Economic growth was supported by:



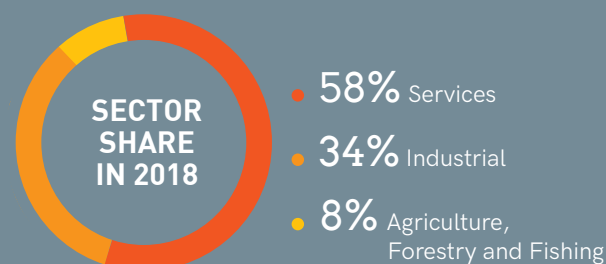
Sector growth fueled by sustained strong performance of:



GROWTH RATES BY EXPENDITURE



GROWTH RATES BY SECTOR



FOREIGN EXCHANGE*

Average USD to PhP rates



INFLATION

Inflation rates (2012 = 100)



*Data from Bangko Sentral ng Pilipinas

There are more details concerning our operating performance in the Business Review section of this Annual Report.

Embracing Change and Disruptions

We recognize the continuous, evolving needs and aspirations of our customers, especially amidst rapidly-advancing technology and a very competitive industry.

Our digital journey further gained speed in 2018 with the Meralco Online and the Meralco Mobile app which significantly enhanced online payments, facilitated customer applications, accelerated energization, and provided convenience for paperless bill information and settlements.

Retail Competition and Open Access (RCOA) for contestable customers remains very challenging and intensely price-competitive. At year-end 2018, there remained 30 licensed Retail Electricity Supply (RES) and 25 authorized Local RES providing electricity to voluntary contestable customers with demand of at least 750 KW in Luzon and Visayas. The number of qualified contestable customers in Luzon and Visayas stood at 1,876 at end-2018, of which 1,203 had sealed retail supply contracts.

Energy security by way of available, reliable, and least-cost power supply remains a compelling concern. Our wholly-owned subsidiary, MERALCO PowerGen Corporation (MGen), has engaged in joint ventures to develop new power plants and ensure a highly-reliable and cost-efficient power supply to customers in the Meralco franchise area and in the Luzon Grid.

San Buenaventura Power Limited (SBPL) is a joint venture between MGen and New Growth B.V., a subsidiary of Electricity Generating Company Limited of Thailand (EGCO). The 455 MW (net) supercritical coal-fired power plant is currently under construction. The Engineering, Procurement and Construction (EPC) contract is 98.15% completed to date, which augurs well for the target commercial operations by the third quarter of 2019. This will mark the re-entry of Meralco into power generation, enabling the Company to best serve the interest of its customers through better assurance and security of adequate, reliable, least-cost power by not being an otherwise pure price and supply taker. This re-entry follows an absence of well over 40 years following the transfer of all of Meralco's power generating

plants in the mid-1970s to the National Power Corporation during the period of martial law. Up to such transfer, Meralco had been the largest power generator in the Luzon Grid.

The other priority power plant, Atimonan One Energy, Inc. (A1E) located in Atimonan, Quezon, will be the country's first ultra-supercritical coal-fired power plant with a gross capacity of 2x600 MW. A1E was granted a Certificate of Energy Project of National Significance by the DoE and is a registered Pioneer Project by the Board of Investments. As with all PSAs, including SBPL's, it will need to comply with and secure the requisite regulatory approval.

Cognizant of the heightened focus on renewable energy, MGen is in discussion with potential partners to develop a portfolio of utility-scale solar generation projects for the Luzon Grid and Meralco customers, with competitive tariffs. MGen is also looking at co-developing large scale hybrid solar and storage projects outside the Meralco franchise area.

With competitive tariffs from wind-based generation in Luzon, MGen is working with a strategic partner on developing a 150 MW wind generation project within the Meralco franchise area.

Another Meralco subsidiary, MSpectrum, Inc., carries out largely own-use solar initiatives for "roofing" industrial, commercial, and large residential customers. Total installation stands at over 10 MW in a market that is teeming with opportunities.

Expanding Renewable, Sustainable Options

We have taken bigger steps in developing a more sustainable energy future for Filipinos. Rapid technological developments in Solar Photovoltaic (PV) and Battery Energy Storage Systems (BESS) have given us an off-grid alternative to provide sustainable access to electricity to households in remote areas. This alternative is the microgrid, or small-scale power grids, that can be operated independently from the country's interconnected network of power transmission and distribution facilities.

We actively pursue solar microgrid projects in remote islands in our franchise area. We have set up hybrid renewable energy (RE) generation and distribution systems in two (2) remote islands - Isla Verde in Batangas



The Meralco Marubeni Consortium and the Bases Conversion and Development Authority (BCDA) signed the Joint Venture Agreement (JVA) for the Development of the Electric Power Distribution System in New Clark City (NCC). With their combined experience in the energy sector, Meralco and its Japanese partners, Marubeni Corporation, the Kansai Electric Power Co., Inc., and Chubu Electric Power Co., aim to provide world-class electric service through a modern distribution system that will support the electricity requirements of the NCC. NCC is envisioned to be the country's first smart, disaster-resilient, and sustainable city.

City, and Cagbalete Island in Mauban, Quezon. Through these projects, we support the government's thrust to provide basic electricity access to more Filipinos, lifting their quality of life and opening up opportunities for livelihood and business.

In 2018, Meralco was selected as the service provider to operate, maintain, and manage a hybrid RE generating plant in Isla Verde, following a Competitive Challenge Process (CCP) held in accordance with the Batangas City Public-Private Partnership (PPP) Code. In February 2019, we inaugurated the first 32 KW solar PV-plus-battery microgrid in our franchise in partnership with the Local Government Unit (LGU) of Batangas City and the United States Agency for International Development (USAID). While the microgrid currently provides electricity to around 40 households in the island, we expect to expand service to substantially more households and enterprises in 2019 and beyond.

We also completed the construction of a microgrid pilot project in Cagbalete Island. It is a hybrid generating plant composed of 60 kWp solar PV, 150 kWh battery energy storage, and two (2) units of 30 kW diesel generators. The microgrid will initially serve around 200 households, once all the requisite permits have been released, and eventually to the resorts and other businesses, as well as other communities in Cagbalete.

RE projects are part of our efforts to help reduce carbon emissions as well as push for missionary electrification in areas where electricity is not yet available round-the-clock.

Amidst the clamor for renewable and sustainable options is the call for "green mobility". A subsidiary, MServ, started

operating electric vehicles (EVs) in 2013 in our main headquarters in Pasig City and soon after, within two (2) university campuses in our franchise area. Beyond EV operations, we have also constructed and currently operate charging stations for, among others, the Department of Environment and Natural Resources (DENR).

Our newly-established subsidiary, eSakay, Inc., builds on the momentum of these deployments. Recently, eSakay launched a breakthrough electric jeep operation plying a developmental route from the Buendia MRT Station in Makati to the Mandaluyong City Hall. eSakay aims to identify and enable more routes by working closely with the Department of Transportation (DOTr), local government units (LGUs), and transport sector stakeholders. This is in support of the DOTr's Public Utility Vehicle Modernization Program (PUVMP) which aims to fast-track the adoption of modern public utility vehicles for a cleaner and greener environment, while helping modernize and professionalize the Philippine transport sector.

Expanding Services

We are pleased to share with you that our efforts to expand service and value to new customers in new areas as an electric distribution utility have borne fruit recently.

Meralco formed a Consortium with leading Japanese companies, Marubeni, Chubu Electric, and The Kansai Electric Power Co., Inc., and signed a Joint Venture Agreement with the Bases Conversion and Development Authority (BCDA) for the financing, design and engineering, establishment, construction, development, and operation and maintenance of the electric power distribution system in New Clark City (NCC). Together with our partners, we aim to provide a smart and resilient power

distribution system to meet the electricity demand requirements of new industrial, commercial, and residential locators, and alternate government center, as customers of NCC in Tarlac.

Meralco is also part of the Consortium that won and was awarded a 20-year concession for the operations, management, and investment in the electricity distribution business of the Electricity Company of Ghana (ECG), under an international tender administered by the Government of Ghana through the Millennium Development Authority (MiDA). ECG is the largest of three electric distribution companies in Ghana which serves over 3.5 million customers, or nearly 85% of country's energy consumers.

Power Distribution Services Ghana Limited (PDS) is the Concession company formed by the Consortium, jointly owned by three Ghanaian companies (TG Energy Solutions Ghana Ltd., Santa Power Limited, and GTS Power Limited); Meralco's wholly-owned subsidiary, Meridian Power Ventures Limited and Anergia S.A., a Portuguese-owned company. The Concession is an integral part of the country's development program, with the largest funding component from the Power Compact II between the Governments of Ghana and the United States.

A Commitment to Responsible Citizenship

Just as we are committed to service excellence, so are we resolute about contributing to the growth of less privileged communities.

Our Company's social development arm, the One Meralco Foundation, Inc. (OMF), has continuously enabled programs to help communities experience the benefits of electricity. A multi-stakeholder partnership with Meralco's frontliners, business centers, network sectors, and accredited contractors, together with local government units, community leaders and homeowners' associations enabled Meralco to bring electricity service to residents in previously unenergized communities. To date, the household electrification program has benefited 40,809 households since its launch in 2011.

Apart from households and communities, Meralco also helped energize off-grid public schools situated in far-flung areas, mostly based in small, island and mountain settlements hitherto not reached by electric service due to distance.

Learn more about our OMF initiatives in the Corporate Social Responsibility portion of this Annual Report.

Always, Your Energy Partner

Looking back, we have many things to be thankful for.

We express our gratitude to the Meralco Board of Directors for their guidance, vision, and governance; our Management team and employees without whom we would not have surpassed previous records, despite the many challenges we face; and above all, to our shareholders and customers who continue to trust in our services. As we celebrate 116 years in 2019, we ask for your continued support in a business environment that evolves unceasingly.

We shall remain Your Energy Partner, Your Meralco.


MANUEL V. PANGILINAN
Chairman of the Board


OSCAR S. REYES
President and Chief Executive Officer

WE ARE YOUR POWER PARTNER.

We look forward to further operating and service excellence, value creation for customers, and a fair return to Meralco shareholders.

A Year of New Record Highs

ENERGY SALES

Consolidated energy sales, inclusive of Clark Electric Distribution Corporation (CEDC), surpassed previous year's performance by 5%, to record 44,313 GWh over the 42,102 GWh in 2017.

Of the total, Industrial energy sales had the highest growth at 7% to 13,156 GWh from 12,309 GWh with growth leaders from the electrical machinery, rubber and plastics, and food and beverage industries. Commercial energy sales followed with a 5% growth to 17,463 GWh from 16,597 GWh, attributed to real estate, retail trade, and hotels and restaurants. Residential energy sales grew 4% to 13,555 GWh from 13,060 GWh, buoyed by net new customer accounts numbering 273,766. Streetlights volume accounted for the balance at 139 GWh.

In terms of share to total sales, the Commercial segment recorded the highest contribution at 39%, followed by Residential at 31%, and Industrial at 30%. Flat streetlights accounted for less than 1%.

Consolidated customer count hit 6,614,814 million or a 5% increase over the previous year. Residential customers grew the most at 5% to 6,085,835, accounting for 92% of the total. The number of commercial customers went up by 3% to 513,658, accounting for 8% of the total. Industrial customer count rose 2% to 10,506, which is less than 1% of the total. Streetlights customer count likewise made up less than 1% of the total with 4,815 accounts.

OPERATING PERFORMANCE

Operating performance showed continuous improvement over the past several years with the best-ever recorded System Average Interruption Frequency Index (SAIFI) and System Loss.

Total SAIFI, or the average number of interruptions a customer experiences in a year, recorded an all-time low of 1.80 times or a 32% improvement from the Total SAIFI five (5) years ago.

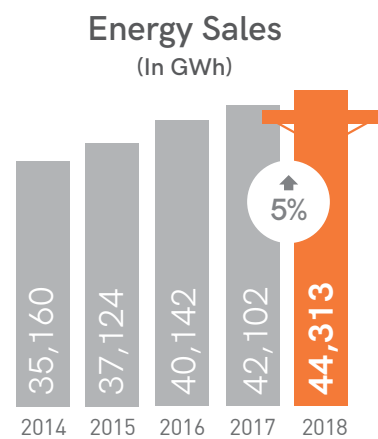
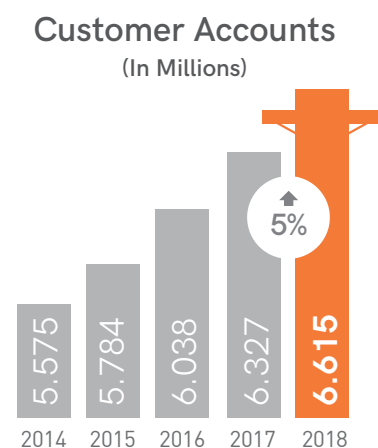
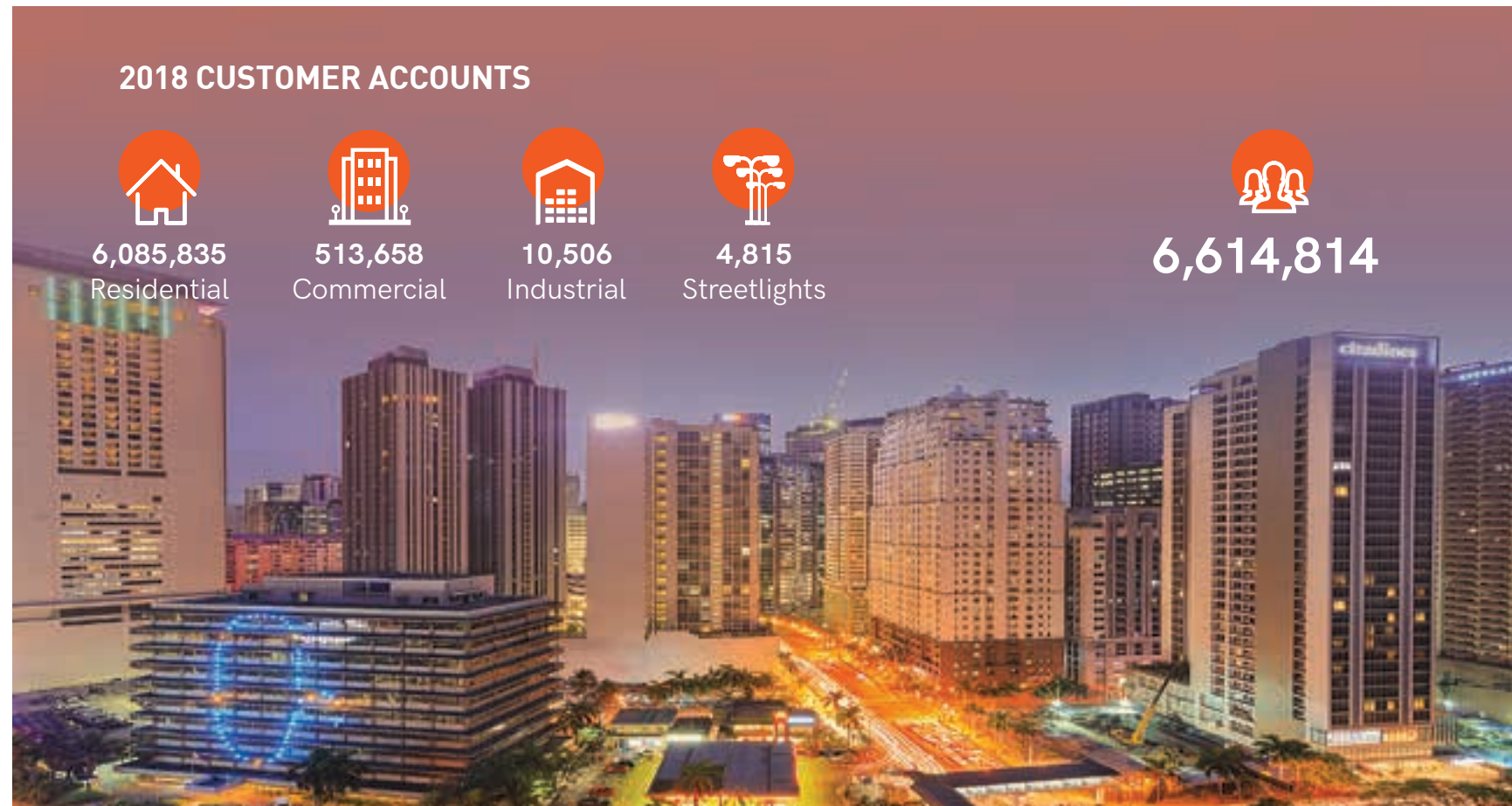
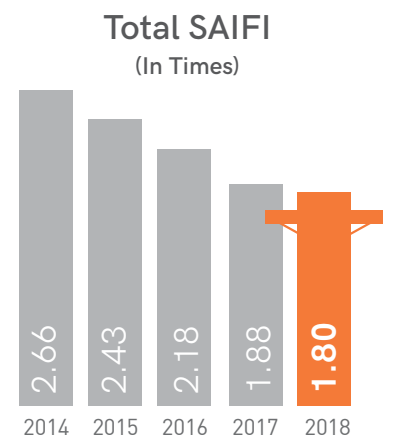
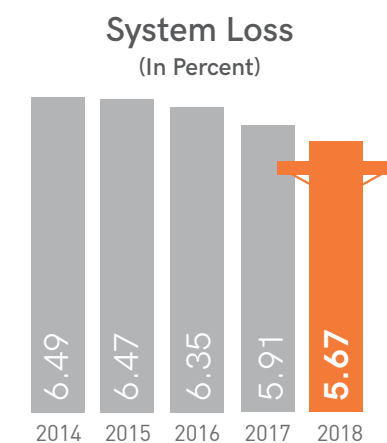
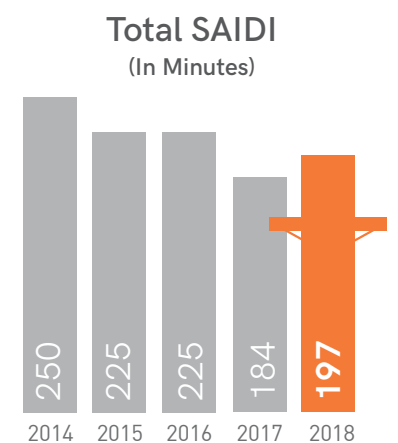
Total System Average Interruption Duration Index (SAIDI), or the average duration of power interruptions a customer experiences in a year, stood at 197 minutes. While slightly higher than the figure in 2017, the Total SAIDI in 2018 improved by 21% over the Total SAIDI five (5) years ago.

The relentless implementation of system loss programs and initiatives, particularly the continuous drive to minimize electricity pilferage and ramped-up implementation of service legalization programs for communities, enabled the Company to consistently surpass prior years' system loss rates.

In 2018, Meralco's system loss rate held to its record-breaking performance for the eighth consecutive year with a new, all-time low level at 5.67%. This is a 0.24 percentage point improvement over the 5.91% system loss in 2017. This was achieved despite a much tighter system loss cap that took effect in June 2018, based on ERC Resolution 20, Series of 2017.

CEDC system loss at year-end 2018 was at 2.77%.

As a result of a lower system loss rate, total customer savings amounted to about PhP6.1 billion in 2018 or an average savings of PhP0.14 per kWh, based on the 8.5% system loss cap from January to May 2018, and 7.5% indicative system loss cap from June to December 2018. The cumulative total savings to Meralco customers now stands at PhP39.6 billion or an average savings of PhP0.11 per kWh from 2008 to 2018.



CAPITAL EXPENDITURES

The performance milestones in the electric distribution system are attributed to the Company's continuous system upgrading and expansion program. Capital expenditures (CAPEX) in 2018 amounted to PhP13.7 billion, 13% higher than in 2017. The Company invested heavily in CAPEX which were for load and customer growth, network infrastructure upgrading, storm hardening and resilience, enhanced customer service, and safety and security in the franchise area.

Five (5) substation-related major Electric Capital Projects (ECPs) were completed in 2018 including the new Lancaster Substation in Cavite, and four (4) capacity expansion projects for Balibago, Sta. Maria, Carmelray Industrial Park II and Santolan Substations.

The subtransmission system was further strengthened with the construction of two (2) new lines, namely, the Biñan-ROHM-LIIP 115 kV line and the New Cruz na Daan-Baliuag 69 kV line.

In addition to the substation and subtransmission projects, the Company installed a metal-clad switchgear in San Jose Substation, replaced the power transformer banks at North Port and Balintawak Substations, upgraded the power circuit breakers at Dolores and Paco Substations, and developed the Pinagbuhatan Switching Station.

These major projects were complemented by 55 other projects, mainly involving the upgrading and flexibility improvement of our primary distribution lines.

In support of various government programs, the Company relocated 957 poles affected by the Government's "Build Build Build" (BBB) projects, and 1,296 poles affected by projects of the Department of Public Works and Highways (DPWH).

At end-2018, total power transformer capacity was 18,010 MVA, while primary circuit length covered 18,748 km.

POWER SUPPLY AND DEMAND

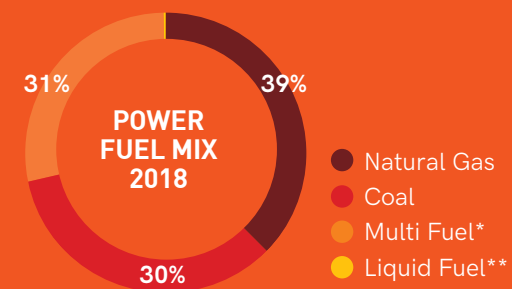
Demand for power continued to grow in 2018 which drove net system input (NSI) to a new milestone at 46,733 GWh, 5% higher than the 44,639 GWh in 2017.

Peak demand in the Meralco franchise area increased by 6% to 7,399 MW from the 2017 level of 6,973 MW. The Luzon peak demand stood at 10,876 MW, 8% higher than 10,054 MW in 2017 with aggregate demand in areas outside Meralco registering a growth of 13%.



The Company invested heavily in CAPEX intended for load and customer growth, network infrastructure upgrading, storm hardening and resilience, enhanced customer service, and safety and security in the franchise area.





* Coal, hydro, biomass, geothermal; also includes WESM, CAIP, Other RESs

** Comprised less than 1% of the total. Used as substitute during unavailability of Malampaya gas supply, and during maintenance periods of Sta. Rita, San Lorenzo, and Ilijan power plants.

ENERGY SOURCES (in GWh)

Source	2017	2018
Power Supply Agreements (PSAs)	14,855	14,114
Independent Power Producers (IPPs)	13,302	13,231
Retail Electricity Suppliers (RES)	10,743	12,947
Wholesale Electricity Spot Market (WESM)	5,107	5,771
Special Contracts	632	670
TOTAL	44,639	46,733



MERALCO CUSTOMER BILL

Average retail rate of electricity across all customer classes rose to PhP8.95 per kWh, which is PhP0.92 per kWh higher than the PhP8.03 per kWh average rate in 2017.

Generation Charge averaged PhP5.12 per kWh and remained the single largest component of the customer bill during the year, accounting for 57% of the total. It increased by PhP0.72 per kWh or by 16% compared with 2017 due to further weakening of the peso, higher fuel prices in the world market, and increase in prices in the Wholesale Electricity Spot Market (WESM).

Transmission charge comprised 8% of the customer bill at PhP0.76 per kWh, down by 3% from PhP0.78 per kWh in 2017.

Meralco's distribution charge was lower at PhP1.40 per kWh in 2018 compared with PhP1.42 per kWh in 2017, accounting for only 16% of the customer's average bill.

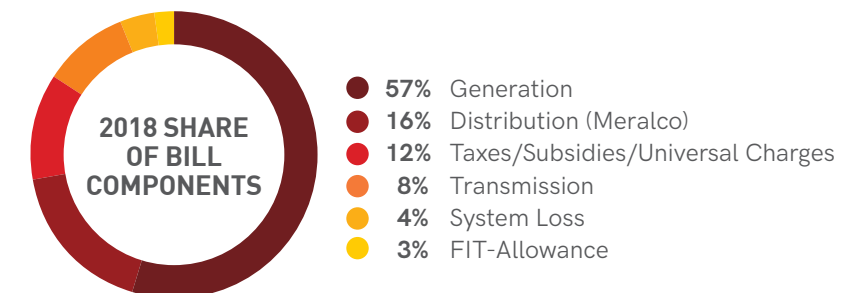
System Loss charge rose in 2018 to PhP0.36 per kWh compared with PhP0.32 per kWh in 2017, accounting for 4% of the average bill.

Taxes, subsidies and universal charges accounted for 12% of the customer bill at PhP1.08 per kWh, an increase of 14% from PhP0.95 per kWh in 2017 resulting primarily from the re-imposition of value-added tax (VAT) on transmission cost provided under the Tax Reform for Acceleration and Inclusion (TRAIN) Law or RA 10963.

The Feed-in-Tariff Allowance (FIT-Allowance) for renewable energy increased by 44% from the average PhP0.16 per kWh in 2017 to PhP0.23 per kWh in 2018, making up 3% of the customer bill. This is pursuant to ERC approval of a FIT-Allowance increase to PhP0.2563 effective June 2018 billing from PhP0.1830 per kWh, an increase of PhP0.073 per kWh. FIT-Allowance is a uniform pass-through charge that distribution utilities are required to collect from customers as directed by the ERC, in support of the FIT Program.

ANNUAL AVERAGE MERALCO RATE FOR CAPTIVE CUSTOMERS (in PhP per kWh)

Bill Component	2017	2018
Generation	4.40	5.12
Transmission	0.78	0.76
Distribution	1.42	1.40
System Loss	0.32	0.36
Taxes/Subsidies/Universal Charges	0.95	1.08
FIT Allowance	0.16	0.23
TOTAL	8.03	8.95



2018 was a milestone for customer centricity in a new energy future.

CUSTOMER SERVICE

Rapid developments in the digital sphere and innovations within and outside the power industry have accelerated changes in customer expectations and behavior. 2018 was a milestone for customer centricity in a new energy future.

Meralco Online

With smart phone penetration increasing to 75% in 2018 from 57% in 2017*, Meralco was in step with its customers in digital transformation. The Company pioneered a shift from an on-premise to an on-cloud platform for distribution utilities, a first in the local power industry and the largest in Southeast Asia, with help from global IT companies.

Pivotal to this transformation was Meralco Online and its app version, Meralco Mobile, which was developed to make customer experience simple, fast, and convenient. Customers are given 24/7 access to their Meralco account, anchored on four (4) customer journeys:

Service Application. Utilizes an online filing system where customers can submit applications for new connections including digital copies of required documents, limiting the need to go to the business centers.

Bills and Payments. Provides an online facility to view bills, subscribe to paperless billing, and pay bills directly to Meralco in near real-time. It also allows online payment of overdue accounts, a service currently not available through third party online channels.

Concerns Management. Allows customers to inquire, provide feedback, and get updates.

Incidents and Outage Management.

Enables customers to receive alerts and updates on the status of restoration.

Meralco Online sends notifications through email, SMS, or through an in-app notification to update customers on the status of their concerns which minimizes the need to visit business centers or call the hotline. They can manage their accounts anytime and anywhere in the world.

In 2018, 121,101 customers have signed up to Meralco Online since its launch in September 2018, with 73% accessing the system through the Meralco Mobile. More features will be added including: an outage map showing details of all outages within the franchise area; daily and weekly consumption monitoring through an integration with Meralco's Advanced Metering Infrastructure (AMI) project.

Prepaid Electricity Service (PRES)

Meralco ended 2018 with 101,844 customers under PRES. The service is available within residential areas in the cities of Manila, Mandaluyong, Makati, and Pasig; in the municipalities of Angono, Cainta, Binangonan, and Taytay in Rizal; and in parts of Taguig, Pasay, San Juan, Paranaque, Novaliches, Caloocan, Cavite, Tagaytay, and Bulacan.

Aside from Residential customers, PRES also attracted developers who cater to students and young families living in mid- and high-rise buildings. Customer satisfaction is also at an all-time high at 8.76 versus 8.30 in 2017, mostly driven by the capability to monitor and control consumption and thus manage household electricity budget. Customers who switched to PRES from postpaid enjoyed 14% to 18% savings.

Meralco aims to bring the monitoring capability of PRES customers to its postpaid customer base with the Meralco Online integration and deployment of required AMI in more areas.

Social Media

Meralco's social media channels such as Facebook, Twitter, Instagram, and LinkedIn provide customers with instant access to the Company for account-related inquiries and general service information. The Company, in turn, tracks lodged concerns and provides customers with timely updates until issues are fully resolved.

As the digitally-savvy are drawn to social media, the number of phone calls to the Meralco's Call Center decreased, providing faster access to those who prefer speaking to a live representative. SocialBakers, a global social media analytics company that recognizes response time to customer inquiries, has named Meralco's Facebook (Q3 and Q4 2018) and Twitter (Q4 2018) pages in the "Top 10 Most Socially Devoted" industrial brands list, both globally and locally.

The social media channels help gauge customer sentiment through social listening. A snapshot of the positive, negative, and neutral sentiments is monitored through customer reactions, comments, and shares on the Meralco Facebook and Twitter pages as well as mentions of Meralco in the worldwide web.

All of the Meralco social media properties continue to increase its number of subscribers or followers, improving accessibility to Meralco. Interactions on Facebook, the primary social content and conversation center, increased by 38% from about 511,000 inbound inquiries to about 703,000 in 2018. Interactions on Twitter, the customer update platform, grew by 6% from 68,000 inbound inquiries in 2017 to 72,000 in 2018.

Power Ideas

The Power Ideas program was designed to create awareness of the unique value proposition that Meralco is more than just a distribution utility but also an end-to-end, energy solutions provider. The Power Ideas offerings are divided into four (4) categories: power quality solutions, energy efficiency solutions, energy supply, and innovations.

As the business environment becomes more competitive, corporate customers more than ever need to focus on growing their businesses and outsource their complex energy requirements to experts. Leveraging on its long-held experience and leadership in the energy industry, Meralco responded by offering beyond-the-meter services through its subsidiaries Meralco Energy, Inc. (MServ) Meralco Industrial Engineering Services Corporation (MIESCOR), MSpectrum, Inc., and Radius Telecoms, Inc. These solutions are presented to customers in fora, one-on-one meetings, industry events, and through a digital communication campaign.



**Data from Nielsen Customer Media View, MegaManila*

HUMAN RESOURCES

Behind the Company's outstanding performance are its employees. Total Meralco employee count in 2018 was 5,602 compared with 5,539 in 2017.

In 2018, Meralco achieved the highest level of productivity indicators with a 7.82 GWh Sales per Employee Ratio (SPER) vis-à-vis 7.50 in 2017, and a 1,180 Customer per Employee Ratio (CPER) compared with 1,142 the year before. To sustain the performance, the Company invested in people training programs.

Meralco Cadet Engineering Program (MCEP). This five (5)-month on-boarding program for newly-hired engineers facilitates participants' assimilation into the Meralco culture and core operations and at the same time, ensures a continuous pipeline of technical experts. The program combines instructor-led courses and an intensive four (4)-month guided immersion in various operational units with actual or field assignments. The young engineers get exposed to technical expertise areas as they build their competencies and begin growing their network in and outside of the Company.

Employee Relations. The strong strategic partnership between labor and management was sealed through a Collective Bargaining Agreement (CBA) with the supervisory union, the First Line Association of Meralco Supervisory Employees (FLAMES), which was concluded in December 2018.

Wellness Program. A holistic activity is the Orange FIT Program which manages the total well-being of employees' mind, body and spirit through sports activities, spiritual growth, and physical and mental wellness.

Leadership and Professional Development Programs. This program targets engineers, linemen, innovators, first-line managers, and mid-level managers.

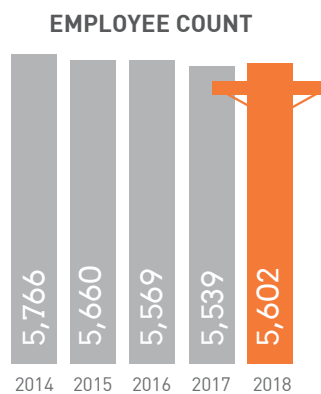
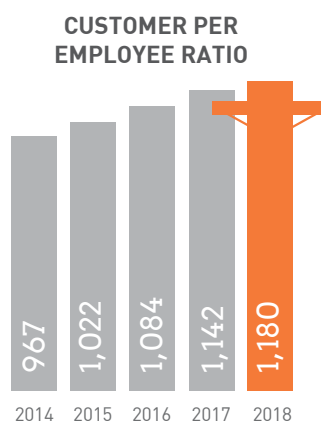
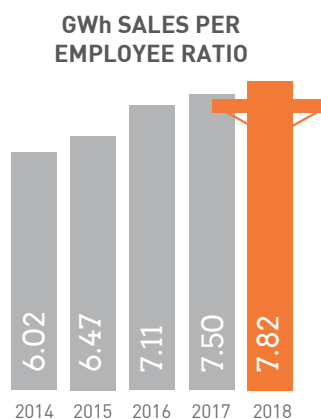
The Masters of Engineering in Electrical Engineering Program. Meralco's partnership with the University of the Philippines – Electrical and Electronic Engineering Institute (UP-EEEI) provides the Company's electrical engineers an opportunity to acquire a Master of Engineering in Electrical Engineering (MEEE).

#LiDER. A new, two (2)-day course that enhances the leadership and management competencies of Meralco's distribution engineers so they can effectively operate in a challenging business environment.

Other existing programs such as the Meralco Engineering Summit, Meralco Lineman Development Program, MeralcoSTAR (for work innovation), Breakthroughs (for first-line managers) and New Frontiers (for mid-level managers) continue to provide high-impact learning and development for employees.

Meralco Coaching Program. This program seeks to develop and equip internal coaches with necessary skills to enable individuals and teams to improve performance.

Organizational Safety and Resiliency Program. Important to a distribution utility is a well-entrenched culture of safety and preparedness for disasters. Starting off year 2018 was the First Working Day Safety Campaign, which aimed to instill a "Safety First" mindset among employees. The event included a review of the previous year's safety performance, sharing of valuable learnings, recognition of excellent safety performers, audit of line crew personal protective equipment (PPE) and tools and work equipment (TWE) and solicitation of employees' commitment to the aspiration of an incident-free workplace.



Meralco successfully passed the surveillance audit conducted by a third party certifying body for its Certification on Occupational Health and Safety Management System (OHSAS) 18001*, as well as the Department of Labor and Employment (DOLE) audit on compliance to Occupational Safety and Health Standards. In addition, eight (8) safety officers secured their Safety Practitioner accreditation from the DOLE.

Environmental Programs. The Trash for a Cause project was first implemented in 2014 in support of the Company's solid waste management program. In 2018, the project yielded over 14,000 kilograms (kgs.) of recyclable materials collected within a two (2)-week period. Balik Baterya, a longer-running activity, is a continuing partnership between Meralco, Oriental and Motolite Marketing Corporation, and the Philippine Business for Social Progress where used lead acid batteries are collected for proper treatment and disposal. Since the partnership was forged in 2016, Meralco has turned over a total of 78,630 kgs. of used lead acid batteries.

The Company supported and collaborated with DENR corporate arm, Natural Resources Development

Corporation (NRDC), for the proper disposal of hazardous wastes through NRDC's local treatment plant in Bataan.

These environment-related efforts enabled the Company to pass the surveillance audit conducted by a third party certifying body on ISO 14001 – Environmental Management System.

Disaster Resiliency
Meralco submitted its Resiliency Compliance Plan (RCP) to the DOE in August 2018, in compliance with the Department Circular 2018-01-0001, also known as the Adoption of Energy Resiliency in the Planning and Programming of the Energy Sector to Mitigate Potential Impacts of Disasters.

Meralco's Business Continuity Plan is continuously improved considering the severe impacts of The Big One as well as customer requirements for a secure and reliable supply of electric service. A total of 131 earthquake/emergency drills were conducted for all the Company operating sites within the franchise area. The Bureau of Fire Protection (BFP) granted Certificate of Competencies (COC) on Fire Safety Practitioner and Fire Volunteers/Fire Brigade Member to 33 and 31 Meralco employees, respectively.

*Upgraded to ISO 45001 on April 26, 2019

WE ARE YOUR COMMUNITY CHAMPION.

While continuing to provide reliable electricity service to our customers, we are committed to championing the development especially of underserved communities.



225

Public Schools
Energized



40,809

Families Benefited
by Household
Electrification Program



6,845

Families in the Meralco
Franchise Area Energized
by Household Electrification

Committed to Responsible Corporate Citizenship

Beyond delivering reliable power to over six (6) million customers, Meralco commits to contribute to the growth of less privileged communities through corporate social responsibility (CSR) initiatives.

These programs, implemented by the Company's social development arm One Meralco Foundation (OMF), help address key challenges that impede progress and productivity: from the lack of access to electricity—on-grid or off-grid—to the need for more resilient communities.

ENERGIZING HOMES AND OFF-GRID SCHOOLS

Despite Meralco's continued efforts toward expanding the footprint of its power distribution network, some communities in its franchise area, such as those in relocation sites and informal settlements, are still unable to gain access to electricity partly due to poverty and to a larger extent, to their inability to produce the documentary requisites for electrification. Other legal impediments such as right-of-way issues and land ownership woes also pose an additional challenge in energizing several of these communities.

Understanding that this social problem requires the convergence of various stakeholders to work out a solution, in 2011, Meralco through OMF launched its household electrification program.

The program brings Meralco's frontliners and on-ground enablers—OMF, Meralco business centers, network sectors and accredited contractors—together with local government units, community leaders and, in some cases, national agencies such as the Department of Energy (DOE) to find out how best to provide access to these on-grid but unenergized communities.

The program's goal is to help residents comply with the initial requirements for electrification, and to make the process easier despite the unusual and oftentimes unique challenges.

In 2018, the program succeeded in energizing 6,845 households within the franchise, making electricity within the reach of about 34,000 individuals.

A total of 40,809 families have so far benefited since the start of the program.

The average retention rate of all the communities energized, to date, is at a high of 94%, which means majority of the beneficiaries have sustained their electrification.

This is consistent with the results of a third party impact assessment study commissioned by OMF in 2018. The study showed, among other things, that 88% of the 273 respondents were able to pay their bills regularly because the amount they have to set aside to pay their electricity is much lower after Meralco's intervention, compared with the time when they were either connected to electricity through illegal sub-meters or flying connections, or when they used alternatives to electricity such as kerosene for fuel and lighting.

The study, conducted by the UP Public Administration Research and Extension Services Foundation, Inc. (UPPAF), also noted that the electrification had an impact on the safety, lifestyle, livelihood, and education of the beneficiaries.



About 99.6% of those surveyed said they felt more secure in their community, and 92% managed to buy new household appliances that either improved their quality of life or increased their productivity and efficiency.

Nearly 25% of the respondents also established micro-businesses in their own communities, increasing their family income.

Majority of the respondents also reported that they are more aware of what is happening around them because of their increased media consumption, and that their children are now able to continue learning at home because adequate lighting and access to the Internet is possible after electrification.

Aside from low income communities in areas covered by grid power, Meralco also energizes off-grid public schools located in some of the most challenging to reach communities in the Philippines. These are mostly located in small, island, and mountain settlements that are not currently reached by electric companies/cooperatives due to financial and technical constraints.

According to data from the Department of Education (DepEd), about 5,000 public schools in the Philippines are still without electricity. Although more and more of these schools (and their surrounding communities) get energized each year through the efforts of the government, thousands remain without power. It is clear that more hands are needed to address this situation which is depriving thousands of school children the kind of experience and 21st Century

education they need to survive our modern and very competitive world.

OMF launched the school electrification program as Meralco's share in addressing the electricity gap in off-grid communities. Through the program, Meralco energizes schools (prioritizing the most populous ones) through solar photovoltaic (PV) technology.

Apart from being renewable and sustainable, solar energy is preferred also because the sun's energy is abundant in these far-flung villages, and is oftentimes the only alternative energy source.

A total of 225 public schools already benefited from the program, of which 19 were energized in 2018: six (6) in Luzon, nine (9) in the Visayas, and four (4) in Mindanao.

Each of the 225 schools were installed with up to 2-kilowatt peak solar PV systems.

Meralco employees also contribute to the cause by voluntarily setting aside a portion of their pay to provide schools with a multimedia package consisting of a laptop computer, a large LED TV, and a printer-scanner-photocopier machine. These devices will help teachers and students maximize their electrification.

To determine the impact of the program, the UPPAF also conducted an independent study in 2017 looking at the quantitative and qualitative effects of the electrification in nine (9) sample schools.

Top left: Despite the fragile security situation in some parts of Mindanao, Meralco remains committed to energizing public schools in the island and in other parts of the country. Here, teachers and students from four (4) public schools in Lanao del Norte celebrate the electrification of their schools using solar photovoltaic technology. They also received multimedia packages donated by Meralco employees, and Energy Education flashcard kits.

Top right: Residents of a settlement in San Jose del Monte, Bulacan could now enjoy a brighter, more productive future after Meralco, in partnership with both local and national governments, energized the communities under its household electrification program.



Top: Meralco linemen and engineers manually erect a downed pole in Aparri, Cagayan during a power restoration activity in the aftermath of Typhoon Ompong (international name: Mangkhut). Since the pole was located along a rice paddy, heavy lifting equipment could not be used due to the unstable soil. By the end of the project, the 66-member crew successfully rehabilitated the 69kV Magapit-Zatinga-Lucban backbone serving two substations of CAGELCO II.

Bottom: In support of DepEd's "Brigada Eskwela," Meralco employees volunteer to assess the safety of electrical installations in public schools and trim trees and remove hazards to power lines along the schools' premises.

Among the salient results of the study are the following: (1) the electrification stepped up the level of knowledge of students especially in the use of modern multimedia and Information and Communications Technology (ICT) tools; (2) it also reduced the burden of teachers since preparation of teaching materials and reports may be done at school (as opposed to travelling long distances to gain access to a computer/printer); and (3) it opened opportunities for the schools to receive donations (especially electronic equipment) from other sources because power is no longer an issue.

Meralco, through OMF, closely monitors the equipment and gathers valuable usage data to help school officials properly maintain the systems. It is also working with the school community and DepEd to come up with ways to jointly sustain the program.

OMF also conducts refresher trainings on solar PV technology geared towards equipping teachers in beneficiary schools with basic knowledge in the care and operation of equipment. In 2018, two (2) trainings were attended by 63 teachers from Regions VII (Central Visayas) and XIII (Caraga).

MOLDING RESPONSIBLE FILIPINO YOUTH

Along with providing access to electricity, Meralco also helps educate the Filipino youth on its responsible and sustainable use through the energy education program.

The program is an initiative to encourage discussions about energy and related issues in the classroom so that students can make informed decisions later on about its sourcing, distribution and consumption, and usher the country into a more self-sufficient and sustainable future.

Meralco's strategy to achieve this goal is to build the capacity of teachers (starting with those in public schools) to facilitate discussions about energy and other related topics (such as electricity) in the classroom.

Over 680,000 learners enrolled in 678 elementary schools, 396 high schools and 27 integrated schools across the country are using the energy education flashcards.

In a monitoring and assessment conducted by CBE in 2018, schools that have received the kits reported that the cards (1) increased students' interest in Science; (2) facilitated faster learning of otherwise complex topics; (3) improved problem solving and research skills; and (4) may be used as a guide in developing innovative solutions to energy-related problems in their school and immediate community (through project-based learning).

Aside from shaping young Filipinos to become responsible energy consumers, Meralco also encourages them to aspire for excellence in everything that they do.

Within the Company, Meralco annually awards top performing dependents of employees through the MVP Academic Achievement Awards (MVP AAA) program. Each of the 210 awardees in 2018 received an educational assistance package and a medal of honor from OMF.

Previous winners who have maintained their exemplary academic standing were also conferred with the MVP AAA Top Achiever award.

Meralco also engages the youth through sports by implementing its own sports programs or supporting existing activities of advocacy partners that support holistic development of the youth.

These include volleyball and chess tournaments and clinics; the "Football for Peace" program of the Philippine Marine Corps; the "Mindanao Peace Games" spearheaded by the Ateneo de Davao University; and the Cordillera Mountain Ultra Marathon" which supports the conservation of biodiversity and promotes sustainable tourism in the Cordilleras.

RESPONDING TO COMMUNITY CHALLENGES

Meralco enables its business units, subsidiaries and affiliates to create the same ripple effect in the communities that they serve. These include the medical missions of the Meralco Ecozone Power, community relations activities of Clark Electric Distribution Corporation (CEDC), MIESCOR Logistics, Inc., and MERALCO PowerGen Corporation; donation of a classroom building by MPower; and the

solar micro-grid electrification of an Aeta community in Capas, Tarlac by Meralco Corporate Business Group (CBG).

Meralco's business centers and network sectors also take part in the greening initiatives of local government units, with hundreds of employees participating in tree-planting activities and shoreline/ waterway clean-up drives in the franchise area each year.

In times of adversities, Meralco is usually one of the first private entities to respond to victims' needs, especially in the areas where its business operates.

In 2018, its corporate foundation delivered care packages to 4,291 families affected by fires; 5,730 families inundated by monsoon rains and typhoons; 375 families evacuated during the eruption of Mt. Mayon in Albay; and 200 families who were still unable to return to their homes after the armed conflict in Marawi City, Lanao del Sur.

When Typhoon Ompong (international name: Mangkhut) hit northern Luzon in September, a large portion of the distribution infrastructure of the Cagayan Electric Cooperative II (CAGELCO II) in Aparri, Cagayan province was damaged by the typhoon.

Meralco responded by sending a 66-crew contingent to Aparri to help rehabilitate the 69kV Magapit-Zatinga-Lucban backbone serving two (2) CAGELCO II substations and to restore the distribution lines between the municipalities of Gonzaga and Sta. Ana.

YOUR COMMUNITY PARTNERS

Behind these accomplishments is a formidable force that drives Meralco's CSR programs from ideation to fruition: Meralco employees.

To make public schools safer, employees volunteered to inspect electrical connections in public schools in its franchise area, and assess their overall electrical safety during DepEd's annual school maintenance week, better known as "Brigada Eskwela."

Technical personnel from the Company's network sectors also devoted their time to remove safety hazards and trim trees along power lines around school premises.

During the back-to-school season, employees raised PhP2.74 million to provide public school children in depressed areas with "Power Pack" meal kits. Over 900 employee volunteers participated in the distribution events which benefited 6,382 public school students in the franchise area.

In December 2018, employees celebrated the International Day for Persons with Disabilities (PWDs) by supporting OMF's "Kita Kita Ngayong Pasko" campaign which raised more than PhP2 million to fund the ICT education and skills development training of hundreds of visually impaired persons, in partnership with the Adaptive Technology for the Rehabilitation, Integration and Empowerment of the Visually-Impaired (ATRIEV), a non-profit organization.

Throughout the year, a total of 2,955 employees participated in OMF's projects and activities. Together, they rendered 26,667 volunteer hours valued at PhP11.4 million.

Meralco remains committed to being a dependable partner of communities, not just in providing world-class electricity service as a business, **but also in fostering the growth of unserved sectors of society through meaningful and sustainable corporate social responsibility initiatives.**

WE ARE YOUR GOVERNANCE ADVOCATE.

As a publicly-listed company, Meralco ensures compliance with the Corporate Governance Code rules, and regulations as it commits to provide operational excellence, growth, and profitability.



Governance and Compliance

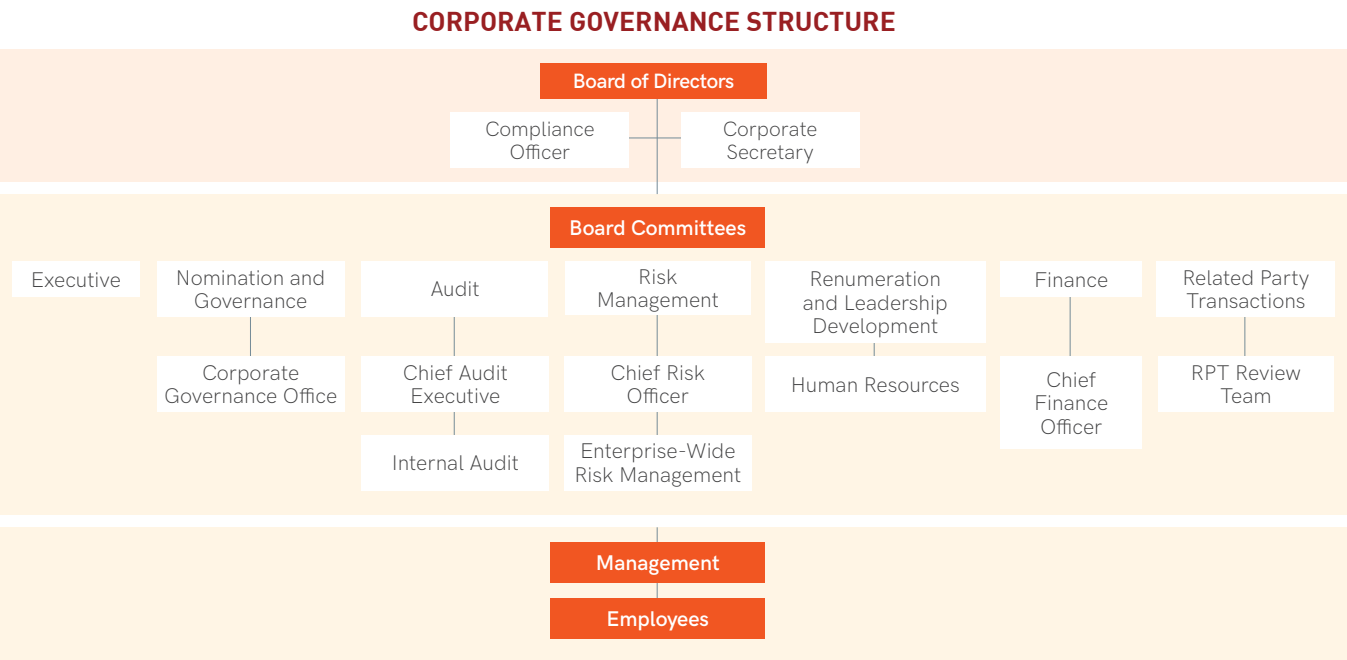
Meralco treats its customers, employees, shareholders, and all other stakeholders as formidable partners in the attainment of its corporate goals and strategic objectives. As such, stakeholder welfare has been and remains to be a primordial consideration in shaping the Company’s policies, programs and initiatives and in ensuring that the Company continues its commitment to provide operational excellence, achieve its growth and profitability pillars and sustain a strong corporate governance structure, amid the ever-changing regulatory landscape within which it operates.

As a publicly-listed company, Meralco faithfully complies with the corporate governance code, rules, and regulations promulgated and enforced by the Securities and Exchange Commission (SEC), Philippine Stock Exchange (PSE), Philippine Dealing & Exchange Corp. (PDEX), and other relevant regulatory bodies and has consistently kept itself abreast of the regulatory developments in the industry.

As an advocate of good governance, Meralco manifests a firm commitment to develop and enforce best corporate governance policies and programs that are geared towards enhancement of corporate performance, sustainability of operational growth, reinforcement of accountability, and protection of the interests of all stakeholders. In this light, Meralco ensures that its corporate governance structure lays down a solid platform which encourages the highest standards of competence and ethical culture among directors, officers and employees of the Company.

Believing that a strong corporate governance structure forms an integral component of the Company’s management framework and is a critical driver in pursuing the Company’s business aspirations for all its stakeholders, Meralco introduced developments in governance policies and practices that are aligned with the recommendations under the SEC Code of Corporate Governance for Publicly-Listed Companies (PLCs), the Integrated Annual Corporate Governance Scorecard and the ASEAN Corporate Governance Scorecard:

Governance Policies and Practices	Details
Adoption of a Policy against Bribery and Corruption	The Company’s Anti-Bribery and Corruption Policy formalizes its stand against corrupt practices and emphasizes the prohibition against corporate gift-giving to public and private individuals or entities that constitutes bribery or corruption.
Designation of a Lead Independent Director	To reinforce board independence and pursuant to the recommendation under the ASEAN Corporate Governance Scorecard and the Code of Corporate Governance for PLCs, the Board of Directors (Board) appointed Independent Director, Ret. Chief Justice Artemio V. Panganiban, as Lead Independent Director.
Provision for an Alternative Dispute Resolution Mechanism	In resolving intra-corporate disputes between the Company and its stockholders, the Company may resort to alternative modes of dispute resolution as may be agreed upon with the adverse party, such as but not limited to arbitration, mediation, conciliation, early neutral evaluation and mini-trial.
Adoption of a Board Charter	The Board Charter sets its purposes, authority, duties, responsibilities, structure, and procedures.
Adoption of Guidelines on Board Meetings through Teleconferencing and Videoconferencing	The Board Charter includes the provision for guidelines on Board meetings through teleconferencing and videoconferencing.
Amendment of Related Party Transactions Policy	The Related Party Transactions Policy was amended to include thresholds of Related Party Transactions (RPT) for disclosure and approval of the RPT committee, the treatment of <i>de minimis</i> transactions and those that are recurring or infrequently occurring and the required approval by non-related party shareholders on certain RPTs.
Acceptance of Directorship in another Company	Directors are required to notify the Company’s Board before accepting a directorship in another company. Changes in their interest must be promptly disclosed to the Board through the Company’s Corporate Secretary.
Board Assessment Supported by External Facilitator	Every three (3) years, as far as practicable, the assessment may be supported by an external facilitator. The external facilitator can be any independent third party such as, but not limited to, a consulting firm, academic institution, or professional organization appointed by the Board.
Acceptance of Nomination to the Board from Minority Shareholders	The Nomination and Governance Committee (Nom&Gov) shall receive all letters nominating candidates for election, as directors/ independent directors from stockholders, including minority stockholders, on or before the record date for the annual stockholders’ meeting (ASM).
Periodic Meetings of Non-executive Directors	The non-executive directors shall have separate periodic meetings with the external auditor and respective heads of internal audit, compliance and risk functions, without any executive director(s) present to ensure that the proper checks and balance are in place within the corporation. The meetings should be chaired by the lead independent director or an independent director.



In 2018, Meralco continued its proactive engagement with its stakeholders through programs that aimed to heighten the level of awareness and interest in the Company’s policies and best governance practices and opened channels through which stakeholders may exercise their rights and advance their respective interests.

A. ROLE OF STAKEHOLDERS

A.1 Respecting Rights of Stakeholders

The Company strictly observes the principles of fairness, accountability, integrity, transparency and honesty (FAITH) in its obligations to, and dealings with, its various stakeholders. The Company values its stakeholders and protects their rights, as mandated by relevant laws and internal policies. Sanctions and penalties based on the provisions of the Company’s Code of Right Employee Conduct (COREC) and other related policies are imposed upon violators.

Customers

The Company renders excellent service, fair treatment, and complete accurate information, to its customers. Towards this end, the Company:

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

- Variety of payment programs such as the automatic debit arrangement program and Interruptible Load program (ILP)

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

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

In 2018, the Company received several awards and accolades from various award-giving bodies in the investment community for excellence in corporate governance:

• **SILVER ANVIL AWARD.** Meralco Corporate Governance Awareness Campaign received a Silver Anvil Award last March 23, 2018 at the 53rd Anvil Awards held in Shangri-La at the Fort, Taguig City. The Anvil Awards is one of the most reputable award-giving bodies in the field of public relations. Hailed as the Oscars for public relations, the Anvil Awards has been ceaseless in its efforts to give recognition to top organizations with outstanding PR programs for the past 53 years.

• **TOP-PERFORMING PUBLICLY-LISTED COMPANY IN ACGS.** Meralco ranked among the top 20 publicly-listed companies (PLCs) in the Philippines under the ASEAN Corporate Governance Scorecard (ACGS) 2017. The award was presented during the Institute of Corporate Directors’ (ICD) ACGS Appreciation Ceremony held on July 31, 2018 at the Philamlife, Makati City.

• **FOURTH BEST-MANAGED COMPANY IN THE PHILIPPINES.** Meralco was recognized by some of Asia’s top portfolio managers and buy-side analysts as one of the best and leading corporations in the country during FinanceAsia’s annual survey. Meralco ranked in multiple categories among the top Philippine companies, gaining recognition in its investor relations, commitment to corporate governance, and stand-out performance in the industry sector.

Suppliers/Contractors

To ensure mutually beneficial relationship with its suppliers and contractors, the Company prescribes clearly defined and transparent procurement and supplier selection process through the Suppliers’ Business Conduct Policy and Vendor Accreditation Program. It ensures faithful compliance with all the terms and conditions of its procurement contracts. Under these programs,

- Only accredited suppliers are qualified to participate in bids and awards except when:
 - the items lack the required number of accredited vendors participating in the bid
 - there are no accredited suppliers for a particular item
- Purchases are made on the basis of competitive bidding – where the commercial and technical requirements are jointly evaluated except when:
 - the items/services involve specialty work and critical components that can only be sourced from a particular vendor
 - the item can only be obtained from a single source (i.e., there are patents, trade secrets, or copyrights that prohibit other vendors from supplying the same item)
 - the purchase is negotiated with the vendor due to the urgency of requirement or there are additional requirements that should be included in an existing order, or only one vendor consistently submits a bid every time a bid is conducted
 - the purchase is a repeat award and the following criteria are met: (1) there is an urgent or additional requirement for the item in a purchase order; (2) quantity is not greater than the initial order quantity; (3) price is not higher compared with the initial order price; and (4) purchase is within three (3) months of the initial purchase order award. A maximum of three (3) repeat awards should be allowed.
- Suppliers are responsible and accountable for providing the required information in the suppliers’ business conduct commitment form. They are likewise expected to adhere to certain corporate governance standards and undertaking to apply these standards to their offices and employees.

Creditors

The Company faithfully complies with all loan agreements with creditors. It ensures timely payment of its loans and efficiently operates its business to assure creditors of the Company’s sound financial standing and loan payment capabilities.

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

Environment and Community

Environment

In 2018, the “Trash to Cash for a Cause” activity yielded more than 14,000 kilograms (kgs) of recyclable materials while the “Balik Baterya” program was able to turn-over 78,630 kgs of used lead acid batteries for its proper treatment and disposal.

The Company has collaborated and supported the Department of Environment and Natural Resources (DENR)’s corporate arm, Natural Resources Development Corporation (NRDC), through the proper disposal of hazardous wastes through NRDC’s local treatment plant in Bataan. Meralco likewise continues to honor its commitment to the DENR by protecting and managing the 927-hectare Meralco Tree Farms located in Rodriguez, Rizal.

Meralco has also successfully passed the surveillance audit conducted by its third party certifying body on ISO 14001 – Environmental Management System.

Disaster Resiliency

The Company successfully submitted its Resiliency Compliance Plan (RCP) to the DOE on August 2018 in compliance with the Department Circular 2018-01-0001 also known as the Adoption of Energy Resiliency in the Planning and Programming of the Energy Sector to Mitigate Potential Impacts of Disasters. The business continuity plan of Meralco is regularly reviewed considering the expected impact of “The Big One” as well as the customer requirements for a secure and reliable supply of electric service. A total of 131 earthquake/emergency drills were conducted in all of the Company’s operating sites within the franchise area.

The Bureau of Fire Protection (BFP) has granted Certificates of Competency (COC) on Fire Safety Practitioner and Fire Volunteers/Fire Brigade Member to 33 and 31 employees of the Company, respectively.

Code of Business Conduct and Ethics

The Company’s Code of Business Conduct and Ethics (Code of Ethics) prescribes the ethical values and behavioral standards, which all directors, officers, and employees of the Company are required to observe in the performance of their respective duties and responsibilities. Copies of the Code of Ethics are disseminated to all officers and employees.

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

The Management Control Policy prescribes Management's responsibility to ensure a system of checks and balances and emphasizes the importance of internal control processes as an integral part of the Company's governance system and risk management. Effective management control is necessary to ensure that behavior and decisions of people in the organization are consistent with the Company's objectives and strategies.

Anti-corruption Programs and Procedures

The Code of Ethics requires directors, officers, and employees to observe professionalism, integrity, and good faith in transactions with and obligations to the Company's customers, suppliers, business partners, regulators, creditors, competitors, and employees and to avoid the commission of any act that may be construed as direct or indirect bribery and corruption, as defined by law, of government officials to facilitate any transaction or gain any perceived or actual favor or advantage.

In line with this, the Policy on Solicitation and Acceptance of Gifts prohibits the acceptance of gifts offered and given by suppliers, contractors, and other third parties to prevent all directors, officers, and employees from putting themselves in situations that could affect the fair, objective, and effective performance of their duties and responsibilities. The Amended Suppliers Business Conduct, on the other hand, requires vendors to comply, at all times, with all applicable anti-bribery and corruption laws and not to offer, accept, promise, pay, permit, or authorize bribes and kickbacks, which include giving of gifts to the Company's directors, officers or employees or other means to obtain an undue or improper advantage.

On February 26, 2018, the Board approved the Anti-Bribery and Corruption Policy, formalizing its stand against corrupt practices and specifying in detail the prohibition against corporate gift-giving to public and private individuals or entities that constitutes bribery or corruption.

The Company's Internal Audit reviews the compliance of directors, officers, and employees to the Code of Ethics and other corporate governance related policies, including the required Company disclosures. The result of the internal audit review is reported to the Audit Committee (AuditCom).

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

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

The e-Report Mo (Whistleblowing Policy) encourages the reporting of any violation of corporate governance rules or policies, questionable accounting or auditing matters, and other malfeasance committed by the Company's directors, officers, and employees. Employees, suppliers, customers and other stakeholders

Corporate Governance Office
Manila Electric Company (Meralco)
8th Floor, Lopez Building
Ortigas Avenue, Barangay Ugong
Pasig City, Philippines 1605
Tel: (632) 1622 2798
Mobile: (63) 9088661670
Email: cgo.staff@mentalco.com.ph

can download, through the Company website, a whistleblower report form and submit the same via email or regular mail to the CGO through the contact information provided herein.

The Company provides appropriate protection against retaliation to an employee/stakeholder who reports illegal/ unethical behavior. In the event of retaliation, the reporting person or witness may file a report to the CGO by filling out a Retaliation Protection Report Form.

In 2018, the Company received certain reports of alleged violations and illegal/unethical behavior. These reports were investigated and accordingly resolved based on the evidence provided and in accordance with the procedures defined in the whistleblowing policy.

Employees

Meralco is committed to the development and welfare of its employees. The Company provides its employees with opportunities for learning and development, fair and competitive remuneration, and programs to promote health and safety. The Company devotes conscious effort to build a culture of excellence, knowledge sharing, personnel integrity, and development.

A.3 Performance-enhancing Mechanisms for Employees

Employee Development Programs

Training programs and other developmental interventions are implemented to enable employees to acquire the technical and leadership competencies to effectively perform their jobs for their professional growth. The Company uses globally-accepted training and development metrics relevant to value creation for business and society. Learning and development initiatives are delivered using the strategic framework of 70-20-10: 70% on-the-job learning, 20% from coaching and feedback and 10% formal training. In 2018, the average training man-hours is at 28.12 hours per person.

Organizational Safety

Meralco continuously strengthens its safety culture with the pilot implementation of a First Working Day Safety Campaign in 2018 with the intention of instilling a "Safety First" mindset among the employees to start the year. The event included a review of the previous year's safety performance and sharing of valuable learnings, recognition of excellent safety performers, audit of line crew personal

protective equipment (PPE)/tools & work equipment (TWE) and solicitation of employees' commitment to the aspiration of an "incident-free" workplace.

Meralco successfully passed both the surveillance audit conducted by a third party certifying body for its OHSAS 18001 Certification on Occupational Health and Safety Management System as well as the Department of Labor and Employment (DOLE) audit on the compliance to Occupational Safety and Health (OSH) Standards. Likewise, an additional eight (8) safety officers of the Company were able to secure their Safety Practitioner accreditation from the DOLE..

The Company was invited to be part of the DOLE Technical Working Group and actively contributed to the development of the implementing rules and regulations of Republic Act 11058, also known as the New OSH Law intended to strengthen OSH practices and compliance in all workplaces in the country.

Compensation Philosophy/Principles

The Company's performance management process measures employee performance on the basis of: 1) actual vs. desired results; and 2) how results were delivered in light of corporate core values. The achievement of financial and non-financial indicators is reflected in performance planning and assessment, which drives the Company's merit and incentive pay programs.

The Company implements short-term and long-term incentive programs to attract, retain, and motivate its employees. The Company compensates employees based on Company, team, and individual performance to help achieve corporate goals and targets. The Company evaluates performance beyond short-term financial measures. It also provides for short-term incentives through variable pay, such as annual performance-based bonuses and variable incentive plan, to reward individual and team performance that contribute to the achievement of corporate goals and objectives.

Long-term incentives include additional compensation conditioned on Meralco's achievement of a specified level of Consolidated Core Net Income (CCNI) approved by the Board and determined on an aggregate basis for a three (3)-year period as well as executives' attainment of a specified performance rating.

Succession Planning of President and CEO and Senior Management

The Company's Board and the Remuneration and Leadership Development Committee (RLDC) are responsible for overall guidance and direction on succession planning and leadership development of the President and Chief Executive Officer (CEO) and senior management. The RLDC, working closely with the head of Human Resources (HR), drives the strategy for succession planning, leadership development, and talent management. The HR head develops and implements the processes and the tools to ensure robust pools of succession candidates for the President and CEO, senior management, middle management, and first line management.

"Meralco is committed to the development and welfare of its employees. The company provides its employees with opportunities for learning and development, fair and competitive remuneration, and programs to promote health and safety. The company devotes conscious effort to build a culture of excellence, knowledge sharing, personnel integrity, and development."

Presently, the succession plan covers the top 584 leaders of the Company. The succession planning process involves the assessment of the Company's leaders' career aspirations, strengths, and development needs. A key feature of the Company's succession planning process is the talent review conducted at the senior management level and at various levels of the organization. The senior management talent review has resulted in a pool of about 49 candidates who, subject to the realization of their development plans, could become management committee members within the next five (5) years. The talent reviews have been a hallmark of the Company's process and is a best-in-class talent management practice. The process deliverables are individual development plans designed to bring key talents to higher levels of performance and accountability. It involves authentic and extensive management discussions and deliberations by leaders on the aspirations, strengths, development needs, and challenges of key talents.

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

B. RIGHTS OF SHAREHOLDERS

The Company recognizes the rights of all shareholders as provided in the Corporation Code of the Philippines, other pertinent laws, rules and regulations, the Company's Articles of Incorporation, Amended By-Laws, and Revised Manual of Corporate Governance (MCG).

B.1 Right to Dividends

Dividend Policy

The Company's dividend policy, as approved by the Board on February 22, 2010, and ratified by the shareholders during the May 25, 2010 ASM, calls for the payment of regular cash dividends equivalent to 50% of the audited CCNI for the year with a "look-back" basis, which allows the Company to pay special dividends beyond 50% of the CCNI for the year, subject to the availability of unrestricted retained earnings in accordance with the guidelines of the SEC.

Following are the cash dividends declared by the Board on common shares for 2018:

Declaration Date	Record Date	Payable Date	Rate per Share
February 26, 2018	March 28, 2018	April 25, 2018	PhP 8.065
July 30, 2018	August 29, 2018	September 24, 2018	PhP 5.311

B.2 Right to Participate in Decisions

The Company upholds the rights of all shareholders, including the minority shareholders, to participate in:

- changes or amendments to the Company’s Articles of Incorporation or By-laws
- authorization for issuance of additional shares
- authorization of extraordinary transactions, including the transfer of all or substantially all assets that in effect result in the sale of the Company
- approval of remuneration or increase in remuneration of directors
- voting on matters in absentia through the use of proxy forms

B.3 Right to Vote and Participate Effectively Disclosure and Release of Notice to Annual Stockholders’ Meeting (ASM)

To provide shareholders enough time to examine the Company’s information, the ASM Notice was posted on the Company’s website on January 29, 2018. The Definitive Information Statement (DIS) was distributed to the shareholders starting April 18, 2018, 41 days prior to the ASM date of May 29, 2018. Similar to all Company notices and circulars, the ASM Notice is written and published in English.

ASM

It is the Company’s policy to encourage shareholders, including institutional and minority shareholders, to attend and actively participate in the ASM. The 2018 ASM was held on Tuesday, May 29, 2018, at 10:00 AM at the Meralco Theater, Lopez Building, Ortigas Avenue, Barangay Ugong, Pasig City.

The Company facilitates participation of shareholders who cannot attend the meeting in person by enclosing proxy forms in the ASM Notice where they can indicate their votes on matters that are taken up during the ASM. Shareholders can download the proxy forms together with details on how to appoint a proxy from the Company’s website.

The Company granted all shareholders, including minority shareholders, the right to nominate directors and propose or inquire on agenda items. The “Call for Nominations” was posted on the Company’s website on January 29, 2018 for submission of proposed agenda and nomination of qualified candidates on or before March 9, 2018. The agenda and nominees were approved by the Board during its meeting on January 29, 2018 and March 23, 2018, respectively.

Voting Procedures

A three (3)-hour registration period was allotted before the start of the ASM. The Assistant Corporate Secretary reported a quorum with the attendance of shareholders who own or hold a total of 897,283,790 shares or approximately 79.61% of the total issued and outstanding shares of the Company. An electronic system facilitated the registration and vote tabulation to ensure accuracy and reliability of information.

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

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

The Chairman of the Board, Chairman of the AuditCom, Chairman of the RLDC, Chairman of the Nom&Gov, Chairman of the Finance Committee, the Board, President and CEO, Chief Finance Officer (CFO), Assistant Corporate Secretary, other officers of the Company, and its external auditor attended the ASM to present the performance results of the Company and respond to any question from the shareholders relevant thereto. The appropriate meeting procedures and guidelines were followed before, during and after the ASM.

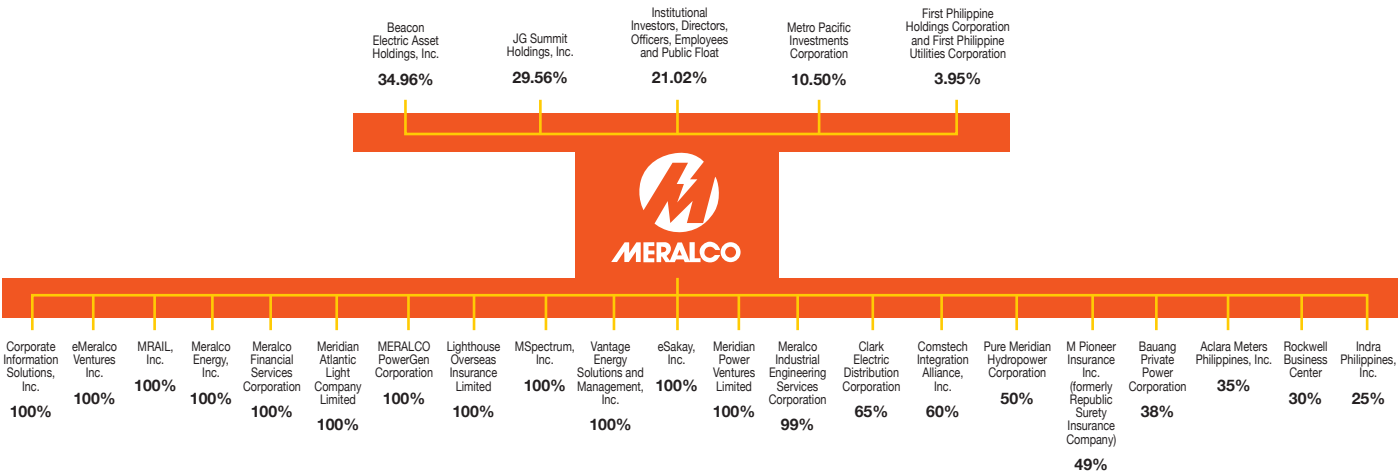
The Company posted the resolutions approved during the ASM on its website the following day so that non-attending shareholders may be immediately informed.

B.4 Right to Approve Mergers and Acquisition

In the event of mergers and acquisitions requiring shareholders’ approval, the Company appoints an independent party to evaluate the merits of the transaction as well as the fairness of the transaction price.

B.5 Institutional Investors

The Company recognizes the exercise of ownership rights by all shareholders, including institutional investors. The Company does not have any shareholder owning more than 50% of its total outstanding shares.



The complete list of the Public Ownership Report of Meralco as at December 31, 2018 was disclosed to the SEC, PSE, and PDEx on January 10, 2019, where approximately 78.98% of the Company shares are held by principal and strategic shareholders, and the remaining 21.02% shareholdings are held by directors, officers, employees, the government, other corporations, and other individuals. The Company has a straightforward structure of alliance among its affiliates, and joint ventures. There is no pyramid shareholding structure within the Group. Details of holding companies, subsidiaries, and other related companies are disclosed in the map showing relationships among the Companies within the Group.

C. EQUITABLE TREATMENT OF SHAREHOLDERS

C.1 Shares and Voting Rights

The Company has only one (1) classification of shares (common shares), with each share entitled to one (1) vote.

C.2 Notice of Annual Stockholders’ Meeting (ASM) and Definitive Information Statement (DIS)

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

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

The Notice of ASM and DIS are available on the Company’s website.

C.3 Policy on Dealings in Company Shares of Stocks (Insider Trading/Blackout Period)

The Insider Trading Policy prohibits directors, officers, and employees from benefiting from information that is not generally available to the investing public through observance of a blackout period 10 trading days before and two (2) trading days after the release or announcement of the Company’s material information or financial and operating results, during which trading in Company shares is prohibited.

The Company strictly enforces and monitors compliance with its policy on insider trading. Under the revised policy approved for implementation on December 1, 2014, directors and officers are required to disclose to the Compliance Officer the details of any trading, dealing, acquisition, disposal, or change in their beneficial ownership of the Company (MER) shares, not later than one (1) trading day after the transaction.

C.4 Related Party Transactions (RPTs) by Directors and Key Executives

The RPT Policy requires the review of material/significant RPTs, to determine whether they are in the best interest of the Company and its shareholders and ensure that all RPTs of the Company are conducted in fair and at arm’s length terms.

CORPORATE STRATEGIC OBJECTIVES/ GROWTH PILLARS

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

The Company provides all the names of related parties, degree of relationship, nature, and value for each material/ significant RPT. Details are found in Note 22 to the Consolidated Financial Statements.

In 2018, there was no case of insider trading or policy violations involving directors and officers of the Company and no RPTs that can be classified as financial assistance to entities other than wholly-owned subsidiary companies. The Company is fully compliant with the Code and policies on corporate governance.

Conflict of Interest (COI) Policy

The COI Policy requires all directors, officers and employees to annually disclose their interest in transactions and any other conflicts of interest affecting the Company through the FBID Form for directors and officers, and the COI Form for employees. The Company requires directors and key Management personnel to abstain from and/or inhibit themselves from participating in discussions on a particular agenda when a conflict exists or may exist between their personal interest and that of the Company.

C.5 Protecting Minority Shareholders from Abusive Actions

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

- a. Timely, fair, and accurate disclosure of material information
- b. Review of existing, and development of new policies that will prevent the major shareholders from gaining undue advantage over and at the expense of minority shareholders
- c. RPTs are disclosed in Note 22 of the consolidated financial statements
- d. Disinterested shareholders decide on all RPTs which require shareholders' approval

D. RESPONSIBILITIES OF THE BOARD

The Board promulgates the Company's MCG which provides the framework of good governance and ethical business practices that the Company's directors, officers, and employees are expected to observe and adhere to in dealing with various stakeholders. Management, in turn, ensures that the operations of the Company are aligned with the MCG.

The MCG conforms to regulations set forth by the SEC, the PSE, PDEx, and other relevant regulatory bodies and is reviewed annually to ensure that it is up to date with local and international best practices, and relevant to the Company's strategic direction. Pursuant to the SEC Memorandum Circular No. 19, Series of 2016, otherwise known as the "Code of Corporate Governance for Publicly Listed Companies," the Board approved the MCG which was submitted to the SEC on April 24, 2017.

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

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

The MCG further mandates the Board to formulate and to annually review the Company's vision and mission statements, corporate strategic objectives, key policies, and the mechanism for performance assessment of the Board and Management, principally the President and CEO.

VISION

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

MISSION

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

The Board, in its regular meeting held on January 29, 2018, as part of the Board's assessment of the Company's performance in the past year, reviewed and confirmed the vision, mission, and corporate strategic objectives/growth pillars of the Company. In the same meeting, the Board also reviewed the Company's material controls (including operational, financial, and compliance controls) and risk management systems and confirmed the Company's full compliance with the Code of Corporate Governance.

The Company has an 11-seat Board. Majority of the members are non-executive directors and in accordance with the Securities Regulation Code (SRC), two (2) are independent directors, namely, Ret. Chief Justice Artemio V. Panganiban and Mr. Pedro E. Roxas. To reinforce Board independence, the Board designated Ret. Chief Justice Panganiban as a lead independent director pursuant to the recommendation under the ASEAN Corporate Governance Scorecard and the Code of Corporate Governance for PLCs. The lead independent director shall have the following functions:

- a. To serve as an intermediary between the Chairman and the other directors when necessary
- b. To convene and chair meetings of the non-executive directors
- c. To contribute to the performance evaluation of the Chairman, as required

In accordance with recommendations from the MCG, the ASEAN Corporate Governance Scorecard, and the Code of Corporate Governance for PLCs, the Board enforces a Board Diversity Policy to ensure that it has an appropriate mix of expertise, experience, independence, and skills that would encourage critical discussion and promote a balanced decision in the attainment of the Company's strategic objectives and sustainable development. In this regard, the Board has a female director in the person of Ms. Anabelle L. Chua and a non-executive director who has had prior work experience in the sector or broad industry group to which the Company belongs.

The Nom&Gov reviews the nomination, selection, and composition of the Board and affirms that its membership has a proper mix and diversity of qualifications, background, experience, independence, and skills needed to effectually perform its responsibilities.

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

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

On March 23, 2018, the Nom&Gov assessed the profiles of the directors and found that the independent, non-executive directors are indeed independent of the Company, its related corporations, its management, or substantial shareholders that could interfere, or be reasonably perceived to interfere, with the exercise of the director's independent business judgment. The Nom&Gov had reviewed the multiple board representations held presently by the directors and assessed that they are reasonable in number and do not hinder, in any way, the performance of their duties to the Company.

The Chairman of the Board, Mr. Manuel V. Pangilinan, serves to represent the interests of all shareholders and stakeholders, and to oversee the performance of the Board and its directors. He champions exemplary ethical governance principles for directors, officers, and employees to emulate and likewise espouse. Together with the President and CEO, Mr. Oscar S. Reyes, the Corporate Secretary, Atty. Simeon Ken R. Ferrer and the Compliance Officer, Atty. William S. Pamintuan, the Chairman sets a clear agenda before each Board meeting. He provides opportunities for all directors to actively participate, addresses governance-related issues that non-executive, independent directors may raise, and ensures that the Board exercises strong oversight over the Company and its Management, such that the prospect of any corporate risk or threat is adequately and effectively addressed. His roles and responsibilities are specified in the MCG which is accessible in the Company's website.

The Board reviews and approves major projects, policy decisions, annual budgets, major investment funding, and major restructuring of core businesses on a fully informed basis, in good faith, with due diligence and care, and in the best interest of the Company.

The Board jointly plans meeting dates at the start of the calendar year, regularly meets every month, and holds special meetings as may be required.

2018 ASM AND BOARD MEETING ATTENDANCE				
Director	Designation	May 30, 2017		Board Meeting Attendance
		Annual Stockholders' Meeting (ASM)	Organizational Meeting	
Manuel V. Pangilinan ¹	Chairman	Present	Present	12/13
Lance Y. Gokongwei	Vice Chairman	Present	Present	13/13
Oscar S. Reyes	Director	Present	Present	13/13
Ray C. Espinosa ²	Director	Present	Present	12/13
James L. Go	Director	Present	Present	13/13
John L. Gokongwei Jr.	Director	Absent	Present	12/13
Anabelle L. Chua	Director	Present	Present	13/13
Jose Ma. K. Lim ³	Director	Present	Present	13/13
Manuel M. Lopez ⁴	Director	Present	Present	6/6
Elpidio L. Ibañez ⁵	Director	Present	Present	7/7
Artemio V. Panganiban ⁶	Independent Director	Present	Present	13/13
Pedro E. Roxas ⁷	Independent Director	Present	Present	13/13

¹Chairman of Executive Committee and Remuneration and Leadership Development Committee

²Chairman of Finance Committee

³Chairman of Risk Management Committee

⁴End of term as director in May 2018

⁵Elected during the 2018 ASM

⁶Chairman of Audit Committee

⁷Chairman of Nomination and Governance Committee and Related Party Transactions Committee

In 2018, the Board’s major accomplishments included the following:

Major Projects/Policy Decisions

- Evaluation of compliance to the SEC Revised Code of Corporate Governance
- Approval of the Integrated Annual Corporate Governance Report (I-ACGR)
- Review and approval of the Anti-Bribery and Corruption Policy
- Review and approval of the Revised RPT Policy
- Approval of the designation of a lead independent director
- Approval of the adoption of an Alternative Dispute Resolution Mechanism
- Review and approval of a Board Charter
- Review and approval of the Guidelines on Board Meetings through Teleconferencing and Videoconferencing
- Review and approval of the amendment of the Fourth Article of the Articles of Incorporation to Extend the corporate term for 50 years from May 7, 2019
- Conduct of the 2018 ASM

- Appointment of inspectors and canvassers for the ASM ballots
- Screening of nominees to the Board
- Approval of 2019 schedule of Board meetings
- Review and approval of the appointment of a new chief audit executive
- Evaluation of compliance to ERC requirements
- Review of the Retail Competition and Open Access (RCOA) Rules
- Review and approval of business separation and unbundling plan reports
- Review and approval of public-private partnerships
- Approval of construction, development, and commissioning of substation assets
- Review and approval of power generation projects
- Review and approval of other local and international business initiatives
- Review and approval of interim power supply agreements (IPSAs) and power supply agreements (PSAs)
- Approval of technical services agreements
- Approval of pole relocation projects
- Approval of Audited Financial Statements

- Evaluation of incumbent external auditor and nomination of external auditor for 2018
- Approval of report of external auditors covering the Company’s Audited Financial Statements
- Approval of dividend declaration
- Review and approval of material RPTs
- Enterprise performance evaluation and assessment
- Performance assessment of the Board, Board Committee, and President and CEO
- Review and approval of executive promotions, rightsizing policy and succession planning
- Review and approval of employee performance management plan

Business Plan and Annual Budgets

- Review and approval of the 2019 budget and the 2019-2023 business plan
- Review of board remuneration given the provisions of TRAIN Law
- Approval of budget realignment for certain services
- Monitoring of investment committee report
- Review and approval of corporate strategic objectives
- Monitoring of the implementation of corporate strategies
- Review of forecast of subsidiaries’ projects

Major Investment Fundings

- Infusion of equity to subsidiaries
- Renewal of credit lines, credit facilities, and bonds

In 2018, the Company’s non-executive directors met two (2) times without the presence of the executive director, Mr. Oscar S. Reyes. The agenda in these meetings were the Management’s reports, corporate governance directions, reports of the internal and external auditors, and the performance assessment of the President and CEO.

Corporate Secretary and Compliance Officer

All Board members have direct and independent access to the Corporate Secretary, the Compliance Officer and Management. The corporate secretary, under the direction of the Chairman, is responsible for ensuring that good information flows within the Board and Board Committees and between Management and non-executive directors. He also facilitates the orientation and assists with the professional development of directors as required by regulators.

Among the duties of the Office of the Corporate Secretary are the following:

- Schedule Board meetings and other related activities and notify the Board
- Provide the necessary Board papers associated with items on the meeting agenda at least five (5) business days ahead of the Board meetings
- Provide ready and reasonable access to information that directors may need for their deliberation on issues listed on the agenda of the Board
- Assist the Board in the performance of its duties
- Attend all Board meetings, take the minutes of meetings and maintain records of the same and ensure proper safekeeping of all Board papers

- Ensure that all Board procedures, rules, and regulations are faithfully followed
- Submit required reports and disclosures to SEC, PSE, PDEx and other regulatory agencies
- Conduct orientation program for new members of the Board regarding the Company’s organizational structure and business operations

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

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

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

- Ensures proper on-boarding of new directors (i.e., orientation on the Company’s business, charter, articles of incorporation and by-laws, among others)
- Monitors, reviews, evaluates, and ensures the compliance by the corporation, its officers and directors with the relevant laws, rules and regulations and all governance issuances of regulatory agencies
- Reports violations of the aforementioned rules to the Board and recommends the imposition of appropriate disciplinary action
- Ensures the integrity and accuracy of all documentary submissions to regulators
- Appears before the SEC when summoned in relation to compliance with the SRC
- Collaborates with other departments to properly address compliance issues which may be subject to investigation
- Identifies possible areas of compliance issues and works towards the resolution of the same
- Ensures the attendance of board members and key officers to relevant trainings
- Performs such other duties and responsibilities as may be provided by the SEC

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

D.1 Board Committees

The Board has formed various Board Committees, namely the Executive Committee (ExCom), Audit Committee (AuditCom), Risk Management Committee (RMC), Nomination and Governance Committee (Nom&Gov), Remuneration and Leadership Development Committee (RLDC), Finance Committee (FinCom), and Related Party Transactions Committee (RPTComm). The Board has delegated specific responsibilities to each of these Committees. These Board Committees had been formed and are guided by their respective committee charters.

2018 BOARD COMMITTEE MEETING ATTENDANCE						
	FinCom	Auditcom	RMC	RPT Comm	Nom&Gov	RLDC
Manuel V. Pangilinan	n/a	n/a	n/a	n/a	n/a	4/4
Lance Y. Gokongwei	n/a	5/9	1/2	1/1	2/5	2/4
Oscar S. Reyes	n/a	n/a	n/a	n/a	n/a	n/a
Ray C. Espinosa	11/12	n/a	n/a	n/a	n/a	n/a
James L. Go	12/12	8/9	2/2	0/1	4/5	n/a
John L. Gokongwei, Jr.	12/12	n/a	n/a	n/a	n/a	n/a
Jose Ma. K. Lim	n/a	8/9	2/2	1/1	5/5	3/4
Anabelle L. Chua	12/12	9/9	2/2	1/1	5/5	n/a
Manuel M. Lopez ¹	5/5	n/a	n/a	n/a	n/a	n/a
Elpidio L. Ibañez ¹	7/7	n/a	n/a	n/a	n/a	n/a
Pedro E. Roxas ²	10/12	9/9	2/2	1/1	5/5	4/4
Artemio V. Panganiban ²	n/a	9/9	2/2	1/1	n/a	n/a

¹Mr. Elpidio L. Ibañez replaced Amb. Manuel M. Lopez as member of the FinCom effective June 1, 2018
²Independent Director

The functions, authority and responsibilities of each Board Committee and their accomplishments are as follows:

Executive Committee (ExCom) is composed of five (5) directors, one (1) of whom is an independent director. The ExCom may act, by majority vote of all its members, on such specific matters within the competence of the Board, as may be delegated to it under the By-Laws, or upon a majority vote of the Board, subject to the limitations provided by the Corporation Code.

Remuneration and Leadership Development Committee (RLDC) is composed of four (4) directors, one (1) of whom is an independent director. The duties and responsibilities of RLDC as defined in its charter include assistance to the Board in the development of the Company’s overall performance management, compensation, retirement and leadership development policies and programs based on the Company-approved philosophy and budget.

The RLDC held three (4) meetings in 2018. The following were accomplished by the RLDC:

- Approval of candidates for rank conferment to first vice president and vice president
- Review of performance evaluation plan results
- Review of merit increase programs
- Review of annual incentive plan

- Review and endorsement of the 2018-2020 collective bargaining agreement negotiations with the supervisory union
- Presentation and review of proposed succession planning programs
- Review of board remuneration given provisions on TRAIN Law

The RLDC recommends to the Board, for the approval of the shareholders, a framework of remuneration for directors and Management, including the President and CEO.

For the President and CEO, and Management, the framework takes into account all aspects of executive remuneration including salaries, allowances, bonuses, and benefits in kind. The framework is benchmarked against pay and employment conditions within the industry and it links rewards to corporate and individual performance. The Board ensures that the remuneration of its members and key officers is aligned with the long-term interest of the Company. Directors do not participate in discussions or deliberations involving their own remuneration.

The Company’s directors receive per diem fees for their attendance to Board and Board Committee meetings. Each director is entitled to a per diem allowance of PhP140,000 for every board meeting attended and PhP24,000 for every committee meeting.

DETAILS OF 2018 BOARD REMUNERATION (IN PhP)			
	Remuneration for ASM and Board Meetings Attended in 2018	Remuneration for Committee Meetings Attended in 2018	TOTAL
EXECUTIVE DIRECTOR			
Oscar S. Reyes	1,820,000	-	1,820,000
EXECUTIVE DIRECTOR	1,820,000	-	1,820,000
NON-EXECUTIVE DIRECTOR			
Manuel V. Pangilinan	1,680,000	96,000	1,776,000
Lance Y. Gokongwei	1,820,000	264,000	2,084,000
Ray C. Espinosa	1,680,000	264,000	1,944,000
Manuel M. Lopez	840,000	120,000	960,000
John L. Gokongwei, Jr.	1,820,000	288,000	2,108,000
Jose Ma. K. Lim	1,820,000	456,000	2,276,000
James L. Go	1,820,000	624,000	2,444,000
Elpidio L. Ibañez	980,000	168,000	1,148,000
Anabelle L. Chua	1,820,000	696,000	2,516,000
TOTAL NON-EXECUTIVE DIRECTORS	14,280,000	2,976,000	17,256,000
INDEPENDENT DIRECTORS			
Pedro E. Roxas	1,540,000	744,000	2,284,000
Artemio V. Panganiban	1,820,000	288,000	2,108,000
TOTAL INDEPENDENT DIRECTORS	3,360,000	1,032,000	4,392,000
GRAND TOTAL	19,460,000	4,008,000	23,468,000

Remuneration of Key Management and Employees
The Company adopts a remuneration policy comprised of fixed and variable components in the form of base salary and variable bonus linked to the Company’s and the individual’s performance. Compensation packages and revisions of key Management’s remuneration are subject to the review and approval of the RLDC.

The top five (5) key officers of the Company have received an aggregate remuneration of PhP236 million. For more information on the aggregate total remuneration paid to all key officers, please refer to the discussion entitled Compensation of Key Management Personnel in the Notes to the Consolidated Financial Statements.

Advisers/Consultants to Remuneration and Leadership Development Committee
Meralco engaged a human resources consultancy firm to assist in the areas of employee engagement, and compensation and benefits management.

Nomination and Governance Committee (Nom&Gov)
is composed of five (5) directors with an independent director as chairman. The duties and responsibilities of Nom&Gov as reflected in its charter include screening qualified nominees for election as directors, assessing the independence of directors, introducing improvements on Board organization and procedures, setting-up of mechanisms for performance evaluation of the Board and Management, and providing programs for continuing education of the Board.

The Nom&Gov undertakes the process of identifying the qualification of directors aligned with the Company’s strategic directions. It reviews and recommends to the Board the appointment of directors and members to the Board committees. The process involves identifying, reviewing, and recommending potential candidates to the Board for consideration.

The Nom&Gov has put in place a formal and transparent process for the nomination of new directors to the Board. Stakeholders who have identified suitable candidates submit the Nomination and Acceptance Letters, FBID Forms, and curriculum vitae of such candidates to the Nom&Gov for discussion and review on or before the deadline set by the Nom&Gov.

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

The shareholders elect the directors during the ASM held every last Tuesday of May.

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

The Nom&Gov had five (5) meetings in 2018. The following were performed by the Nom&Gov:

- Reviewed the results of Board, Board Committees, and President and CEO performance assessment
- Assessed Meralco's public ownership report
- Screened the nominees to the Board
- Reviewed the Board committee composition
- Assessed Meralco's compliance to the Revised ASEAN Corporate Governance Scorecard (ACGS)
- Reviewed and endorsed Meralco's Integrated Annual Corporate Governance Report (I-ACGR) for 2017
- Endorsed the appointment of the lead independent director
- Reviewed and approved the following policies:
 - Anti-Bribery and Corruption Policy
 - Board Charter
 - Policy on Alternative Dispute Resolution
- Adoption of guidelines on Board meetings through teleconferencing and videoconferencing
- Reviewed the updates on sustainability reporting
- Discussed the implementation of electronic voting during the ASM
- Reviewed the engagement of an external facilitator to assess Board effectiveness
- Facilitated the annual CG enhancement and continuing education programs
- Conducted the on-boarding orientation for the new director, Mr. Elpidio L. Ibañez

Audit Committee (AuditCom) is composed of two (2) independent directors, and four (4) non-executive directors, one of whom has over 20 years of experience in the areas of accounting, corporate finance, treasury, financial control, and credit risk management and was a Vice President at Citibank, N.A. for 10 years. The AuditCom is chaired by an independent director.

The AuditCom had nine (9) meetings in 2018 and performed the following:

- Internal Control
 - Obtained Management's assurance on the adequacy and effectiveness of the Company's internal control system and noted Management's Control Policy
 - Evaluated the effectiveness of the internal control system of the Company
 - Prepared a briefing for sustainability reporting
 - Discussed updates on Cybersecurity, Operational Technology Cybersecurity Assessment (OTCA)
- Financial Reporting
 - Reviewed the Unaudited Consolidated Quarterly Financial Statements and the Audited Annual Consolidated Financial Statements of the Company
 - Endorsed for Board approval the Audited Consolidated Financial Statements of the Company
- Audit Process
 - Assessed the independence, performance, and effectiveness of the external auditor, SyCip Gorres Velayo & Co. (SGV), taking into consideration their credibility, competence, ability to understand complex related party transactions, and the adequacy of their quality control procedures. Based on this assessment, SGV was re-nominated by the AuditCom to the Board as the external auditor of the Company with the assurance that the lead audit partner complies with Rule 68 of the SRC on rotation of external auditor
 - Held executive sessions with the external auditor without the presence of Management
 - Reviewed and approved the audit plan, scope of work and proposed fees of SGV for audit and non-audit services
 - Reviewed and approved the annual internal audit plan including subsequent changes to the audit plan
 - Discussed and dissected the results of audits reported by the Chief Audit Executive in the quarterly reports to the AuditCom
 - Monitored Management's appropriate corrective actions to the audit recommendations of internal audit and the external auditor
 - Assessed internal audit's performance for the preceding year
 - Assessed the performance of the subsidiaries' Audit committees
 - Discussed the retirement of the Chief Audit Executive and recommended the appointment of her replacement

- Compliance
 - Reviewed and assessed Management's processes of monitoring compliance with laws and regulations through Internal Audit
 - Reviewed and assessed subsidiaries' and associates' processes of monitoring compliance with laws and regulations
 - Obtained updates on the status of compliance as well as the remaining challenges confronting the Company, as they relate to the requirements of the ERC, the SEC, and other regulatory agencies concerned with environment and safety, labor, and others

Risk Management Committee (RMC) is composed of two (2) independent directors and four (4) non-executive directors. It assists the Board in its oversight role on the risk management process. The following activities were accomplished by the RMC:

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

The Board, through the RMC, institutes a framework of prudent and effective controls which enables risks to be identified, assessed, and managed accordingly.

Finance Committee (FinCom) is composed of six (6) directors, one (1) of whom is an independent director, with the CFO as ex-officio member. It reviews the financial operations of the Company and matters regarding major purchase contracts, and acquisition and/or divestment of investments, businesses or ventures.

In its 12 meetings in 2018, its major accomplishments were:

- Review and approval of all service and supply contracts in excess of Php50 million
- Review of Unaudited Quarterly Consolidated Financial Statements and Audited Annual Consolidated Financial Statements
- Treasury updates
- Declaration of final cash dividend
- Renewal of credit lines and bonds
- Review and approval of cash optimization strategy
- Review and approval of PSAs and any changes or issues regarding their execution
- Review and approval of annual budget and medium-term business plan and forecast

- Review of Meralco's directors and officers insurance policy
- Review additional capital call, surety bonds, capital infusions for subsidiaries
- Review of special payment agreements
- Review of equity call
- Review of investments
- Review and endorsement of the renewal of Wholesale Electricity Spot Market surety bond for the retail electricity supply transactions

Related Party Transactions Committee (RPTComm)

is composed of six (6) directors, two (2) of whom are independent directors. It assists the Board in reviewing material/significant RPTs to determine whether they are in the best interest of the Company and shareholders and ensures that all RPTs of the Company are conducted in fair and at arms' length terms. In 2018, the RPTComm:

- Reviewed and endorsed the Revised RPT Policy and Guidelines
- Reviewed and endorsed material and significant RPTs

D.2 Orientation and Continuing Education Programs

The Board ensures that the Company complies with all relevant laws, regulations, and endeavor to adopt best business practices and to keep it abreast with the latest developments in corporate governance regulatory landscape and best practices; it implements a policy on orientation and continuing training for all directors and key officers, including an annual CG training with SEC accredited providers, in accordance with the Board Charter and the Company's MCG.

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

The Company has a policy that encourages directors to attend annual continuing training programs. In fulfillment of such policy and the requirements of the Company's MCG, the ERC Resolution No. 1, Series of 2004, and the SEC Memorandum Circular No. 20, Series of 2013, the directors, together with the senior management, attended the 13th Annual Corporate Governance Enhancement Session on November 16, 2018, entitled "Sustainability Strategy in a Disruptive Business Environment: ESG Best Practices and Compliance Issues; and Blockchain Technology Use Cases and Strategic Benefits, Risks and Governance Issues."

2018 ATTENDANCE TO CORPORATE GOVERNANCE TRAINING AND CONTINUING EDUCATION PROGRAMS		
Director	Program	Resource Person/ Name of Training Institution
MANUEL V. PANGILINAN	Directors’ Training Session on “Cyber Security” and “Synopsis on Corporate Governance, Legal and Regulatory Issues”	First Pacific Company Limited PricewaterhouseCoopers (PwC) Mr. Graham Winter Gibson Dunn
LANCE Y. GOKONGWEI	Corporate Governance Training on "Agile Training"	Paul McNamara Boston Consulting Group
ELPIDIO L. IBAÑEZ RAY C. ESPINOSA JOSE MA. K. LIM OSCAR S. REYES PEDRO E. ROXAS	MVP Group 13th Annual Corporate Governance Enhancement Session: Sustainability Strategy in a Disruptive Business Environment: ESG Best Practices and Compliance Issues; and Blockchain Technology Use Cases and Strategic Benefits, Risks and Governance Issues	Dr. Matthew Bell Partner, Ernst and Young Mr. Paul R. Brody Partner, Ernst and Young
ANABELLE L. CHUA	2018 PSE-SCCP-CMIC Corporate Governance Training	PSE
JAMES L. GO JOHN L. GOKONGWEI, JR.	SEC Granted Messrs. John L. Gokongwei, Jr. and James L. Go a permanent exemption from the corporate governance training requirement in its en banc meeting on November 10, 2015.	
RET. CHIEF JUSTICE ARTEMIO V. PANGANIBAN	MVP Group 13th Annual Corporate Governance Enhancement Session: Sustainability Strategy in a Disruptive Business Environment: ESG Best Practices and Compliance Issues; and Blockchain Technology Use Cases and Strategic Benefits, Risks and Governance Issues SGV Corporate Governance Seminar	Dr. Matthew Bell Partner, Ernst and Young Mr. Paul R. Brody Partner, Ernst and Young SGV Leonardo J. Matignas, Jr. Partner, SGV

D.3 Board, Committee and CEO Performance Assessment

The Board annually conducts a self-assessment of its performance individually, collectively, and as members of the different Board committees. The self-assessment results are key factors in the enhancement of directors’ performance and effectiveness in the discharge of their duties.

The Board conducted the performance assessment on February 26, 2019, through employment of the following assessment forms, with the following processes and criteria:

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

- General Board Committee Performance Assessment – each director assessed the overall performance of the Board committees, based on the provisions of the Board committee Charters.
- Board Committee Self-Assessment – each committee member assessed his committee’s performance vis-à-vis the respective charters and SEC’s guidelines for the assessment of the performance of audit committee of companies listed on the Exchange.
- President and CEO Performance Assessment – each director assessed the President and CEO’s leadership, working relations with the Board, communication and working relations with Management.

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

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

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

E. DISCLOSURE AND TRANSPARENCY

E.1 Transparent Ownership Structure

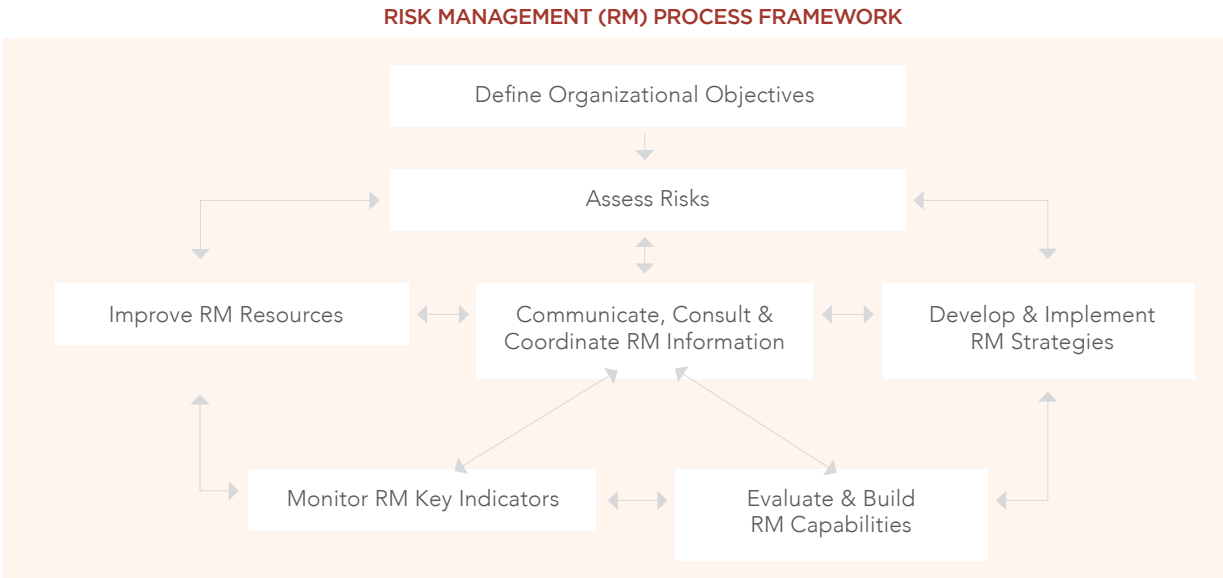
The following stockholders directly own more than 5% of the Company’s (MER) shares as at December 31, 2018.

Name of Shareholder and Beneficial Owner	Total Shares	% to Total Share
Beacon Electric Asset Holdings, Inc.	394,059,235	34.96%
JG Summit Holdings, Inc.	333,189,397	29.56%
Metro Pacific Investments Corporation	118,345,366	10.50%
TOTAL	845,593,998	75.02%

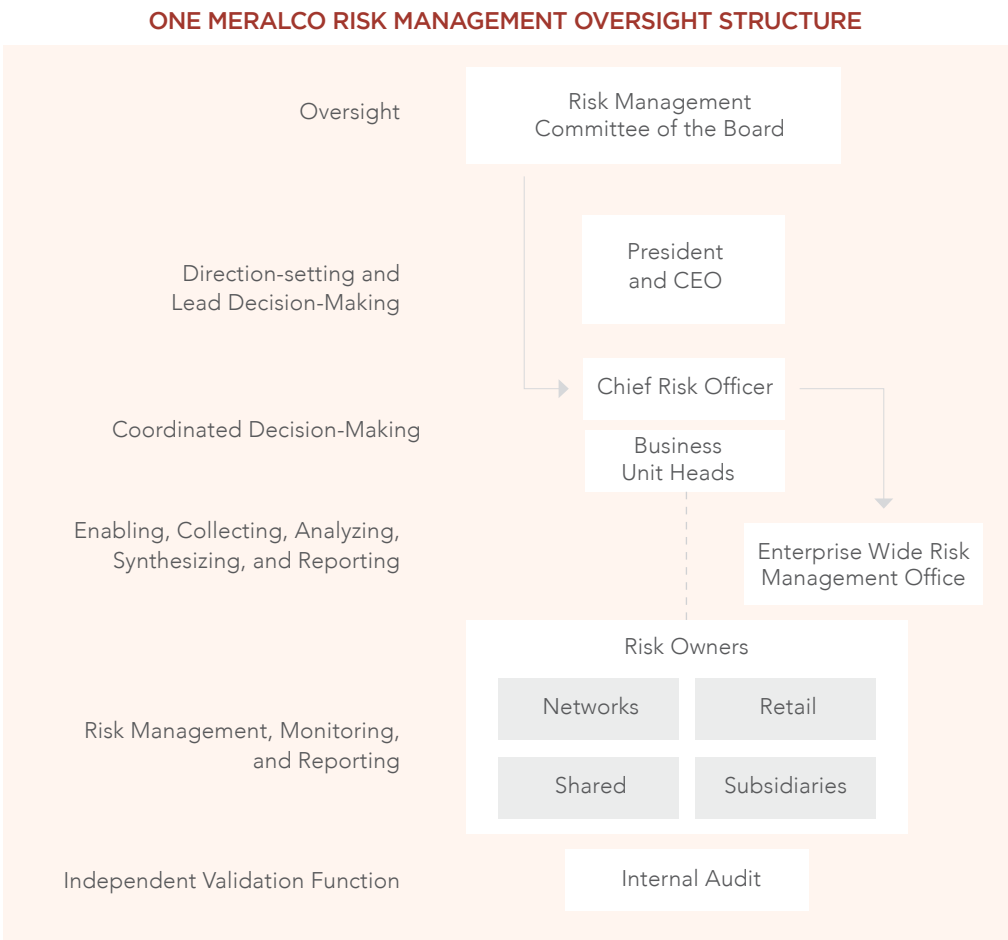
E.2 Enterprise-Wide Risk Management

Enterprise Risk Management (ERM) allows the Company and its subsidiaries to enhance its stakeholder value through the creation of risk governance structure and adoption of effective mechanisms that effectively manage existing and emerging risks as well as enhance the ability of the Company and its subsidiaries to take on additional risks accompanying new growth opportunities. The Company uses the Bell Curve Enterprise Risk Management Model for its risk management framework.

The Company adopted the following process framework and structure for managing its major business risks, namely: a) financial risks; b) operational risks; c) regulatory and compliance risks; and d) strategic and corporate risks (including reputational risks). To enable a fully integrated ERM function within One Meralco, the following Risk Management Process Framework was constructed covering the following key activities of an entire cycle of risk management:



To help ensure the successful implementation of ERM across One Meralco, the following risk governance structure was established. This structure is designed to ensure that an integrated and independent view of the risks across the different categories is realized. Integration of risk management functions across One Meralco also allows for stronger independent advice to management and the Board and aims to facilitate well-informed decision-making.



E.3 Disclosure of Related Party Transactions

In 2017, the Board approved the Organizational Charter of the RPT Committee and delegated to the RPT Committee the responsibility of reviewing material/significant RPTs, determining whether they are in the best interest of the Company and shareholders, and ensuring that all RPTs of the Company are conducted in fair and at arm's length terms.

In 2018, the Board approved the revision of the Related Party Transaction Policy providing for materiality thresholds in reporting, reviewing and approving RPTs, distinguishing RPTs into material, significant and *de minimis*, and establishing the approval process in case of recurring, infrequently occurring or unusual RPTs.

The names of all related parties, degree of relationship, nature and value for each material/significant RPT are disclosed by the Company in Note 22 to the Consolidated Financial Statements.

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

The Company is committed to the cause of protecting the environment and mitigating the adverse impact of climate change. The Company's Environment, Safety and Health (ESH) Policy ensures an environmentally-friendly value chain and compliance with all pertinent environmental laws. The Company strictly monitors its business activities and operations to ensure sustainable development and safeguard the quality of life of society, communities, and the environment in the areas where it operates. Sustainable, reliable, secure and cost-effective energy supply is, and will continue to be, an essential enabler of economic performance, market competitiveness and societal prosperity at a community, country and regional level.

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

SHAREHOLDINGS OF DIRECTORS AND KEY OFFICERS AS AT DECEMBER 31, 2018								
Name	January 1, 2018	Buy	Sell	December 31, 2018	Direct Holdings	Indirect Holdings	Total Shares	% to Total Share
A. Directors								
1. Manuel V. Pangilinan – Chairman	40,000	–	–	40,000	40,000	–	40,000	0.00%
2. Lance Y. Gokongwei – Vice-Chairman	17,310	5,000	22,300	10	10	–	10	0.00%
3. Oscar S. Reyes – President & CEO	268	–	–	268	268	–	268	0.00%
4. Ray C. Espinosa	36,000	5,000	–	41,000	41,000	–	41,000	0.00%
5. James L. Go	490,300	5,000	490,190	5,110	5,110	–	5,110	0.00%
6. John L. Gokongwei, Jr.	15,810	5,000	–	20,810	20,810	–	20,810	0.00%
7. Anabelle L. Chua	5,060	5,000	–	10,060	10,060	–	10,060	0.00%
8. Jose Ma. K. Lim	35,010	5,000	–	40,010	40,010	–	40,010	0.00%
9. Manuel M. Lopez ⁵	14,384	5,000	–	19,384	19,384	–	19,384	0.00%
10. Pedro E. Roxas	1,000	–	–	1,000	1,000	–	1,000	0.00%
11. Artemio V. Panganiban	1	–	–	1	1	–	1	0.00%
12. Elpidio L. Ibañez ⁴	10,263	–	–	10,263	10,263	–	10,263	0.00%
TOTAL	665,406	35,000	512,490	187,916	187,916	–	187,916	0.02%

B. Executive Officers								
1. Simeon Ken Ferrer – Corporate Secretary	767	–	–	767	767	–	767	0.00%
2. Roberto R. Almazora	93,082	–	–	93,082	93,082	–	93,082	0.01%
3. Ronnie L. Aperoch	14	–	–	14	14	–	14	0.00%
4. Alfredo S. Panlilio	668	–	–	668	668	–	668	0.00%
5. Angelito D. Bermudo	–	–	–	–	–	–	–	0.00%
6. Ramon B. Segismundo ⁶	8,500	–	–	8,500	8,500	–	8,500	0.00%
7. Rogelio L. Singson	–	–	–	–	–	–	–	0.00%
8. Betty C. Siy-Yap	–	–	–	–	–	–	–	0.00%
9. Ferdinand C. Alejandro	8,952	–	–	8,952	8,952	–	8,952	0.00%
10. Ruben B. Benosa ⁶	22,992	–	–	22,992	22,992	–	22,992	0.00%
11. Rolando M. Cagampan ⁶	–	–	–	–	–	–	–	0.00%
12. Benjamin U. Cusi	24,050	–	–	24,050	24,050	–	24,050	0.00%
13. Melanie T. Oteyza ⁷	–	–	–	–	–	–	–	0.00%
14. Helen T. De Guzman ³	26,093	–	–	26,093	26,093	–	26,093	0.00%
15. Ivanna G. Dela Peña ⁶	15,000	–	–	15,000	15,000	–	15,000	0.00%

SHAREHOLDINGS OF DIRECTORS AND KEY OFFICERS AS AT DECEMBER 31, 2018								
Name	January 1, 2018	Buy	Sell	December 31, 2018	Direct Holdings	Indirect Holdings	Total Shares	% to Total Share
16. William S. Pamintuan	-	-	-	-	-	-	-	0.00%
17. Antonio M. Abuel, Jr.	10,427	-	-	10,427	10,427	-	10,427	0.00%
18. Ireneo B. Acuna	18,355	-	-	18,355	18,355	-	18,355	0.00%
19. Angelita S. Atanacio ¹	4,000	-	-	4,000	4,000	-	4,000	0.00%
20. Patrick Dave B. Bacani	-	-	-	-	-	-	-	0.00%
21. Bennette D. Bachoco	-	-	-	-	-	-	-	0.00%
22. Joseph Allan C. Baltazar	-	-	-	-	-	-	-	0.00%
23. Edgardo V. Carasig	-	-	-	-	-	-	-	0.00%
24. Bernard H. Castro	463	-	-	463	463	-	463	0.00%
25. Lawrence S. Fernandez	4,500	-	-	4,500	4,500	-	4,500	0.00%
26. Ferdinand O. Geluz	15,877	-	3,000	12,877	12,877	-	12,877	0.00%
27. Victor Emmanuel S. Genuino	-	-	-	-	-	-	-	0.00%
28. Nixon G. Hao	2,791	-	-	2,791	2,791	-	2,791	0.00%
29. Ernie G. Imperial ⁷	460	-	-	460	460	-	460	0.00%
30. Dexter C. Lee ²	-	-	-	-	-	-	-	0.00%
31. Jose Mari P. Melendres	-	-	-	-	-	-	-	0.00%
32. Charina P. Padua ¹	31,609	-	-	31,609	31,609	-	31,609	0.00%
33. Raymond B. Ravelo	-	-	-	-	-	-	-	0.00%
34. Jose Rainier A. Reyes	-	-	-	-	-	-	-	0.00%
35. Jose S. Reyes Jr. ¹	8,727	-	-	8,727	8,727	-	8,727	0.00%
36. Nestor P. Sarmiento ⁸	323	-	-	323	323	-	323	0.00%
37. Froilan J. Savet	8,435	-	-	8,435	8,435	-	8,435	0.00%
38. Liza Rose G. Serrano-Diangson	36,983	-	2,590	34,393	34,393	-	34,393	0.00%
39. Ma. Cynthia C. Soluren	11,575	-	-	11,575	11,575	-	11,575	0.00%
40. Manuel Lorenzo L. Tuason	22,180	-	-	22,180	22,180	-	22,180	0.00%
41. Jose Antonio T. Valdez	-	-	-	-	-	-	-	0.00%
42. Jose Ronald V. Valles	-	-	-	-	-	-	-	0.00%
	376,823	-	5,590	371,233	371,233	-	371,233	0.03%

¹ Appointed Vice Presidents effective January 1, 2018
² Resigned effective January 5, 2018
³ Retired effective January 31, 2018
⁴ Elected on May 29, 2018
⁵ End of term as director
⁶ Retired effective June 30, 2018
⁷ Resigned effective July 31, 2018
⁸ Retired effective August 31, 2018
⁹ Appointed First Vice President effective October 1, 2018

PRINCIPAL, STRATEGIC AND SUBSIDIARIES/AFFILIATES SHAREHOLDINGS as at December 31, 2018								
Name	January 1, 2018	Buy	Sell	December 31, 2018	Direct Holdings	Indirect Holdings	Total Shares	% to Total Share
A. Principal Stockholders								
Beacon Electric Asset Holdings, Inc.	394,059,235	-	-	394,059,235	394,059,235	-	394,059,235	34.96%
JG Summit Holdings, Inc.	333,189,397	-	-	333,189,397	333,189,397	-	333,189,397	29.56%
Metro Pacific Investments Corporation	118,345,366	-	-	118,345,366	118,345,366	-	118,345,366	10.50%
TOTAL	845,593,998	-	-	845,593,998	845,593,998	-	845,593,998	75.02%
B. Strategic Stockholders								
First Philippine Holdings Corporation	44,382,436	-	-	44,382,436	44,382,436	-	44,382,436	3.94%
First Philippine Utilities Corporation	93,270	-	-	93,270	93,270	-	93,270	0.01%
TOTAL	44,475,706	-	-	44,475,706	44,475,706	-	44,475,706	3.95%



E.6 Audit

Internal Audit

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

An annual assessment using a risk-based audit plan approved by the AuditCom and the RMC on the adequacy of the Company’s internal control system is undertaken by the Internal Audit, in cooperation with relevant business responsibility units. The Internal Audit reports the results of audits covering various units of the Company and its subsidiaries including specific areas of concern identified by Management to the AuditCom. The findings are reviewed by the AuditCom and the RMC – which in turn, report the same to the Board for guidance and/or appropriate action. Significant concerns, which have been reported by the internal audit group, and the implementation of responsive remedial measures, are monitored by Management and by the AuditCom. The AuditCom report in this Annual Report discloses that the Board has conducted a review of and has found adequate the Company’s material controls (including operational, financial, and compliance controls) and risk management systems.

The Company’s Internal Audit is headed by the Chief Audit Executive and Vice President, Ms. Melanie C. Oteyza, who reports functionally to the AuditCom and administratively to the President and CEO as outlined in the Company’s Internal Audit Charter. The appointment and removal of the internal auditor require the approval of the AuditCom.

External Audit

The Company’s external auditor, SGV was evaluated, nominated, and recommended for appointment including its audit fees by the AuditCom, and such recommendation was approved by the Board. The re-appointment of SGV was thereafter confirmed by the shareholders in the ASM held on May 29, 2018.

CONSOLIDATED EXTERNAL AUDITOR’S FEES* (in million PhP)		
	2018	2017
Financial Statements Audit	8.0	7.7
Audit of financial statements in accordance with the requirements of the Business Separation and Unbundling Plan of the ERC	0.5	0.5
Total	8.5	8.2

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

E.7 Medium of Communication

Quarterly Reports

The Company reports its quarterly and full year financial results through the SEC, PSE and PDEx to provide the shareholders, the investors, and the public a balanced and informed assessment of the Company’s performance, position, and prospects.

Quarterly Reports: <http://www.meralco.com.ph/investor-relations/quarterly-reports>
Financial Results: <http://www.meralco.com.ph/investor-relations/financial-results>
Annual Reports: <http://www.meralco.com.ph/investor-relations/annual-reports>

Investors’ Briefings/Media Briefings

The officers of the Company, led by the Chairman and the President and CEO, with the CFO, Investor Relations Office and other officers, present information on performance results, business progress, industry trends, impact of external factors, and regulations to shareholders, analysts, investors, and media every quarter during the investors’ briefing and teleconference, as well as the media briefing. Presentation materials used in these meetings are posted on the Company’s website to ensure comprehensive information dissemination to all stakeholders and investors, including those who were not able to participate in the briefings.

Schedule of Events: <http://www.meralco.com.ph/investor-relations/calendar-of-events>

Press Releases: <http://www.meralco.com.ph/investor-relations/press-releases>

“The Company is committed to ensure that all personal data collected from its data subjects – customers, employees, vendors, shareholders, visitors, and other data subjects, are processed in adherence to the general principles of transparency, legitimate purpose, and proportionality, and protected to ensure its confidentiality, integrity, and availability.”

Company Website

The Company website provides information on its products and services as well as the following corporate governance information:

Section	Link
Business Operations	http://biz.meralco.com.ph/ http://corporatepartners.meralco.com.ph/ http://www.meralco.com.ph/news
Financial Statements/Reports	http://www.meralco.com.ph/investor-relations/financial-results http://www.meralco.com.ph/investor-relations/quarterly-reports
Materials provided in briefings to analysts and media	http://www.meralco.com.ph/investor-relations/press-releases
Shareholding Structure	http://www.meralco.com.ph/about-us/organizational-structure http://www.meralco.com.ph/about-us/meralco-shareholding-structure
Group Corporate Structure	http://www.meralco.com.ph/about-us/organizational-structure http://www.meralco.com.ph/about-us/meralco-shareholding-structure
Downloadable Annual Report	http://www.meralco.com.ph/investor-relations/annual-reports
Notice of ASM	http://www.meralco.com.ph/company-disclosures/notice-of-annual-or-special-stockholders-meetings
Minutes of ASM	http://www.meralco.com.ph/company-disclosures/minutes-of-all-general-or-special-stockholders-meetings
Company’s By-Laws and Articles of Incorporation	http://www.meralco.com.ph/about-us/articles-of-incorporation-and-by-laws

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

The Company’s 2018 Audited Financial Statements were released on March 1, 2018, 60 days after financial year-end. The true and fair representation of the Annual Financial Reports was affirmed by the Board through the Chairman, President and CEO, and CFO of the Company on the Statement of Management’s Responsibility section of this Annual Report. This can be accessed at the Company website.

E.9 Investor Relations

Meralco’s Investor Relations Office regularly communicates relevant and timely information about the Company to both current and potential investors, to analysts, fund managers, potential business partners and the general public.

E.10 Shareholder Engagement

The Stockholders’ Affairs Office under the Corporate Governance and Compliance Office encourages shareholders to engage with the Company beyond the ASM by providing them with accessible channels through which timely, fair and accurate disclosures of material information affecting their shares are made and through which concerns on their shares may be addressed. Shareholders and investors are provided with adequate facilities to communicate with Meralco through telephone, mail, electronic mail, and website, www.meralco.com.ph. The Investor Relations Office supervises the investors’ briefings and teleconference and attends to institutional investors’ needs. Stockholders’ Affairs Office attends to the inquiries and other concerns of shareholders.

E.11 Data Privacy

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

E.12 Anti-Competition Law

The Code of Ethics requires directors, officers and employees to comply with all laws, rules and regulations governing the business operations of our Company and enfranchising its corporate existence, listing in the stock exchange, and utility operations. As such, Meralco ensures that it complies with all laws including those that prohibit anti-competitive behavior, abuse of dominant position and anti-co-competitive mergers and acquisitions.

Board of Directors

OUR GUIDING LEADERSHIP.



MANUEL V. PANGILINAN, 72

Chairman (since May 29, 2012)
President and CEO (July 1, 2010-May 29, 2012)
Director (since May 26, 2009)

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



OSCAR S. REYES, 72

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

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



ANABELLE L. CHUA, 58

Director (since May 31, 2016)

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



RAY C. ESPINOSA, 62

Director (since May 26, 2009)

Mr. Espinosa is a member of the Board of Directors of PLDT Inc.*, Metro Pacific Investments Corporation*, Roxas Holdings, Inc.*, and also an independent director of Lepanto Consolidated Mining Company (Lepanto)* and Maybank Philippines, Inc. He is a director of Smart Communications, Inc., MERALCO PowerGen Corporation, TV5 Network, Inc., and Signal TV Inc. He is the Chairman of the Philstar Daily, Inc. and BusinessWorld Publishing Corporation, Chairman of the Finance Committee of Meralco*, Chairman of the Audit Committee of Lepanto and Chairman of the Risk Management Committee of Maybank Philippines, Inc. He is the President of Mediaquest Holdings, Inc., General Counsel of Meralco*, Chief Corporate Services Officer of PLDT and Head of PLDT's Regulatory Affairs and Policy Office. He is also a trustee of the Beneficial Trust Fund of PLDT. Mr. Espinosa joined First Pacific in June 2013. He is First Pacific Group's Head of Government and Regulatory Affairs and Head of Communications Bureau for the Philippines. Mr. Espinosa has a Master of Laws degree from the University of Michigan Law School and is a member of the Integrated Bar of the Philippines. He was a partner of SyCip Salazar Hernandez



& Gatmaitan from 1982 to 2000, a foreign associate at Covington and Burling (Washington D.C., USA) from 1987 to 1988, and a law lecturer at the Ateneo de Manila School of Law from 1983 to 1985 and 1989. He ranked first in the 1982 Philippine Bar examination.

JAMES L. GO, 79

Director (since December 16, 2013)

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

*Publicly Listed Company



JOHN L. GOKONGWEI, JR., 92
Director (since March 31, 2014)

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

LANCE Y. GOKONGWEI, 52
Director and Vice-Chairman (since December 16, 2013)

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

ELPIDIO L. IBANEZ, 68
Director (since May 29, 2018)

Mr. Ibanez is a director of First Philippine Holdings Corporation (FPH)*. He served as President and Chief Operating Officer of FPH from 1994 to 2015. He earned his Bachelor of Arts in Economics degree from the Ateneo de Manila University and his Masters in Business Administration from the University of the Philippines.

JOSE MA. K. LIM, 66
Director (since May 29, 2012)

Mr. Lim is the President and CEO of Metro Pacific Investments Corporation* (MPIC). Mr. Lim was appointed President and CEO in 2006 and is currently a director of MPIC's subsidiaries and affiliate companies namely, Manila Electric Company*; MERALCO PowerGen Corporation; Beacon Electric Asset Holdings Inc.; Global Business Power Corporation; Metro Pacific Tollways Corporation; NLEX Corporation; Cavite Infrastructure Corporation; Easytrip Services Corporation; Tollways Management Corporation; Cebu Cordova Link Expressway Corporation; AITollroads Holdings, Thailand; Nusantara, Jakarta Indonesia; Maynilad Water Services Inc.; MetroPac Water Investments Corporation; Cagayan de Oro Bulk Water Inc.; Metropac Movers Inc; Light Rail Manila Corporation; AF Payments Inc; Metro Pacific Hospital Holdings Inc.; Medical Doctors, Inc. (owner and operator of Makati Medical Center); Cardinal Santos Medical Center (Colinas Verdes Hospital Managers Corporation); Asian Hospital; Our Lady of Lourdes Hospital; Manila Doctors Hospital Inc; Davao Doctors' Hospital; Riverside Medical Center Inc.; Metro Pacific Investments Foundation; and Pacific Global Aviation Inc. Mr. Lim serves as Chairman of Indra Philippines, Metro Iloilo Bulk Water Supply Corporation; Ecosystem Technologies International; AHI Hospital Holdings

Corporation; and Metpower Venture Partners Holdings Inc. He is also a Trustee of the Asian Institute of Management and Asia Society of the Philippines and an advisory board member of the Ateneo Graduate of School of Business. Mr. Lim has received various awards relating to Corporate Governance and Investor Relations and most recently, he was accorded the Triple A award from Asian Institute of Management for his excellent performance in his field of profession.

(RET.) CHIEF JUSTICE ARTEMIO V. PANGANIBAN, 82
Independent Director (since May 27, 2009)

Mr. Panganiban was a former Chief Justice of the Supreme Court of the Philippines. He was concurrently Chairperson of the Presidential Electoral Tribunal, Judicial and Bar Council and Philippine Judicial Academy. He is currently also an independent director of Petron Corporation*, First Philippine Holdings Corporation*, PLDT, Inc.*, Metro Pacific Investments Corporation*, Robinsons Land Corporation*, GMA Network, Inc.*, GMA Holdings, Inc.*, and Asian Terminals, Inc.*; Metro Pacific Tollways Corp., Non-executive director of Jollibee Foods Corporation* and Team Energy Corporation; Senior Adviser of Metropolitan Bank and Trust Company*, Member of the Advisory Council of the Bank of the Philippine Islands* and Adviser of Double Dragon Properties Corporation*. He is likewise a columnist for the Philippine Daily Inquirer and a consultant of the Judicial

and Bar Council (JBC), the constitutionally-created entity that vets appointments to the judiciary. He is also Chairman, President, Trustee or Adviser of several foundations, including the Foundation for Liberty and Prosperity, Manila Metropolitan Cathedral-Basilica Foundation, Metrobank Foundation, Tan Yan Kee Foundation as well as Chairman of the Asean Law Association (Philippine Chapter), Chairman Emeritus of the Philippine Dispute Resolution Center, Inc., and member of the Permanent Court of Arbitration in The Hague, Netherlands.

(Ret.) Chief Justice Panganiban holds a Bachelor of Laws degree, cum laude, from the Far Eastern University and was awarded the degree of Doctor of Laws (Honoris Causa) by the University of Iloilo, Far Eastern University, University of Cebu, Angeles University and Bulacan State University. He placed sixth in the Philippine Bar Examinations in 1960.

PEDRO E. ROXAS, 62
Independent Director (since May 25, 2010)

Mr. Roxas is the Chairman of Roxas Holdings Inc.* and of Roxas and Company, Inc.* He is concurrently a director and the President of Fundacion Santiago, director of Brightnote Assets Corporation, Chairman of Club Punta Fuego Inc. and Hawaiian-Phil. Co., Trustee and Treasurer at Philippine Business for Social Progress and Roxas Foundation, and an independent director for BDO Private

Bank, Cemex Holdings Phil. Inc.*, PLDT, Inc.*, and Mapfre Insular Insurance Corporation. Mr. Roxas holds a Bachelor of Science degree in Business Administration from the University of Notre Dame in Indiana, USA.

AMBASSADOR MANUEL M. LOPEZ, 76
Director (April 14, 1986 to May 29, 2018)
Chairman and CEO (from July 1, 2001 to June 30, 2010)
Chairman (from July 1, 2010 to May 28, 2012)

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

*Publicly Listed Company

Corporate Officers and Advisors

OUR GUIDING LEADERSHIP.

IRENEO B. ACUÑA, 52
Vice President
Head, Electric Distribution Development Group

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

ROBERTO R. ALMAZORA, 58
Senior Vice President
Head, MPower

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

RONNIE L. APEROCHO, 50
Senior Vice President
Head, Networks

Mr. Aperocho is a member of the Board of Directors of Aclara Meters Philippines, Inc., MRail Inc., Clark Electric Distribution Corporation, Radius, MSpectrum, Inc. and Meralco Energy, Inc. He is the Chairman of the Board of Directors of Miescor Logistics Inc. and Miescor Builders Inc. He is a member of the Board of Trustees of the Meralco Power Academy. He holds a Bachelor of Science degree in Electrical Engineering from Mindanao State University and topped the 1991 Electrical Engineering Board Exams. A registered Professional Electrical Engineer (PEE), he holds a Masters Degree in Business Administration from J.L. Kellogg School of Management of Northwestern University/The Hong Kong University of Science and Technology. He is also an ASEAN Chartered Professional Engineer (ACPE).

GAVIN D. BARFIELD, 40
Chief Technology Advisor

Mr. Barfield is an adviser to the Meralco Power Academy Board of Trustees. He is an expert in the Asian energy industry having been involved in the design and development of both the Singapore National Energy Market and Philippine Wholesale Electricity Spot Market. He was a key advisor to government agencies in energy market developments and regulatory issues including the introduction of competition and open access. He worked extensively in the design and development of the IT systems that support the Singapore Electricity Market. In addition, he has helped companies across multiple industries in defining and implementing their technology strategy and leading large software development projects. Prior to joining Meralco, Mr. Barfield led Pöyry Energy Consulting in Asia Pacific and PA Consulting's operations in Southeast Asia. Mr. Barfield holds a Bachelor of Science Degree in Computing and Management, First Class with honors, with Diploma in Professional Studies, from Loughborough University in the United Kingdom.

EDGARDO V. CARASIG, 53
Vice President
Head, Human Resources and Corporate Services (since July 1, 2018)

Mr. Carasig is currently the Chairman of the Board of Customer Frontline Solutions. He is also a member of the Board of Directors of MIESCOR, Miescor Logistics Inc., Miescor Builders Inc., MRail and CIS Bayad Center. Mr. Carasig is an accomplished Human Resource Executive, who has expertise in the development of HR strategies aligned with strategic business goals. He has experienced working with senior management teams in developing HR strategic business plans and serving as proactive business partner with multi-disciplined executives. His executive level HR background includes Implementation of Business Restructuring Program, Labor & Employee Relations, Performance Management, Organizational Development, Compensation & Benefits Planning and Shared Services Systems Organizational Set-up and Management. He holds a Bachelor of Science degree in Industrial Management Engineering, minor in Mechanical Engineering from the De La Salle University. He took the Certificate Course in Career Development and Management from the Ateneo de Manila University and attended the Program for International and Strategic Management from the Ateneo Graduate School.

FERDINAND O. GELUZ, 54
Vice President
Head, Supply Chain & Logistics Management (since July 1, 2018)

Mr. Ferdinand O. Geluz was a former director of Meralco Energy, Inc. He held various headship positions in Networks and Customer Retail Services of Meralco prior to his current post. He holds a Bachelor of Science in Electrical Engineering degree from the University of the Philippines. He is a registered electrical engineer.

WILLIAM S. PAMINTUAN, 57
First Vice President
Deputy General Counsel,
Assistant Corporate Secretary
Compliance Officer and Head,
Legal and Corporate Governance Office
Chief Data Privacy Officer

Atty. Pamintuan is the Corporate Secretary of MERALCO PowerGen Corporation, Atimonan One Energy, Inc., Calamba Aero Power Corporation, Kalilayan Power, Inc., MPG Mauban LP Corporation, MPG Asia Ltd., Redondo Peninsula Energy, Inc., St. Raphael Power Generation Corporation, First Pacific Leadership Academy, Inc., MRail, Inc., and Meralco Industrial Engineering Services Corporation.. He 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., M Pioneer Insurance, Inc., Aclara Meters Philippines and Lighthouse Overseas Insurance Limited. 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 a Vice Chair of MAP Energy Committee. He is currently the 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 a member of the UP Vanguard, Inc., 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.

ALFREDO S. PANLILIO, 55
Senior Vice President
Head, Customer Retail Services and Corporate Communications

Mr. Panlilio is a Board Member of CIS Bayad Center, Inc., Corporate Information Solutions, Inc., Customer Frontline Solutions, Inc., Meralco Energy, Inc., MRail Inc., Miescor, Comstech Integration Alliance, Inc., and MSpectrum, Inc., Independent Director of CEMEX Holdings Philippines, Inc.; Chairman of Radius Telecoms, Inc., e-Meralco Ventures Inc., Paragon Vertical Corporation, Powersource First Bulacan Solar, Inc. and Pure Meridian Hydropower Corporation; Vice Chairman of Aclara Meters Philippines, Inc. (formerly General Electric Philippines Meter and Instrument Co., Inc.); Associate Board Member of Semiconductor and Electronics Industries in the Philippines, Inc. (SEIPI); Trustee of One Meralco Foundation, Inc., Meralco Power Academy, Kapampangan Development Foundation, and Philpop Musicfest Foundation, Inc.; President of Samahang Basketbol ng Pilipinas, Inc. (SBP), MVP Sports Foundation (MVPSF) and Treasurer of the National Golf Association of the Philippines. He is also the Philippine Basketball Association (PBA) Governor for the Meralco Bolts



IRENEO B. ACUÑA

ROBERTO R. ALMAZORA

RONNIE L. APEROCHO



GAVIN D. BARFIELD

FERDINAND O. GELUZ



EDGARDO V. CARASIG

WILLIAM S. PAMINTUAN

ALFREDO S. PANLILIO



RAYMOND V. RAVELO

BETTY C. SIY-YAP

SIMEON KEN R. FERRER



JOSE RONALD V. VALLES

ROGELIO SINGSON



RUBEN B. BENOSA

IVANNA G. DE LA PEÑA

RAMON B. SEGISMUNDO

and a member of the Management Association of the Philippines (MAP). He has over 30 years of experience in the field of telecommunications and information systems. Prior to joining Meralco, he was the President and CEO of PLDT Global based in Hong Kong. Mr. Panlilio was the 2013 CEO Excel Awardee of the International Association of Business Communicators (IABC) Philippines; was one of seven Finalists in the Rising Star (Individual) category of the PLATTS Global Energy Awards 2015 held in New York City; and has received multiple local and international awards for customer management and business communication excellence. Mr. Panlilio holds a Bachelor of Science degree in Business Administration (Computer Information Systems) from the California State University – San Francisco State University and obtained his Masters in Business Administration at J.L. Kellogg School of Management of Northwestern University/The Hong Kong University of Science and Technology.

RAYMOND B. RAVELO, 41
Vice President
Head, Strategy and Business Development Office

Mr. Ravelo is a member of the Board of Directors of Radius Telecoms, Inc. where he served as President and CEO from 2011 to 2016. He is also a director on the Boards of MSpectrum, Inc. and Powersource First Bulacan Solar, Inc. Before joining Meralco, he was with McKinsey & Company's Washington DC office where he led strategy development efforts and operations performance transformations for top companies in North America, Latin America, Europe, Southeast Asia, and across a wide range of industries (including Telecommunications, Consumer Packaged Goods, and Pharmaceuticals). Mr. Ravelo holds a Bachelor of Science degree, magna cum laude, in Management Engineering from the Ateneo de Manila University. He earned his Masters in Business Administration at The Wharton School of the University of Pennsylvania where he was a Joseph Wharton Fellow and an Omnicom Communication Fellow. Mr. Ravelo is also a former Trustee of the Wharton-Penn Alumni Association, Inc.

BETTY C. SIY-YAP, 57
Senior Vice President
Chief Finance Officer
Chief Risk Officer

Ms. Siy-Yap is a director of Clark Electric Distribution Corporation, CIS Bayad Center, Inc., Meralco Industrial Engineering Services Corporation, Aclara Meters Philippines, Inc., Radius Telecoms, Inc., M Pioneer Insurance Inc., Indra Philippines, Inc., Redondo Peninsula Energy, Inc., Atimonan One Energy Inc., MERALCO PowerGen Corporation, and MRAIL, Inc.; among others. She is the President of Lighthouse Overseas Insurance Limited. She is a Trustee of the Meralco Pension Fund, One Meralco Foundation, Inc., and Treasurer of First Pacific Leadership Academy, Inc. and MVP Sports Foundation, Inc. She serves as Alternate Governor of the Philippine Basketball Association for the Meralco Bolts. She was previously a director of Rockwell Land Corporation, a member of the Market Governance Board of the Philippine Dealing Exchange Corp., Vice Chairman and member of the Board of Accountancy of the Professional Regulation Commission. She was a Partner of SyCip Gorres Velayo & Co. la Member Firm of Ernst & Young

Global) from 1995 to 2009. Ms. Siy-Yap holds a Bachelor of Science in Business Administration and Accountancy degree from the University of the Philippines and a Masters in Business Administration from J.L. Kellogg School of Management at Northwestern University/ The Hong Kong University of Science and Technology.

ROGELIO L. SINGSON, 70
Senior Vice President

Mr. Singson is the President and Chief Executive Officer of MERALCO PowerGen Corporation (MGen). He is also the President of Atimonan One Energy, Inc. and Atimonan Land Ventures Development Corporation. He is a Director and Chairman of Kalilayan Power, Inc., and Director and President of MPG Mauban LP Corporation. He serves as Director of Calamba Aero Power Corporation, MPG Holdings Phils., Inc., and St. Raphael Power Generation Corporation. Prior to joining MGen, Mr. Singson served as the President and Chief Executive Officer of Light Rail Manila Corporation. Mr. Singson completed a full six (6)-year term (July 2010 to June 2016) as Secretary of the Department of Public Works and Highways (DPWH) where he led the Good Governance and Anti-Corruption Program, and the implementation of major infrastructure projects nationwide. Before he was appointed DPWH Secretary in 2010, Mr. Singson was President and Chief Executive Officer of Maynilad Water Services for three (3) years and led the successful turnaround of one of the two major water concessionaires in Metro Manila. Among his previous positions in the private and public sectors were as Senior Vice President for Project Development of Citadel Holdings, Inc., and as Chairman and President of Bases Conversion and Development Authority from 1998 to 2002. In June 2016, Mr. Singson was conferred the Order of Lakandula with the rank of Grand Cross (Bayani). During his stint in government, he received other significant awards and recognitions, including the Outstanding Exemplar in Government Service Award from Bulong Pulungan; Lifetime Distinguished Achievement Award from the UP Alumni Association; and the Outstanding Manilan Award for Public Service. He was also one of the recipients of the Outstanding Filipino Awards for Government/Public Service and was named the Most Distinguished Alumnus by the UP Alumni Engineers in November 2011. He holds a Bachelor of Science degree in Industrial Engineering from the University of the Philippines, Diliman.

JOSE RONALD V. VALLES, 48
Vice President and Head, Regulatory Management Office (since July 1, 2018)
Head of Regulatory Affairs Office (since May 2009)

Atty. Valles holds a Bachelor of Science in Commerce Major in Management of Financial Institutions degree 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 Energy Law at the UA&P – School of Law and Governance, Institute of Law.

SIMEON KEN R. FERRER, 62
Corporate Secretary

Atty. Ferrer is the Corporate Secretary of Century Peak Metals Holdings Corporation and Commonwealth Foods, Inc., both public companies. He is a Senior Partner at SyCip Salazar Hernandez & Gatmaitan, the largest law firm in the Philippines, where he heads the Corporate Services Department. SyCipLaw was recognized as the Philippine Law Firm of the Year at the Chambers Asia Pacific Awards 2018 and Philippine Deal Firm of the Year at the ALB Philippine Law Awards 2018. SyCipLaw is ranked as a top tier firm by Chambers Global, Chambers Asia Pacific, Asia-Pacific Legal 500, Asialaw Profiles, and IFLR1000. He is a member of the Integrated Bar of the Philippines and the Philippine Bar Association. A Fellow of the Institute of Corporate Directors, Atty. Ferrer is a SEC-accredited lecturer on corporate governance. 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.

RUBEN B. BENOSA, 62
First Vice President
Head, Supply Chain & Logistics Management (until June 30, 2018)
Chairman and Director, Meralco Financial Services Corporation (since January 1, 2013)
Director, Radius Telecoms (since April 27, 2012)
Director, MRAIL, Inc. (since July 16, 2012)

IVANNA G. DE LA PEÑA, 64
First Vice President
Head, Regulatory Management Office (until June 30, 2018)
Advisor for Regulatory Management (since July 1, 2018)

RAMON B. SEGISMUNDO, 61
Senior Vice President
Head, Human Resources and Corporate Services (until June 30, 2018)
President, Meralco Power Academy (since 2013)

Subsidiaries

OUR PARTNERS.

CLARK ELECTRIC DISTRIBUTION CORPORATION (CEDC)
CEDC is 65% owned by Meralco. It is a registered private distribution utility with a franchise granted by Clark Development Corporation (CDC) to distribute power exclusively within the Clark Special Economic Zone (CSEZ) and the sub-zone. Cogent Energy, CEDC’s Local RES, is an active participant in the Retail Competition and Open Access (RCOA) market within its franchise area. In 2018, Cogent Energy acquired contracts from six (6) contestable customers which generated 36.6 MWh energy sales. CEDC has a 100 MVA capacity for 230 kV – 69 kV Delivery Point Substation and a 166 MVA aggregate capacity for 69 kV – 13.8 kV Substation. In 2018, CEDC implemented various projects including the construction of the Roxas – IE-5 69 kV line to strengthen its 69 kV sub-transmission backbone.

COMSTECH INTEGRATION ALLIANCE, INC. (Comstech)
Meralco holds a 60% stake in Comstech. It was incorporated primarily to invest in, develop and operate electricity generation and/or distribution, and/or related businesses. Comstech entered into a Technical Services Agreement with Meralco in 2014 for the management and operation of Pampanga II Electric Cooperative, Inc. where it has a 20-year Investment Management Contract.

CORPORATE INFORMATION SOLUTIONS, INC. (CIS)
CIS, a wholly-owned subsidiary of Meralco, owns 95% of CIS Bayad Center, Inc. (Bayad Center). With more than 30,000 over-the-counter (OTC) payment locations and customer touchpoints, Bayad Center powers the bills payment feature of leading online and mobile payment applications. It has evolved from being a pioneer in OTC payment collection service to what is now the biggest and widest multi-channel payment platform to date, servicing the most number of private and government biller merchants in the Philippines. To complement its suite of products and services, Bayad Center established Customer Frontline Solutions which provides outsourced tellering to top corporations and invested in Fieldtech Specialist, Inc., which operates the largest “read-and-bill”, or spot-billing field service in the country that caters to electric cooperatives and water districts nationwide. Bayad Center in 2018 acquired an e-payment platform that will be actively participating in various government agencies’ e-payment solutions initiatives. This e-payment platform will reinforce Bayad Center’s current payment facilities such as the Bayad Center Online, Bayad Center Mobile App, and Bayad Center Payment Machines that will service government billers and major institutions alike.

eSAKAY, INC.
eSakay, Inc. is a wholly-owned subsidiary of Meralco. It was established to focus on propagating green and sustainable mobility—from the supply of electric vehicles (EV) and charging infrastructure to the provision of EV operatorship services. Incorporated in 2018, eSakay aims to be an end-to-end EV transport solutions provider, modernizing end electrifying transport systems for private and public sector customers throughout the country. With eSakay, Meralco aims to build on the momentum of Meralco’s previous initiatives in the EV space. eSakay was set to launch its first electric Public Utility Vehicle (ePUV) project with its Makati-Mandaluyong eJeep route, servicing commuters in the two 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). Key initiatives such as this are all part of eSakay’s thrust to help build ‘greener’ roads and ‘bluer’ skies for all.

LIGHTHOUSE OVERSEAS INSURANCE LIMITED (LOIL)
LOIL, a wholly-owned subsidiary of Meralco and captive insurer, is registered as a Class 1 insurer under The Bermuda Insurance Act 1978 and Related Regulations. LOIL was incorporated in Bermuda in 2007 and received its license to operate in the territory in 2008. Together with M Pioneer Insurance Inc., a non-life insurance affiliate of Meralco, LOIL plays a major role in Meralco’s business risk management model. LOIL serves as the vehicle to reinsure the distribution utility’s major catastrophic risk exposures.

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

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

MERALCO INDUSTRIAL ENGINEERING SERVICES CORPORATION (MIESCOR)
MIESCOR is 99% owned by Meralco. Together with its subsidiaries Miescor Builders, Inc. (MBI) and Miescor Logistics, Inc. (MLI), it provides a wide array of services encompassing engineering, procurement, construction, testing and commissioning, building, equipment and facilities management,. The Philippine Contractor Accreditation Board (PCAB) classifies MIESCOR as “AAAA”, the highest category, in general engineering, general building, electrical works, mechanical works and telecommunication facilities. It has ISO 9001: 2015, ISO 14001:2015 and ISO 45001:2018 certifications. Its present roster of power-related projects include the Cebu-Negros-Panay transmission backbone, Bataan Substation reinforcement, upgrading of Naga Colon Substation, and Mindanao Backbone Project. MBI also holds a PCAB license category “AAA” with main specialty in electrical works and expertise in general engineering and building, civil and mechanical works while MLI holds a “AA” PCAB license category in general building.

MERALCO POWERGEN CORPORATION (MGen)
MGen engages in the power generation business and aims to build a diversified power generation portfolio with 3,000 MW total combined capacity over a period of five (5) years. It envisions to provide large-scale reliable sources of power using the most advanced and efficient technologies at competitive prices. MGen will pioneer the utilization of high efficiency, low emission (HELE) technologies for its coal-fired power plants in the Philippines. The company is also aggressively looking across the country for development opportunities in renewable energy in line with its goal to be a major player in the Renewable Energy (RE) sector.

MRAIL, INC. (MRAIL)
MRAIL is a wholly-owned subsidiary of Meralco. It is an ISO 9001-2015 certified company, providing specialized services in the design, procurement, and construction of power supply, Overhead Catenary System (OCS), tracks and track infrastructure for urban railway systems in Manila. MRAIL is an accredited service provider of LRT1, LRT2, MRT3, and the Philippine National Railways. MRAIL in partnership with Seoul Metro, the urban railway operator of South Korea, introduced the patented Ballast to Slab (B2S) Technology into the Philippine Railways System. The company has a team of railway engineers with expertise in tracks and track infrastructure, in power and OCS, and in Rolling Stock and Rolling Stock Maintenance and is the only railway company in the Philippines equipped with a road-rail vehicle that is OCS and power-specific for use in the maintenance of OCS and power lines. MRAIL continues to build-up its competencies to be able to fully support the various railway projects of the government under its Build Build Build program. MRAIL is currently undertaking the rehabilitation and upgrade of 35-year-old LRT1 power substations. The upgrade project will take 24 months to complete.

MSPECTRUM, INC. (Spectrum)
Spectrum is a wholly-owned subsidiary of Meralco. Incorporated in January 2016, Spectrum signaled Meralco’s formal entry into the realm of Renewable Energy (RE) generation and renewable energy solutions development and execution as part of its commitment to economic and environmental sustainability. Spectrum’s vision is to provide clean, renewable, affordable, sustainable and safe energy solutions to its customers. It aims to empower residential, commercial and industrial customers with own-use, on or off-grid, rooftop-mounted or ground-mounted solar PV, micro grids, battery energy storage systems and other RE solutions such as wind, bio energy, and others. To date, Spectrum has implemented multi-megawatt projects for its various customers, most of whom are well-known and are word class companies in their own industries. Spectrum’s pipeline of projects in various locations and islands in the Philippines enables it to enjoy double-digit annual growth rates for years to come. Spectrum also offers business partnerships with other RE developers and general contractors to reach more potential customers, while protecting and safeguarding the credibility of RE services and solutions.

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

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

Presidents/Heads of Subsidiaries



ANGELITO D. BERMUDO
MIESCOR Group

RICARDO V. BUENCAMINO
CEDC

ERNESTO CABRAL
Vantage Energy

FERDINAND G. INACAY
MRAIL



CHARLIE T. QUE
Radius

WILLIAM S. PAMINTUAN*
MServ

RAYMOND V. RAVELLO
eSakay, Inc.

JOSE RAINIER A. REYES
Spectrum



ROGELIO L. SINGSON
MGen

BETTY C. SIY-YAP
LOIL

MANUEL LORENZO L. TUASON
Bayad Center

DENNIS ANTHONY H. UY
Comstech

*Acting President and Officer-in-Charge



REPORT OF THE AUDIT COMMITTEE

For the Year ended December 31, 2018

The Audit Committee was established by its Board of Directors in 1999 to assist the Board in fulfilling its oversight responsibilities to the shareholders in the following areas:

- Integrity of the Company's financial statements and the financial reporting process;
- Appointment, remuneration, independence and performance of internal audit and of the independent External Auditors and the integrity of the audit processes;
- Effectiveness of the system of internal controls, enterprise risk management and corporate governance processes;
- Compliance with applicable legal, regulatory and other reporting requirements; and
- Year End reporting for the approval of the Board and to be included in the Company's Annual Report

The Audit Committee performs its duties and responsibilities in accordance with its Charter, following leading practices in corporate governance and in compliance with the Corporate Governance Code for publicly listed companies issued by the Philippine Securities and Exchange Commission (SEC).

The Audit Committee of Meralco is composed of two (2) independent non-executive directors, Mr. Artemio V. Panganiban, who sits as the Chairman, and Mr. Pedro E. Roxas, and four (4) non-executive directors namely, Ms. Anabelle L. Chua, Mr. Lance Y. Gokongwei, Mr. James L. Go, and Mr. Jose Ma. K. Lim. All the members of the Committee have professional qualifications and have adequate background in business, finance, law, management and accounting.

The Audit Committee held nine (9) meetings for 2018. Individual attendance of members at the meetings of the Audit Committee during the year is presented in the Corporate Governance Report of Meralco. After each meeting, the Chairman of the Audit Committee submits a report to the Board of Directors on matters deliberated by the Audit Committee for their information and approval.

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

On Financial Reporting

- Reviewed, discussed with Management and approved the unaudited Consolidated Quarterly Financial Statements and the 2018 Audited Consolidated Annual Financial Statements of the Company and Subsidiaries, including Management's significant judgments and

estimates with respect to the Company's financial statements and analysis of financial condition and results of operation.

The Committee also reviewed the External Auditor's report on the audit of the 2018 Annual Financial Statements and discussed areas of audit emphasis.

These actions were undertaken with the understanding that:

- Management has the primary responsibility for the financial statements and the reporting process.
- The independent External Auditors, SGV & Co. (SGV), is responsible for expressing an opinion on the conformity of the Company's audited consolidated financial statements with the Philippine Financial Reporting Standards (PFRS).
- Reviewed and approved Management's representation letter before submission to the External Auditors.
- Based on the reviews undertaken, discussions with Management and SGV, and subject to the limitations on the Committee's roles and responsibilities, the Audit Committee recommended to the Board of Directors the approval and inclusion of the Company's Audited Consolidated and Parent Company's financial statements in the Company's Annual Report to the Stockholders for the year ended December 31, 2018 and the filing thereof with the Philippine Securities and Exchange Commission.

On Internal and External Audit Processes

- Assessed the independence, performance, effectiveness and qualifications of SGV taking into consideration their credibility, competence, ability to understand complex transactions and the adequacy of their quality control procedures. Based on this assessment, the Committee endorsed the re-appointment of SGV to the Board of Directors and the Shareholders as the independent External Auditors of the Company for the ensuing year.
- Reviewed and approved the audit plan and scope of work of SGV for the audit of the 2018 Annual Financial Statements.
- Reviewed and approved SGV'S fees for all audit and audit-related services in Meralco and selected subsidiaries as endorsed by Management.

- Reviewed the Management Letter issued by SGV after the completion of the audit of the Financial Statements of the preceding year.
- Reviewed, discussed and approved the results of the SGV's external audit, their assessment of the Company's internal controls and the quality of the financial reporting process.
- Held separate executive sessions with the Chief Audit Executive and SGV without the presence of Management.
- Reviewed and approved the Internal Audit Plan for CY2018, the related key performance indicators and all subsequent changes to the Internal Audit Plan, as needed.
- Reviewed and discussed the results of audits as reported by the Chief Audit Executive in her quarterly and year-end status reports to the Committee with respect to the evaluation of the system of internal controls, overall quality of the financial reporting process, risk management and governance.

All audit activities performed by Internal Audit were conducted in conformance with the International Standards of the Professional Practice of Internal Auditing (ISPPA) and the Code of Conduct of the Institute of Internal Auditors (IIA).

- Monitored Management's timely implementation of appropriate corrective actions to address the audit issues and recommendations of Internal Audit and the external auditors.
- Reviewed and discussed the 2018 Internal Audit Annual Performance Report and assessed Internal Audit's performance for the preceding year.

On Internal Control and Compliance with Laws and Regulations

- Reviewed Management's mid-year and annual confirmation statement on the adequacy and effectiveness of the Company's internal control and risk management system, which was based on the annual Risks & Control Self-Assessment validated by Internal Audit.
- Based on Management's representation and the reasonable assurance provided by the audits conducted by SGV and Internal Audit, the Committee has reviewed and evaluated the Company's internal control system. The Committee is satisfied with the overall system in place and found this to be adequate and effective.

Others

- Received an update on new regulations that may affect the Company's information security program, the results of the Operational Technology Cybersecurity Assessment (OTCA), and the 5-year IT (Cybersecurity) Roadmap including actions to address the issues raised in the OTCA.
- Performed self-assessments and reviewed the overall effectiveness of its performance vis-à-vis its Charter and the expectations of the Board of Directors, Management and shareholders.
- Briefings were given to the Committee on the performance of subsidiaries for CY2018 and provide an update about the developments in their strategic directions and overall results.
- Reviewed the performance of the Audit Committees of all subsidiaries for CY 2018 as reported by Internal Audit.
- Reviewed and approved the Audit Committee calendar for CY 2019.

April 29, 2019

On behalf of the Audit Committee:



Retired Chief Justice ARTEMIO V. PANGANIBAN
Chairman, Audit Committee

STATEMENT OF MANAGEMENT’S RESPONSIBILITY
FOR CONSOLIDATED FINANCIAL STATEMENTS

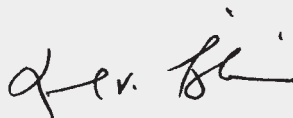
The Management of Manila Electric Company (the Company) is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, as at and for the year ended December 31, 2018, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

SyCip Gorres Velayo & Co., the independent auditor appointed by the stockholders, has audited the consolidated financial statements of the Company in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.


MANUEL V. PANGILINAN
Chairman of the Board


OSCAR S. REYES
President and Chief Executive Officer


BETTY C. SIY-YAP
Chief Finance Officer

INDEPENDENT AUDITOR’S REPORT

The Board of Directors and Stockholders
Manila Electric Company and Subsidiaries

Opinion

We have audited the consolidated financial statements of Manila Electric Company and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, 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, 2018, 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, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2018 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 Statement* section of our report, including those in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Revenue recognition

The Group’s revenues from the sale of electricity represent 97% of its consolidated revenues and arise from its service contracts with a large number of customers that are classified as either commercial, industrial or residential, located within the Group’s franchise area. The Group’s financial statements provide the relevant disclosures related to the rate-making regulations and regulatory policies of the Energy Regulatory Commission (ERC). This matter is significant to our audit because the revenue recognized depends on (a) the complete capture of electric consumption based on the meter readings over the franchise area taken on various dates; (b) the propriety of rates computed and applied across customer classes; and (c) the reliability of the IT systems involved in processing the billing transactions. In addition, the Group adopted PFRS 15, *Revenue from Contracts with Customers*, effective January 1, 2018, which involves the application of significant judgment on the assessment that (a) the Group is a principal in these revenue arrangements, (b) revenues are adjusted via the true-up mechanism; and (c) accounting for the electricity, re-connection and other non-standard connection fees as arising from a single performance obligation that will be satisfied over the period when the services are expected to be provided.

Notes 2, 4, 22, 23, 29 and 31 provide the relevant disclosures related to the rate-making regulations and regulatory policies of the ERC.

Audit response

We obtained an understanding and evaluated the design of, as well as tested the controls over, the customer master file maintenance, accumulation and processing of meter data, and interface of data from the billing system to the financial reporting system. In addition, we performed a test recalculation of the bill amounts using the ERC-approved rates and formulae, as well as actual costs incurred, and compared them with the amounts reflected in the billing statements. We involved our internal specialist in understanding the IT processes and in understanding and testing the IT general controls over the IT systems supporting the revenue process.

On PFRS 15 adoption, we obtained an understanding of the Group’s implementation process and tested the relevant controls. We reviewed the PFRS 15 adoption documentation and the updated accounting policies as prepared by management, including revenue streams identification and scoping and contract analysis. We obtained sample contracts and reviewed the performance obligations identified to be provided by the Group, the determination of transaction price and other considerations received from customers, and the timing of the revenue recognition based on the period when services are to be rendered. We also reviewed the notes disclosure on the adoption of PFRS 15.

Retirement and other long-term post-employee benefits

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

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

Audit response

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

Provisions and contingencies

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

Notes 18, 21 and 28 to the consolidated financial statements provide the relevant disclosures related to this matter.

Audit response

We examined the bases of management’s assessment of the possible outcomes and the related estimates of the probable costs and/or expenses that are recognized and/or disclosed in the Group’s consolidated financial statements. In addition, we evaluated the input data supporting the assumptions used, such as tariffs, tax rates, historical experience, regulatory rulings and other developments, against the Group’s internal and external data and performed recalculations and inspection of relevant supporting documents. We also reviewed the disclosures on provisions and contingencies in the Group’s consolidated financial statements.

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2018 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, 2018 are expected to be made available to us after the date of this auditor’s report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

Other Information

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

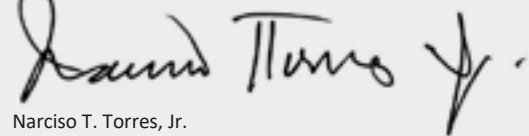
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Narciso T. Torres, Jr.

SYCIP GORRES VELAYO & CO.



Narciso T. Torres, Jr.
Partner
CPA Certificate No. 84208
SEC Accreditation No. 1511-AR-1 (Group A),
October 18, 2018, valid until October 17, 2021
Tax Identification No. 102-099-147
BIR Accreditation No. 08-001998-111-2018,
February 14, 2018, valid until February 13, 2021
PTR No. 7332621, January 3, 2019, Makati City

February 26, 2019

Manila Electric Company and Subsidiaries

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		December 31	
	Note	2018	2017
(Amounts in millions)			
ASSETS			
Noncurrent Assets			
Utility plant and others	7 and 10	₱139,846	₱133,874
Investments in associates and interests in joint ventures	8 and 22	11,313	11,446
Investment properties	9	1,502	1,509
Deferred tax assets - net	27	18,800	16,146
Other noncurrent assets	2, 10, 14, 23, 26, 28 and 29	49,446	41,948
Total Noncurrent Assets		220,907	204,923
Current Assets			
Cash and cash equivalents	11, 24 and 26	36,471	45,937
Trade and other receivables	12, 23 and 26	31,343	26,288
Inventories	13 and 24	3,812	3,330
Other current assets	10, 14, 22 and 26	43,718	22,877
Total Current Assets		115,344	98,432
Total Assets		₱336,251	₱303,355
EQUITY AND LIABILITIES			
Equity Attributable to Equity Holders of the Parent			
Common stock	15	₱11,273	₱11,273
Additional paid-in capital		4,111	4,111
Equity reserve		(116)	(126)
Employee stock purchase plan	15	1,049	1,049
Unrealized fair value losses on fair value through other comprehensive income ("FVOCI") financial assets	10	(295)	(160)
Remeasurement adjustments on retirement and other post-employment liabilities	25	3,535	2,329
Share in remeasurement adjustments on associates' retirement liabilities	8	(10)	(10)
Cumulative translation adjustments of associates	8	551	1,150
Cumulative translation adjustments of subsidiaries		33	25
Treasury shares	15	(11)	(11)
Retained earnings	15	61,922	53,980
Equity Attributable to Equity Holders of the Parent		82,042	73,610
Non-controlling Interests		845	822
Total Equity		82,887	74,432
Noncurrent Liabilities			
Interest-bearing long-term financial liabilities - net of current portion	16, 24 and 26	24,745	24,786
Customers' deposits - net of current portion	17, 21 and 26	27,024	24,000
Long-term employee benefits	25	1,980	4,559
Provisions	18, 21 and 28	17,442	18,456
Refundable service extension costs - net of current portion	21 and 26	6,170	6,012
Deferred tax liabilities - net	27	67	52
Other noncurrent liabilities	2, 5, 7, 23 and 28	60,419	45,219
Total Noncurrent Liabilities		137,847	123,084
Current Liabilities			
Notes payable	20, 24 and 26	13,428	13,586
Trade payables and other current liabilities	15, 16, 17, 18, 21, 22, 23, 26 and 28	90,456	83,950
Customers' refund	2, 19 and 26	4,359	4,603
Current portion of long-term employee benefits	25	3,463	—
Income tax payable		1,968	1,816
Current portion of interest-bearing long-term financial liabilities	16, 24 and 26	1,843	1,884
Total Current Liabilities		115,517	105,839
Total Liabilities		253,364	228,923
Total Liabilities and Equity		₱336,251	₱303,355

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF INCOME

		Years Ended December 31		
	Note	2018	2017	2016
(Amounts in millions, except per share data)				
REVENUES				
Sale of electricity	6, 22, 23, 29 and 31	₱295,389	₱275,172	₱249,206
Sale of other services	9 and 22	9,065	7,384	7,975
		304,454	282,556	257,181
COSTS AND EXPENSES				
Purchased power	23 and 29	232,102	214,558	189,853
Salaries, wages and employee benefits	24 and 25	12,697	12,595	12,841
Provision for probable losses and expenses from claims	2, 18, and 28	10,198	8,533	9,373
Depreciation and amortization	7, 9 10 and 24	7,827	7,520	7,312
Contracted services		6,390	5,933	5,618
Taxes, fees and permits		901	848	854
Other expenses	22 and 24	5,897	6,191	5,622
		276,012	256,178	231,473
OTHER INCOME (EXPENSES)				
Interest and other financial income	11 and 24	2,831	2,188	2,080
Interest and other financial charges	7, 16, 17, 20 and 24	(2,033)	(1,530)	(1,343)
Foreign exchange gains - net		1,134	29	896
Equity in net earnings (losses) of associates and joint ventures	8	(725)	221	(1,677)
Others	2, 22, 29 and 31	896	576	1,029
		2,103	1,484	985
INCOME BEFORE INCOME TAX		30,545	27,862	26,693
PROVISION FOR (BENEFIT FROM) INCOME TAX		27		
Current		10,522	10,031	10,099
Deferred		(3,079)	(2,668)	(2,746)
		7,443	7,363	7,353
NET INCOME		₱23,102	₱20,499	₱19,340
Attributable To				
Equity holders of the Parent	30	₱23,017	₱20,384	₱19,176
Non-controlling interests		85	115	164
		₱23,102	₱20,499	₱19,340
Earnings Per Share Attributable to Equity Holders of the Parent				
Basic	30	₱20.42	₱18.09	₱17.01
Diluted		20.42	18.09	17.01

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

		Years Ended December 31		
	Note	2018	2017	2016
		(Amounts in millions)		
NET INCOME		₱23,102	₱20,499	₱19,340
OTHER COMPREHENSIVE INCOME				
Items that will be reclassified to profit or loss in subsequent years:				
Unrealized fair value gains (losses) on debt securities at <i>FVOCI</i>	10	(200)	95	(387)
Cumulative translation adjustments of associates	8	(599)	86	1,150
Cumulative translation adjustments of subsidiaries		8	4	7
Net other comprehensive income (loss) that will be reclassified to profit or loss in subsequent years		(791)	185	770
Items that will not be reclassified to profit or loss in subsequent years:				
Remeasurement adjustments on retirement and other post-employment liabilities	25	1,723	(1,504)	3,499
Income tax effect		(517)	455	(1,050)
		1,206	(1,049)	2,449
Share in remeasurement adjustments on associates' retirement liabilities		—	2	—
Unrealized fair value gains on equity securities at <i>FVOCI</i>		73	18	16
Income tax effect		(8)	(2)	(2)
		65	16	14
Net other comprehensive income (loss) that will not be reclassified to profit or loss in subsequent years		1,271	(1,031)	2,463
OTHER COMPREHENSIVE INCOME (LOSS), NET OF INCOME TAX		480	(846)	3,233
TOTAL COMPREHENSIVE INCOME, NET OF INCOME TAX		₱23,582	₱19,653	₱22,573
Total Comprehensive Income Attributable To				
Equity holders of the Parent		₱23,497	₱19,532	₱22,409
Non-controlling interests		85	121	164
		₱23,582	₱19,653	₱22,573

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Equity Attributable to Equity Holders of the Parent														Total Equity
	Common Stock (Note 15)	Additional Paid-in Capital	Equity Reserve (Note 3)	Employee Stock Purchase Plan (Note 15)	Unrealized Fair Value Gains (Losses) on	Remeasure- ment Adjustments on Retirement and Other	Share in Remeasure- ment Adjustments on Associates' Retirement Liabilities	Cumulative Translation Adjustments Associates (Note 8)	Cumulative Translation Adjustments of Subsidiaries	Treasury Shares (Note 15)	Appropriated Retained Earnings (Note 15)	Unappro- priated Retained Earnings (Note 15)	Equity Attributable to Equity Holders of the Parent	Non- controlling Interests (Note 6)	
					FVOCI Financial Assets (Note 10)	Post- Employment Liabilities (Note 25)	(Note 8)								
(Amounts in millions)															
At January 1, 2018	₱11,273	₱4,111	(₱126)	₱1,049	(₱160)	₱2,329	(₱10)	₱1,150	₱25	(₱11)	₱--	₱53,980	₱73,610	₱822	₱74,432
Net income	--	--	--	--	--	--	--	--	--	--	--	23,017	23,017	85	23,102
Other comprehensive income (loss)	--	--	--	--	(135)	1,206	--	(599)	8	--	--	--	480	--	480
Total comprehensive income (loss)	--	--	--	--	(135)	1,206	--	(599)	8	--	--	23,017	23,497	85	23,582
Dividends	--	--	--	--	--	--	--	--	--	--	--	(15,075)	(15,075)	(64)	(15,139)
Excess of acquisition cost of controlling interest over carrying value of additional minority interest	--	--	10	--	--	--	--	--	--	--	--	--	10	--	10
Additional investment of non- controlling interests	--	--	--	--	--	--	--	--	--	--	--	--	--	2	2
At December 31, 2018	₱11,273	₱4,111	(₱116)	₱1,049	(₱295)	₱3,535	(₱10)	₱551	₱33	(₱11)	₱--	₱61,922	₱82,042	₱845	₱82,887
At January 1, 2017	₱11,273	₱4,111	(₱328)	₱1,049	(₱271)	₱3,384	(₱12)	₱1,064	₱21	(₱11)	₱--	₱54,137	₱74,417	₱729	₱75,146
Net income	--	--	--	--	--	--	--	--	--	--	--	20,384	20,384	115	20,499
Other comprehensive income (loss)	--	--	--	--	111	(1,055)	2	86	4	--	--	--	(852)	6	(846)
Total comprehensive income (loss)	--	--	--	--	111	(1,055)	2	86	4	--	--	20,384	19,532	121	19,653
Dividends	--	--	--	--	--	--	--	--	--	--	--	(20,541)	(20,541)	(40)	(20,581)
Excess of acquisition cost of controlling interest over carrying value of additional minority interest	--	--	202	--	--	--	--	--	--	--	--	--	202	--	202
Additional investment of non- controlling interests	--	--	--	--	--	--	--	--	--	--	--	--	--	12	12
At December 31, 2017	₱11,273	₱4,111	(₱126)	₱1,049	(₱160)	₱2,329	(₱10)	₱1,150	₱25	(₱11)	₱--	₱53,980	₱73,610	₱822	₱74,432
At January 1, 2016	₱11,273	₱4,111	(₱328)	₱1,049	₱102	₱935	(₱12)	(₱86)	₱14	(₱11)	₱11,000	₱52,229	₱80,276	₱585	₱80,861
Net income	--	--	--	--	--	--	--	--	--	--	--	19,176	19,176	164	19,340
Other comprehensive income (loss)	--	--	--	--	(373)	2,449	--	1,150	7	--	--	--	3,233	--	3,233
Total comprehensive income (loss)	--	--	--	--	(373)	2,449	--	1,150	7	--	--	19,176	22,409	164	22,573
Dividends	--	--	--	--	--	--	--	--	--	--	--	(28,268)	(28,268)	(20)	(28,288)
Reversal of appropriation	--	--	--	--	--	--	--	--	--	--	(11,000)	11,000	--	--	--
At December 31, 2016	₱11,273	₱4,111	(₱328)	₱1,049	(₱271)	₱3,384	(₱12)	₱1,064	₱21	(₱11)	₱--	₱54,137	₱74,417	₱729	₱75,146

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

		Years Ended December 31		
	Note	2018	2017	2016
		(Amounts in millions)		
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax		₱30,545	₱27,862	₱26,693
Adjustments for:				
Provision for probable losses and expenses from claims - net	2, 23 and 28	9,795	6,959	8,691
Depreciation and amortization	7, 9 and 10	7,827	7,520	7,312
Interest and other financial income	24	(2,831)	(2,188)	(2,080)
Interest and other financial charges	24	2,033	1,530	1,343
Equity in net losses (earnings) of associates and joint ventures	8	725	(221)	1,677
Others		(741)	868	(306)
Operating income before working capital changes		47,353	42,330	43,330
Increase in:				
Trade and other receivables		(8,161)	(3,864)	(2,212)
Inventories		(482)	(538)	(519)
Other current assets		(113)	(3,847)	(326)
Increase (decrease) in:				
Trade payables and other current liabilities		11,300	(2,012)	1,423
Customers' deposits		2,525	3,953	3,786
Customers' refund		(244)	(385)	(562)
Long-term employee benefits		(1,662)	2,151	(2,153)
Cash generated from operations		50,516	37,788	42,767
Income tax paid		(10,370)	(9,403)	(7,416)
Net cash flows provided by operating activities		40,146	28,385	35,351
CASH FLOWS FROM INVESTING ACTIVITIES				
Additions to:				
Short-term investments	14	(19,337)	–	–
Utility plant and others	7	(12,997)	(11,808)	(10,807)
Debt securities at amortized cost	10	(12,114)	(1,515)	(9,819)
Financial assets at <i>FVOCI</i>	10	(10,017)	(25,326)	(74,665)
Investments in associates and interests in joint ventures	8	(1,667)	(857)	(1,398)
Intangible assets	10	(435)	(158)	(587)
Proceeds from sale of:				
Financial assets at <i>FVOCI</i>		10,056	31,249	65,711
Debt securities at amortized cost		9,098	1,466	4,067
Interest and other financial income received		2,570	2,201	831
Dividends received from associates		476	473	491
Proceeds from disposal of utility plant and others		345	210	456
Proceeds from disposal of interest in an associate		–	–	3,151
Decrease in minority interest		(62)	(28)	(20)
Decrease in other noncurrent assets		(1,670)	(6,465)	(372)
Net cash used in investing activities		(35,754)	(10,558)	(22,961)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from:				
Availment of notes payable	20	2,229	4,705	11,907
Availment of interest-bearing long-term financial liabilities	16	350	600	–
Disposal of non-controlling interest	3	10	202	–
Payments of:				
Dividends	15	(14,557)	(19,843)	(28,114)
Notes payable		(2,419)	(2,593)	(1,475)
Interest and other financial charges		(1,563)	(1,387)	(1,256)
Interest-bearing long-term financial liabilities	16	(424)	(2,827)	(417)
Increase in other noncurrent liabilities		2,516	2,597	2,781
Net cash used in financing activities		(13,858)	(18,546)	(16,574)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(9,466)	(719)	(4,184)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		45,937	46,656	50,840
CASH AND CASH EQUIVALENTS AT END OF YEAR	11	₱36,471	₱45,937	₱46,656

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

Manila Electric Company (“*MERALCO*”) holds a congressional franchise under Republic Act (“*RA*”) No. 9209 effective June 28, 2003. *RA* No. 9209 grants *MERALCO* a 25-year franchise valid through June 28, 2028 to construct, operate, and maintain the electric distribution system in the cities and municipalities of Bulacan, Cavite, Metro Manila, and Rizal and certain cities, municipalities and barangays in the provinces of Batangas, Laguna, Pampanga, and Quezon. On October 20, 2008, the Energy Regulatory Commission (“*ERC*”) granted *MERALCO* a consolidated Certificate of Public Convenience and Necessity for the operation of electric service within its franchise coverage, effective until the expiration of *MERALCO*’s congressional franchise. *MERALCO*’s participation in retail electricity supply (“*RES*”) is directly through its local *RES* unit, *MPower* and indirectly through its affiliate *RES* entities. The *ERC* granted the following subsidiaries distinct *RES* licenses to operate as affiliate retail electricity suppliers in Luzon and Visayas, namely; Vantage Energy Solutions and Management, Inc. (“*Vantage*”), a wholly owned subsidiary of *MERALCO*; Solvre, Inc., a wholly owned subsidiary of *MERALCO* PowerGen Corporation (“*MGen*”); and MeridianX Inc. (“*MeridianX*”), a wholly owned subsidiary of Comstech Integration Alliance, Inc. (“*Comstech*”, 60% owned by *MERALCO*), on January 10, 2017, February 9, 2017 and February 9, 2017, respectively.

The power segment, primarily power distribution, consists of operations of *MERALCO* and its subsidiary, Clark Electric Distribution Corporation (“*CEDC*”). *CEDC* is a registered private distribution utility 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 as determined pursuant to Presidential Decree No. 66 and the Joint Venture Agreement executed between *CDC* and Meralco Industrial Engineering Services Corporation (“*MIESCOR*”) dated February 19, 1997.

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

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

MERALCO is owned directly by two (2) major stockholder groups, Metro Pacific Investments Corporation (“*Metro Pacific*”) and JG Summit Holdings, Inc. (“*JG Summit*”). *Metro Pacific* has combined direct equity interests in *MERALCO* and indirect ownership through its wholly owned subsidiary, Beacon Electric Asset Holdings, Inc. *Metro Pacific*’s combined direct and indirect ownership interests in *MERALCO* totaled 45.46% as at December 31, 2018 and 2017. *JG Summit* has 29.56% direct ownership interest in *MERALCO* as at December 31, 2018 and 2017. First Philippine Holdings Corporation (“*First Holdings*”) and First Philippine Utilities Corporation, also have direct equity ownership in *MERALCO*. The balance of *MERALCO*’s common shares is held by institutional investors and the public.

On January 29, 2018, the Board of Directors (“*BOD*”) approved the amendment of the Fourth Article of the Articles of Incorporation of *MERALCO* to extend the corporate term for another 50 years from May 7, 2019. The amendment was approved by the stockholders on May 29, 2018. On December 19, 2018, the *SEC* approved the Amended Articles of Incorporation of *MERALCO*.

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 26, 2019.

2. Rate Regulations

As distribution utilities (“*DUs*”), *MERALCO* and *CEDC* are subject to the rate-making regulations and regulatory policies of the *ERC*. Billings of *MERALCO* and *CEDC* to customers are itemized or “unbundled” into a number of bill components that reflect the various activities and costs incurred in providing electricity distribution services. The adjustment to each bill component is governed by mechanisms promulgated and enforced by the *ERC*, mainly: [i] the “Rules Governing the Automatic Cost Adjustment and True-up Mechanisms and Corresponding Confirmation Process for Distribution Utilities”, which govern the recovery of pass-through costs, including over- or under-recoveries of the bill components, namely, (a) generation charge, (b) transmission charge, (c) system loss (“*SL*”) charge, (d) lifeline and inter-class rate subsidies, and (e) local franchise tax (“*LFT*”); and [ii] the “Rules for the Setting of Distribution Wheeling Rates” (“*RDWR*”), as modified by the *ERC* on December 1, 2009, which govern the determination of *MERALCO*’s distribution, supply, and metering charges.

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

Performance-Based Regulations (“*PBR*”)

MERALCO

MERALCO is among the Group A entrants to the *PBR*, together with two (2) other private *DUs*.

Rate-setting under *PBR* is governed by the *RDWR*. The *PBR* scheme sets tariffs once every Regulatory Period (“*RP*”) based on the regulated asset base (“*RAB*”) of each *DU*, and the required operating and capital expenditures (“*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. The 4th *RP* for Group A *DUs* began on July 1, 2015 and shall end on June 30, 2019.

Maximum Average Price (“*MAP*”) for the 3rd *RP*

After rate setting process for a *RP*, *MERALCO* goes through a rate verification process for each *RY* within the *RP*. In each of *RYs* 2012, 2013, 2014 and 2015, *MERALCO* filed for the respective *MAP* with the *ERC* on the following dates:

<i>RY</i>	<i>MERALCO</i> ’s application date	<i>ERC</i> provisional approval date	Date rate translation was implemented and reflected in customer bills
2012	June 21, 2011	October 3, 2011	October 2011
2013	March 30, 2012	June 11, 2012	July 2012
2014	April 1, 2013	June 10, 2013	July 2013
2015	March 31, 2014	May 5, 2014	July 2014

The *ERC* has provisionally approved the distribution *MAPs* for each of the *RY*. However, as at February 26, 2019, *MERALCO* continues to await for the final approval of the *ERC*.

4th *RP* Reset Application

MERALCO’s 3rd *RP* ended on June 30, 2015 and is currently operating in the 4th *RP*. Under *ERC* Resolution No. 25, Series of 2016 dated July 12, 2016, the *ERC* promulgated a Resolution modifying the *RDWR* for privately-owned *DUs* entering the *PBR*. The *ERC* has directed *MERALCO* and Private Electric Power Operators Association (“*PEPOA*”) to publish the Resolution. However, *MERALCO* is seeking clarification from the *ERC* on certain issues in the Resolution, including the need to await the final decision of the *ERC* on the Petition for Rule Making filed by a consumer group to amend the *PBR*. Hearings have been conducted and parties are awaiting the *ERC* Order for the date of the next public consultation.

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 to the draft *RAB Handbook*. In an Omnibus Motion filed on February 9, 2017, *MERALCO* submitted its initial comments to the draft *RAB Handbook* but moved for the deferment of the proceedings until the consumer group’s Petition as referred in the foregoing has been resolved. As at February 26, 2019, the *ERC* has yet to resolve *MERALCO*’s Omnibus Motion.

Interim Average Rate beginning *RY* 2016

On June 11, 2015, *MERALCO* filed its application for the approval of a proposed Interim Average Rate of ₱1.3939 per *kWh* and translation thereof into rate tariffs by customer category. On July 10, 2015, the *ERC* provisionally approved an Interim Average Rate of ₱1.3810 per *kWh* and the rate translation per customer class, which was reflected in the customer bills starting July 2015. *MERALCO* has completed the presentation of its evidence and is set to file its Formal Offer of Evidence (“*FOE*”) after the *ERC* rules on pending motions. As at February 26, 2019, the *ERC*’s ruling on these motions is pending.

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

CAPEX for 4th RP

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

<i>RY</i>	<i>MERALCO's</i> application date	Proposed <i>CAPEX</i> amount	Status of applications as at February 26, 2019
2016	February 9, 2015	₱17.7 billion	On June 15, 2016, <i>MERALCO</i> received a copy of the <i>ERC</i> Decision dated April 12, 2016 which partially approved <i>MERALCO's</i> <i>CAPEX</i> program for <i>RY</i> 2016 amounting to ₱15.5 billion out of the total <i>RY</i> 2016 <i>CAPEX</i> of ₱17.7 billion, subject to certain conditions. An intervenor has filed a Motion for Reconsideration (“ <i>MR</i> ”) on the Decision which is pending before the <i>ERC</i> . On July 25, 2016, <i>MERALCO</i> filed its opposition to the <i>MR</i> . As at February 26, 2019, the <i>ERC</i> ruling on the <i>MRs</i> is pending.
2017	March 8, 2016	₱15.4 billion	On July 26, 2016, <i>MERALCO</i> received the Order dated May 5, 2016, which partially approved <i>MERALCO's</i> <i>CAPEX</i> program for <i>RY</i> 2017 amounting to ₱8.8 billion, subject to certain conditions. On September 14, 2016, <i>MERALCO</i> filed a Motion for Resolution. Subsequently, on April 25, 2017, <i>MERALCO</i> filed a Very Urgent Motion for Resolution of the application. Thereafter, on October 18, 2017, <i>MERALCO</i> filed a Manifestation and Urgent Motion for Resolution. On November 9, 2017, <i>MERALCO</i> filed a Manifestation with Third Urgent Motion to Resolve the Application. <i>MERALCO</i> is awaiting the final decision of the <i>ERC</i> .
2018	April 3, 2017	₱18.8 billion	On May 26, 2017, <i>MERALCO</i> received the Order dated May 15, 2017, which set the case for initial hearing. Hearings were conducted on June 22 and August 1, 2017, August 25, 2017 and September 22, 2017. On November 9, 2017, <i>MERALCO</i> filed its <i>FOE</i> . <i>MERALCO</i> also filed Manifestations on November 9, 2017 and March 28, 2018, informing the <i>ERC</i> that it was constrained to implement several projects in order to avert service interruptions to its customers and maintain a robust distribution infrastructure. The case has been submitted for decision.
2019	April 30, 2018	₱21.0 billion	Hearings on the case are ongoing.

5th RP Reset Application

As *MERALCO* is approaching the end of its 4th *RP* on June 30, 2019, it filed a Petition for the Adoption of the Proposed Issues Paper and Revised *RDWR* for the 5th *RP* of the First Entry Group Under *PBR* on December 21, 2018. As at February 26, 2019, the *ERC* has yet to act on *MERALCO's* Petition.

CEDC

CEDC is among the four (4) Group D entrants to the *PBR*. Similar to *MERALCO*, it is subject to operational performance and service level requirements approved by the *ERC*. A *RY* for *CEDC* begins on October 1 and ends on September 30. The 3rd *RP* for *CEDC* began on October 1, 2015 and shall end on September 30, 2019. *CEDC* is to undergo the reset process and is awaiting the release by the *ERC* of the final rules to govern the filing of its 3rd *RP* reset application.

3rd RP PBR Reset for CEDC

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

On February 18, 2016, December 29, 2016 and May 17, 2018, *CEDC* filed with the *ERC* its Proposed *CAPEX* program for *RYs* 2016, 2017 and 2018, respectively. *CEDC* applied for an approval to implement the *CAPEX* in order to continue to meet the electricity needs of its current and future customers, improve the flexibility, reliability and stability of its distribution network as well as improve customer service. As at February 26, 2019, the application is pending approval by the *ERC*.

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* acknowledged receipt of the respective Memoranda from parties and declared the case submitted for decision. In a Decision dated February 29, 2016, the *CA* dismissed the Petition for Review and affirmed the orders dated June 21, 2011 and February 4, 2013 of the *ERC*.

On March 22, 2016, the intervenors filed 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. As at February 26, 2019, further action of the *SC* on the matter is pending.

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

On June 1, 2015, the *ERC* approved with modification *MERALCO's* applications for the confirmation of its over- or under-recoveries in its pass-through costs for the periods June 2003 to December 2010 and January to December 2011. The Decision directed *MERALCO* to collect net under-recoveries of ₱909 million and ₱1,535 million, respectively, without carrying charges, starting the next billing cycle until such time that the full amount has been collected. As at December 31, 2018, the recovery of the net under-recovery is on going.

On March 31, 2014, *MERALCO* filed its application with the *ERC* to confirm its under- or over- recoveries of net generation charge under-recoveries of ₱559 million, transmission charge over-recoveries of ₱639 million, net lifeline subsidy over-recoveries of ₱75 million, *SL* over-recoveries of ₱502 million from January 2012 to October 2013, and net senior citizen discount over-recoveries of ₱0.4 million from February 2011 to October 2013, excluding proposed carrying charges. Under- or over-recoveries from November and December 2013 supply months were excluded in the meantime, in view of the pending *SC* and *ERC* cases involving pass-through costs for these months. As at February 26, 2019, hearings are ongoing.

On January 29, 2016, *MERALCO* filed its application to confirm its under-recoveries of generation charge for special programs of ₱250.7 million, excluding carrying charges, covering the period March 2007 to December 2011. As at February 26, 2019, the application is pending before the *ERC*.

On March 31, 2017, *MERALCO* filed its application with the *ERC* to confirm its net generation charge over-recoveries of ₱4,919 million, net transmission charge over-recoveries of ₱632 million, net lifeline subsidy over-recoveries of ₱131 million, net *SL* over-recoveries of ₱1,243 million, net senior citizen discount over-recoveries of ₱2 million from January 2014 to December 2016 and real property tax (“*RPT*”) payments under-recoveries of ₱1,090 million from June 2014 to December 2016. On May 11, 2017, the *ERC* provisionally approved *MERALCO's* application to refund the over-recoveries of pass-through charges (generation costs, transmission costs, system loss, life line subsidies and senior citizen discount) for the period January 2014 to December 2016 amounting to ₱6,927 million. The Order deferred action on *MERALCO's* application for the recovery of *RPT* payments, citing the absence of any rule or guideline providing for the process of confirmation, approval and recovery of *RPT*. The ₱6,927 million refund was included in the June 2017 until August 2017 billings to customers. On September 7, 2017, *MERALCO* filed a Manifestation and Motion informing the *ERC* that the absolute amounts of the remaining over/under recoveries were applied to the September 2017 billing in order to zero out the refund as directed by the *ERC*. *MERALCO* filed its *FOE* on April 27, 2018. As at February 26, 2019, the application is pending final approval by the *ERC*.

CEDC

CEDC filed its 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 in conformity with the said resolutions. Public hearing was held on June 17, 2014 and the ERC decision was received by CEDC on January 13, 2017. On January 30, 2017, CEDC filed a MR on the decision of the ERC. As at February 26, 2019, the MR is pending decision by the ERC.

On March 31, 2017, CEDC filed with the ERC its 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. Public hearing was held on October 25, 2017. As at February 26, 2019, the Decision of the ERC is pending.

Application for Approval of the Staggered Recovery and Payment of the Differential Generation Charge for February 2017 Supply

On January 31, 2017, MERALCO filed an Application seeking the ERC’s approval of the staggered recovery and payment scheme for the generation charge for the February 2017 supply month to mitigate the impact of scheduled outages and maintenance of certain generation power plants. On March 6, 2017, the ERC provisionally approved the recovery of the incremental fuel cost through a staggered scheme. The incremental fuel cost was included in the March 2017 until May 2017 billings to customers. As at February 26, 2019, hearings are ongoing.

Application for the Recovery of Differential Generation Costs

On February 17, 2014, MERALCO filed for the recovery of the unbilled generation costs for December 2013 supply month amounting to ₱11,075 million. An amended application was filed on March 25, 2014 to adjust the unbilled generation costs for recovery to ₱1,310 million, following the receipt of Wholesale Electricity Spot Market (“WESM”) billing adjustments based on regulated Luzon WESM prices. The first hearing was conducted on May 26, 2014. The ERC suspended the proceedings, pending resolution of issues of related cases at the SC involving generation costs for the November and December 2013 supply months and the regulated WESM prices for the said period. As at February 26, 2019, the proceedings remain suspended.

Deferred Purchase Price Adjustment (“Deferred PPA”)

On October 12, 2009, the ERC released its findings on MERALCO’s implementation of the collection of the approved pass-through cost under-recoveries for the period June 2003 to January 2007. The ERC directed MERALCO to refund to its customers ₱268 million of Deferred PPA transmission line costs related to Quezon Power (Philippines) Limited Company (“QPPL”) and deferred accounting adjustments incurred along with ₱184 million in carrying charges, or an equivalent ₱0.0169 per kWh. MERALCO implemented the refund beginning November 2009 until September 2010. However, the ERC has yet to rule on MERALCO’s Deferred PPA under-recoveries of ₱106 million, which is not a transmission line fee. On November 4, 2009, MERALCO filed an MR with the ERC. As at February 26, 2019, the MR is still pending resolution by the ERC.

Applications for Recovery of LFT

In a Decision dated February 27, 2012, the ERC approved with modifications MERALCO’s application for recovery of LFT paid but not yet billed to customers for the period beginning the first quarter of 1993 up to the second quarter of 2004 for five (5) provinces, namely: Bulacan, Batangas, Cavite, Laguna and Rizal; and 14 cities, namely: San Jose Del Monte, Batangas, San Pablo, Tagaytay, Lucena, Mandaluyong, Marikina, Quezon, Caloocan, Pasay, Las Piñas, Manila, Pasig and Calamba. The ERC approved the recovery of LFT amounting to ₱1,571 million plus carrying charges of ₱730 million. As directed by the ERC, the recovery was reflected as a separate item in the MERALCO billing statement to its customers beginning April 2012. In 2017, the LFT plus carrying charges have been fully recovered.

Following is the summary of MERALCO’s applications with the ERC related to LFT:

City	Date of filing	Status
City of Trece Martires	July 3, 2015	Application for the authority to recover the difference between the previous and new LFT rate of ₱0.0105 per kWh for the calendar years 2012 to 2014, under the TRAC formula with prayer for provisional authority to collect the LFT which it had previously paid and the corresponding carrying cost. Hearings have been completed. On September 29, 2015, MERALCO filed its FOE with Manifestation and Compliance and thereby submitted the case for resolution. In a decision dated May 10, 2016, the ERC approved the application with modification.
Cities of Manila and Quezon	December 5, 2016	Application for authority to implement the new LFT rates of ₱0.0043 per kWh and ₱0.0048 per kWh in the City of Manila and Quezon City, respectively, as well as for authority to refund the differential LFT for 2014 to 2016 under the TRAC formula. Hearings have been completed and MERALCO filed its FOE on June 2, 2017. However, a consumer filed a motion to intervene after the termination of the proceedings. On June 23, 2017, MERALCO filed its opposition thereto. On March 16, 2018, MERALCO filed a motion for resolution. As at February 26, 2019, the ERC resolution of the motion to intervene is pending.
City of Binan	October 19, 2017	Application for a provisional authority to recover the new LFT at the rate of 75% of 1% beginning on the date of effectivity thereof, or on January 1, 2017 and to recover the differential LFT and carrying cost from the customers. Hearings have

City	Date of filing	Status
		been completed and MERALCO filed its FOE on August 30, 2018. As at February 26, 2019, MERALCO is awaiting the final decision of the ERC.
Cities of Makati and Sta. Rosa, Laguna	March 23, 2006	Application to implement and recover the new LFT rate of 50% of 1%. In a Decision dated June 30, 2008, the ERC approved the application with modification. On September 11, 2008, MERALCO filed a Motion for Partial Reconsideration. On December 17, 2017, MERALCO filed a Motion for Urgent Resolution of MERALCO’s Motion for Partial Reconsideration. The ERC has yet to act on MERALCO’s Motion.
City of Valenzuela	June 23, 2004	Application to recover and implement the LFT rate of 75% of 1%. On March 31, 2005, MERALCO received a copy of the Decision dated March 1, 2005, approving the application with modification. MERALCO filed a Motion for Clarification dated April 8, 2005. On December 17, 2017, MERALCO filed a Motion for Urgent Resolution of MERALCO’s Motion for Clarification. The ERC has yet to act on MERALCO’s Motion.
City of Taguig	January 16, 2008	Application to recover and implement the LFT rate of 50% of 1%. On September 1, 2008, MERALCO received a copy of the Decision dated June 30, 2008, approving the application with modification. MERALCO filed a Motion for Partial Reconsideration on September 11, 2008. On December 17, 2017, MERALCO filed a Motion for Urgent Resolution of MERALCO’s Motion for Partial Reconsideration. The ERC has yet to act on MERALCO’s Motion.

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 19, 2018, 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.

See Note 19 – Customers’ Refund.

3. Basis of Preparation and Statement of Compliance

Basis of Preparation

The accompanying consolidated financial statements have been prepared on a historical cost basis, except for MERALCO’s utility plant and others and investment properties acquired before January 1, 2004, which are carried at deemed cost 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 Philippine Financial Reporting Standards (“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	2018		2017	
			Percentage of Ownership			
			Direct	Indirect	Direct	Indirect
Corporate Information Solutions, Inc. (“CIS”)	Philippines	e-Transactions	100	–	100	–
Customer Frontline Solutions, Inc. (“CFSI”)	Philippines	Teller services	–	100	–	100
CIS Bayad Center, Inc. (“Bayad Center”)	Philippines	Bills payment collection	–	95	–	95
Fieldtech Specialist, Inc. (“Fieldtech”)	Philippines	Bills payment collection	–	51	–	51
Meralco Energy, Inc. (“MServ”)	Philippines	Energy systems management	100	–	100	–
Aurora Managed Power Services, Inc. (“AMPSI”)¹	Philippines	Energy systems management	–	60	–	60
eMeralco Ventures, Inc. (“e-MVI”)	Philippines	e-Business development	100	–	100	–

Subsidiaries	Place of Incorporation	Principal Business Activity	2018	2017		
			Percentage of Ownership			
			Direct	Indirect	Direct	Indirect
Paragon Vertical Corporation (“Paragon”)	Philippines	Information technology (“IT”) and multi-media services	–	100	–	100
Radius Telecoms, Inc. (“Radius”)	Philippines	IT and multi-media services	–	100	–	100
MGen	Philippines	Development of power generation plants	100	–	100	–
Calamba Aero Power Corporation ¹	Philippines	Power generation	–	100	–	100
Atimonan Land Ventures Development Corporation	Philippines	Real estate	–	100	–	100
Atimonan One Energy, Inc. (“A1E”) ²	Philippines	Power generation	–	100	–	100
MPG Holdings Phils., Inc.	Philippines	Holding company	–	100	–	100
MPG Asia Limited (“MPG Asia”)	British Virgin Islands	Holding company	–	100	–	100
Solvre, Inc. ¹	Philippines	Retail electricity supplier	–	100	–	100
Spectrum	Philippines	Renewable energy	100	–	100	–
Vantage	Philippines	Retail electricity supplier	100	–	100	–
Meralco Financial Services Corporation (“Finserve”)	Philippines	Financial services provider	100	–	100	–
Lighthouse Overseas Insurance Limited (“LOIL”)	Bermuda	Insurance	100	–	100	–
MRail, Inc. (“MRail”)	Philippines	Engineering, construction and maintenance of mass transit system	100	–	100	–
Meridian Atlantic Light Company Limited ¹	Nigeria	Management of power distribution	100	–	100	–
eSakay, Inc. (“eSakay”) ³	Philippines	Maintenance and operation of transport service networks	100	–	–	–
Meridian Power Ventures Limited (“MPV Limited”) ⁴	Hongkong	Investment holdings	100	–	–	–
MIESCOR	Philippines	Engineering, construction and consulting services	99	–	99	–
Miescor Builders Inc. (“MBI”)	Philippines	Electric transmission and distribution operation and maintenance services	–	99	–	99
Miescor Logistics Inc. (“MLI”)	Philippines	General services, manpower/maintenance	–	99	–	99
CEDC	Philippines	Power distribution	65	–	65	–
Clarion Energy Management Inc. (“Clarion”) ¹	Philippines	Retail electricity supplier	–	65	–	65
Comstech	Philippines	Management of power distribution	60	–	60	–
MeridianX Inc. ¹	Philippines	Retail electricity supplier	–	60	–	60

¹ Has not started commercial operations as at December 31, 2018.

² In development stage as at December 31, 2018.

³ Incorporated on March 1, 2018 and started commercial operations in June 2018.

⁴ Incorporated in June 6, 2018 and has not started commercial opearations as at December 31, 2018.

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 in *MIESCOR* and subsidiaries, *CEDC* and subsidiary, *Comstech* and subsidiary, *AMPSI*, *Fieldtech* and *Bayad Center* not held by *MERALCO* and are presented separately in the consolidated statement of income, consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from equity attributable to equity holders of the parent.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if such results in a deficit.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. In transactions where the non-controlling interest is acquired or sold without loss of control, any excess or deficit of consideration paid over the carrying amount of the non-controlling interest is recognized as part of “Equity reserve” account in the equity attributable to the equity holders of the parent.

If the *MERALCO Group* loses control over a subsidiary, it: (a) derecognizes the assets (including goodwill) and liabilities of the subsidiary; (b) derecognizes the carrying amount of any non-controlling interest; (c) derecognizes the cumulative translation adjustments deferred in equity; (d) recognizes the fair value of the consideration received; (e) recognizes the fair value of any investment retained; (f) recognizes any surplus or deficit in profit or loss; and (g) reclassifies *MERALCO’s* share of components previously recognized in the consolidated statement of comprehensive income to the consolidated statement of income.

4. Significant Accounting Policies, Changes and Improvements

Changes in Accounting Policies and Disclosures

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those of previous 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, 2018.

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

The amendments to *PFRS 2* address three (3) main areas: (i) the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; (ii) the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and (iii) the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. Entities are required to apply the amendments to: (1) share-based payment transactions that are unvested or vested but unexercised as of January 1, 2018, (2) share-based payment transactions granted on or after January 1, 2018 and (3) modifications of share-based payments that occurred on or after January 1, 2018. Retrospective application is permitted if elected for all three amendments and if it is possible to do so without hindsight. The adoption of the amendments do not have an impact on the consolidated financial statements of the *MERALCO Group* as it has no share-based payment transactions.

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

The amendments address concerns arising from implementing *PFRS 9*, the new financial instruments standard before implementing the new insurance contracts standard. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying *PFRS 9* and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after January 1, 2018. An entity may elect the overlay approach when it first applies *PFRS 9* and apply that approach retrospectively to financial assets designated on transition to *PFRS 9*. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying *PFRS 9*.

The amendments are not applicable to the *MERALCO Group* since none of the entities within the *MERALCO Group* has activities that are predominantly connected with insurance or issue insurance contracts.

PFRS 9, Financial Instruments

PFRS 9 replaces *PAS 39, Financial Instruments: Recognition and Measurement* for annual periods beginning on or after January 1, 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The *MERALCO Group* has applied *PFRS 9* using the modified retrospective approach, with the initial application date of January 1, 2018.

Under *PFRS 9*, debt instruments are subsequently measured at fair value through profit or loss, amortized cost or *FVOCI*. The classification is based on two criteria: the *MERALCO Group’s* business model for managing the assets; and whether the instruments’ contractual cash flows represent ‘solely payments of principal and interest’ on the principal amount outstanding.

The assessment of the *MERALCO Group’s* business model was made as of the date of initial application, January 1, 2018, and then applied retrospectively to those financial assets that were not derecognised before January 1, 2018.

The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets. The classification and measurement requirements of *PFRS 9* did not result in changes in the carrying value of the *MERALCO Group’s* financial instruments.

The *MERALCO Group* continues measuring at fair value all financial assets previously held at fair value under *PAS 39*.

The following are the changes in the classification of the *MERALCO Group’s* financial assets:

- Cash and cash equivalents, trade and other receivables, short-term investments and advances to a supplier previously classified as loans and receivables are hold-to-collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are now classified and measured as financial assets at amortized cost.
- Investments in government and private debt securities previously classified as held-to-maturity (“*HTM*”) financial assets are hold-to-collect contractual cash flows and are now classified as financial assets at amortized cost.
- Quoted debt instruments previously classified as available-for-sale (“*AFS*”) financial assets are now classified and measured as financial assets at *FVOCI* with recycling. The *MERALCO Group* expects not only to hold the assets to collect contractual cash flows, but also to sell a significant amount on a relatively frequent basis.

- Equity investments in non-listed companies previously classified as *AFS* financial assets are now classified and measured as financial assets at *FVOCI* without recycling. The *MERALCO Group* elected to classify irrevocably its non-listed equity investments under this category as it intends to hold these investments for the foreseeable future. There were no impairment losses recognised in profit or loss for these investments in prior years.
- Listed equity investments previously classified as *AFS* financial assets are now classified and measured as financial assets at *FVOCI*.

In summary, upon the adoption of *PFRS 9*, *MERALCO Group* had the following required or elected reclassifications:

	PFRS 9 measurement category	
	Financial Assets at Amortized Cost	FVOCI
IAS 39 measurement category	(Amounts in millions)	
Loans and receivables		
Cash and cash equivalents	₱45,937	₱–
Trade and other receivables	26,288	–
Other noncurrent assets	3,563	–
Other current assets	8,413	–
Available for sale financial assets		
Investment in debt securities	–	4,116
Investment in quoted equity securities	–	203
Investment in unquoted equity securities	–	41
Held-to-maturity		
Debt securities	36,181	–
	₱120,382	₱4,360

The adoption of *PFRS 9* has also changed the *MERALCO Group*’s accounting for impairment losses for financial assets by replacing *PAS 39* incurred losses approach with a forward-looking expected credit loss (“*ECL*”) approach. *PFRS 9* requires the *MERALCO Group* to recognize allowance for *ECLs* for all debt instruments not held at fair value through profit or loss and contract assets.

The *MERALCO Group* has not designated any financial liabilities as at fair value through profit or loss. There are no changes in classification and measurement for the *MERALCO Group*’s financial liabilities.

The adoption of *PFRS 9* does not have a significant impact on *MERALCO*’s *Group*’s trade and other receivables and other treasury assets.

PFRS 15, Revenue from Contracts with Customers

PFRS 15 supersedes *PAS 11, Construction Contracts*, *PAS 18, Revenue* and related interpretations and it applies, with limited exceptions, to all revenues arising from contracts with customers. *PFRS 15* establishes a new five (5)-step model that applies to revenue arising from contracts with customers. Under *PFRS 15*, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in *PFRS 15* provide a more structured approach to measuring and recognizing revenue. *PFRS 15* establishes a new five (5)-step model that applies to revenue arising from contracts with customers. The five (5)-step model is as follows:

1. Identify the contracts with customer
2. Identify the performance obligation in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligation in the contract
5. Recognize revenue as the entity satisfies a performance obligation.

PFRS 15 requires entities to exercise judgement, taking into consideration all the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling the contract. In addition, the standard requires relevant disclosures.

The *MERALCO Group* adopted *PFRS 15* using the modified retrospective method of adoption with the date of the initial application of January 1, 2018. Under this method, the standard can be applied either to all contracts at the date of the application or only to contracts that are not completed at this date. The *MERALCO Group* elected to apply the standards to all contracts as at January 1, 2018.

The *MERALCO Group* has concluded that it is acting as principal in all of its revenue arrangements because the *MERALCO Group* is the primary obligor who is responsible for providing the services to the customers and the *MERALCO Group* bears the credit risk.

The adoption of *PFRS 15* does not have a significant impact on *MERALCO Group*’s consolidated financial statements.

Amendments to PAS 28, Investments in Associates and Joint Ventures, Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)

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

The amendments do not have an impact on the *MERALCO Group*’s consolidated financial statements.

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

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management’s intentions for the use of a property does not provide evidence of a change in use. Retrospective application of the amendments is not required and is only permitted if this is possible without the use of hindsight.

The amendments have no impact on the consolidated financial statements of the *MERALCO Group*.

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

The interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a nonmonetary asset or nonmonetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transaction for each payment or receipt of advance consideration. Retrospective application of this interpretation is not required.

The amendments have no impact on the consolidated financial statements of the *MERALCO Group*.

Future Changes in Accounting Policies and Disclosures

The following are the new and revised accounting standards and interpretation that are already issued but will become effective subsequent to December 31, 2018.

Effective Beginning on or after January 1, 2019

Amendments to PFRS 9, Prepayment Features with Negative Compensation

Under *PFRS 9*, a debt instrument can be measured at amortized cost or at *FVOCI*, provided that the contractual cash flows are ‘solely payments of principal and interest on the principal amount outstanding’ (the *SPPI* criterion) and the instrument is held within the appropriate business model for that classification. The amendments to *PFRS 9* clarify that a financial asset passes the *SPPI* criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments will be applied retrospectively and are effective starting January 1, 2019, with earlier application permitted.

These amendments are not expected to have an impact on the consolidated financial statements of the *MERALCO Group*.

PFRS 16, Leases

PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under *PAS 17, Leases*. The standard includes two recognition exemptions for lessees - leases of ‘low-value’ assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under *PFRS 16* is substantially unchanged from today’s accounting under *PAS 17*. Lessors will continue to classify all leases using the same classification principle as in *PAS 17* and distinguish between two types of leases: operating and finance leases.

PFRS 16 also requires lessees and lessors to make more extensive disclosures than under *PAS 17*. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard’s transition provisions permit certain reliefs.

The adoption of *PFRS 16* is not expected to have a significant impact on the consolidated financial statements of the *MERALCO Group*.

Amendments to PAS 19, Employee Benefits, Plan Amendment, Curtailment or Settlement

The amendments to *PAS 19* address the accounting when a plan amendment, curtailment or settlement occurs during a reporting year. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting year, an entity is required to:

- Determine current service cost for the remainder of the year after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting year that begins on or after January 1, 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the *MERALCO Group*.

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

The amendments clarify that an entity applies *PFRS 9* to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in *PFRS 9* applies to such long-term interests.

The amendments also clarified that, in applying *PFRS 9*, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying *PAS 28, Investments in Associates and Joint Ventures*.

The amendments should be applied retrospectively and are effective from January 1, 2019, with early application permitted. The *MERALCO Group* is currently assessing the impact of adopting the amendments.

Philippine Interpretation IFRIC-23, Uncertainty over Income Tax Treatments

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

The interpretation specifically addresses the following:

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

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The *MERALCO Group* is currently assessing the impact of adopting the interpretation.

Annual Improvements to PFRSs 2015-2017 Cycle

Amendments to PFRS 3, Business Combinations, and PFRS 11, Joint Arrangements, Previously Held Interest in a Joint Operation

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in *PFRS 3*. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting year beginning on or after January 1, 2019 and to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted. These amendments are currently not applicable to the *MERALCO Group* but may apply to future transactions.

Amendments to PAS 12, Income Tax Consequences of Payments on Financial Instruments Classified as Equity

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application permitted. These amendments are not relevant to the *MERALCO Group* because dividends declared by the *MERALCO Group* do not give rise to tax obligations under the current tax laws.

Amendments to PAS 23, Borrowing Costs, Borrowing Costs Eligible for Capitalization

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting year in which the entity first applies those amendments. An entity applies those amendments for annual reporting year beginning on or after January 1, 2019, with early application permitted.

Since the *MERALCO Group*’s current practice is in line with these amendments, the *MERALCO Group* does not expect any effect on its consolidated financial statements upon adoption.

Effective beginning on or after January 1, 2020

Amendments to PFRS 3, Definition of a Business

The amendments to *PFRS 3* clarify the minimum requirements to be a business, remove the assessment of a market participant’s ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business.

An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

These amendments will apply to future business combinations of the *MERALCO Group*.

Amendments to PAS 1, Presentation of Financial Statements, and PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material

The amendments refine the definition of material in *PAS 1* and align the definitions used across *PFRSs* and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity’s materiality judgements.

An entity shall apply those amendments prospectively for annual reporting year beginning on or after January 1, 2020, with earlier application permitted.

Effective beginning on or after January 1, 2021

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 periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted. The *MERALCO Group* is currently assessing the impact of adopting *PFRS 17*.

Deferred Effectivity

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

The amendments address the conflict between *PFRS 10* and *PAS 28* in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in *PFRS 3*. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors’ interests in the associate or joint venture.

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

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 and Others

Utility plant and others, except land, are stated at cost, net of accumulated depreciation, amortization and impairment losses, if any. Costs include the cost of replacing part of such utility plant and other properties when such cost is incurred, if the recognition criteria are met. All other repair and maintenance costs are recognized as incurred in the consolidated statement of income. The present value of the expected cost for the decommissioning of the asset after use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Land is stated at cost less any impairment in value.

The *MERALCO Group’s* utility plant and others acquired before January 1, 2004 are stated at deemed cost. The revalued amount recorded as at January 1, 2004 was adopted as deemed cost as allowed by the transition provisions of *PFRS 1*. The balance of revaluation increment was closed to the retained earnings account.

See *Note 15 – Equity* for the related discussion.

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

Asset Type	Estimated Useful Lives
Subtransmission and distribution	10-40 years, depending on the life of the significant parts
Buildings and improvements	15-40 years
Communication equipment	5-10 years
Office furniture, fixtures and other equipment	5-20 years
Transportation equipment	5-10 years
Others	5-20 years

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

The asset’s residual values, useful lives and methods of depreciation and amortization are reviewed, and adjusted prospectively if appropriate, at each reporting year to ensure that the residual values, periods and methods of depreciation and amortization are consistent with the expected pattern of economic benefits from items of utility plant and others.

Construction in Progress

Construction in progress is stated at cost, which includes cost of construction, plant and equipment, capitalized borrowing costs and other direct costs. Construction in progress is not depreciated until such time that the relevant assets are substantially completed and available for their intended use.

Borrowing Costs

Borrowing costs are capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Capitalization of borrowing costs commences when the activities necessary to prepare the qualifying asset for its intended use or sale have been undertaken and expenditures

and borrowing costs have been incurred. Borrowing costs are capitalized until the asset is substantially completed and available for its intended use.

Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds, as well as any exchange differences arising from any foreign currency denominated borrowings used to finance the projects, to the extent that they are regarded as an adjustment to interest costs.

All other borrowing costs are expensed as incurred.

Investments in 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.

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 *OCI* of those investees is presented as part of the *MERALCO Group’s OCI*. In addition, when there has been a change recognized directly in the equity of the associate or joint venture, the *MERALCO Group* recognizes its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealized gains and losses resulting from transactions between the *MERALCO Group* and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the *MERALCO Group’s* share in profit or loss of an associate and a joint venture is shown on the face of the consolidated statement of income and represents profit or loss after tax.

The financial statements of the associate or joint venture are prepared for the same reporting year as the *MERALCO Group*. When necessary, adjustments are made to bring the accounting policies in line with those of the *MERALCO Group*.

After application of the equity method, the *MERALCO Group* determines whether it is necessary to recognize an impairment loss on its investment in associate or interest in joint venture. At each reporting date, the *MERALCO Group* determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the *MERALCO Group* calculates the amount of impairment as the difference between the recoverable amount of the investment in associate or interest in joint venture and its carrying value, then recognizes the loss as part of equity in net earnings of an associate or a joint venture in the consolidated statement of income.

Upon loss of significant influence over the associate or joint control over the joint venture, the *MERALCO Group* measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the investment in associate or interest in joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition-date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the *MERALCO Group* elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree’s identifiable net assets. Acquisition-related costs in a business combination are expensed.

When a business is acquired, an assessment is made of the identifiable assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic and other pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquirer’s previously held equity interest in the acquiree is remeasured at fair value as at acquisition date and any resulting gain or loss is recognized in profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration, which is deemed to be an asset or liability will be recognized in accordance with *PAS 39* in profit or loss. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred, any non-controlling interest in the acquiree and, in a business combination achieved in stages, the acquisition-date fair value of the previously held equity interest in the acquiree, over the fair value of net identifiable assets acquired. If the difference is negative, such difference is recognized as gain in the consolidated statement of income.

If the initial accounting for a business combination is incomplete by the end of the reporting date in which the business combination occurs, the provisional amounts of the items for which the accounting is incomplete are reported in the consolidated financial statements. During the measurement period, which shall be no longer than one (1) year from the acquisition date, the provisional amounts recognized at acquisition date are retrospectively adjusted to reflect new facts and circumstances obtained that existed as at the acquisition date and, if known, would have affected the measurement of the amounts recognized as of that date. During the measurement period, additional assets or liabilities are also recognized if new information is obtained about facts and circumstances that existed as at the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as at that date.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from acquisition date, allocated to each of the cash generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units, beginning on the acquisition date.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of, is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in such circumstance is measured based on relative values of the operation disposed and the portion of the cash-generating unit retained.

Business combinations involving entities under common control are accounted for similar to the pooling-of-interests method. The assets and liabilities of the combining entities are reflected at their carrying amounts reported in the consolidated financial statements of the controlling company. Any difference between the consideration paid and the share capital of the “acquired” entity is reflected within equity as additional paid-in capital. The consolidated statement of income reflects the results of the combining entities for the full period, irrespective of when the combination takes place. Comparatives are presented as if the entities had always been combined since the date the entities were under common control.

Investment Properties

Investment properties, except land, are stated at cost, net of accumulated depreciation and accumulated impairment loss, if any. The carrying amount includes transaction costs and costs of replacing part of an existing investment property at the time such costs are incurred if the recognition criteria are met and excludes the costs of day-to-day servicing of an investment property.

Investment properties include properties that are being constructed or developed for future use.

Land classified as investment property is carried at cost less any impairment in value.

The *MERALCO Group's* investment properties acquired before January 1, 2004 are stated at deemed cost. See Note 15 – *Equity* for the related discussions.

Investment properties, except land, are being depreciated on a straight-line basis over the useful life of 40 years.

Investment properties are derecognized either when they have been disposed of or when these are permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss from the derecognition of the investment properties is recognized in the consolidated statement of income in the year these are disposed or retired.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner-occupation or the commencement of an operating lease to another party. If owner-occupied property becomes an investment property, the *MERALCO Group* accounts for such property in accordance with the policy stated under utility plant 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 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 been recognized for the asset in prior years. 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 (Applicable starting January 1, 2018 upon adoption of PFRS 9)

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.

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 or for which the *MERALCO Group* has applied the practical expedient, the *MERALCO Group* initially measures a financial asset at its fair value, and in the case of a financial asset not at fair value through profit or loss, plus transaction costs.

In order for a financial asset to be classified and measured at amortized cost or fair value through *OCI*, it needs to give rise to cash flows that are *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 fair value through profit or loss (“*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, advances to an associate 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 of 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 or
- 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 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.

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.

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 lifetime.

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. 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 fair value through profit or loss, 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 fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

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 fair value through profit or loss 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 fair value through profit or loss.

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 is derecognised when the obligation under the liability is discharged or cancelled or expires. 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 the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the consolidated statement of profit or loss.

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.

Financial Instruments - Initial Recognition and Subsequent Measurement Prior to January 1, 2018

Financial Assets

Initial Recognition

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

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

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

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

Subsequent Measurement

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

Financial Assets at FVPL

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

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

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

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

Loans and Receivables

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

HTM Investments

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

AFS Financial Assets

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

Financial Liabilities

Initial Recognition

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

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

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

Subsequent Measurement

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

Financial Liabilities at FVPL

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

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

Other Financial Liabilities

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

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

Derivative Financial Instruments

Initial Recognition and Subsequent Measurement

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

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

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

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

Offsetting of Financial Instruments

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

Amortized Cost of Financial Instruments

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

‘Day 1’ Profit or Loss

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

Impairment of Financial Assets

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

Financial Assets Carried at Amortized Cost

For financial assets carried at amortized cost, the *MERALCO Group* first assesses whether objective evidence of impairment exists individually. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset

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

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

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

AFS Financial Assets

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

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

Assets Carried at Cost

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

Derecognition of Financial Instruments

Financial Assets

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

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

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

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

Financial Liabilities

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

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

Classification of Financial Instruments Between Debt and Equity

A financial instrument is classified as debt, if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the *MERALCO Group*; or
- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the *MERALCO Group* does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount, after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

Inventories

Inventories are stated at the lower of cost and net realizable value. Costs of acquiring materials and supplies including costs incurred in bringing each item to their present location and condition are accounted using the moving average cost method. Net realizable value is the estimated selling price in the ordinary course of business less the estimated cost to sell or the current replacement cost of the asset.

Prepayments

Prepayments are expenses paid in advance and recorded as asset before they are utilized. Prepayments that are expected to be realized within 12 months from the balance sheet date are classified as current assets. Otherwise, these are classified as noncurrent assets.

VAT

Input VAT pertains to the 12% indirect tax paid in the course of trade or business on purchases of goods or services.

Output VAT pertains to the 12% tax due on the local sale of goods or services.

If at the end of any taxable month, the output VAT exceeds the input VAT, the outstanding balance is included under “Trade payables and other current liabilities” account. If the input VAT exceeds the output VAT, the excess shall be carried over to the succeeding months and included under “Other current assets” account.

Provisions

Provisions are recognized when the *MERALCO Group* has a present obligation, legal or constructive, as a result of a past event, and when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the *MERALCO Group* expects a provision, or a portion, to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statement of income, net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liabilities.

Retirement Benefits

MERALCO and certain subsidiaries have distinct, funded, noncontributory defined benefit retirement plans covering all permanent employees. *MERALCO’s* retirement plan provides for post-retirement benefits in addition to a lump sum payment to employees hired as at December 31, 2003. Retirement benefits for employees of *MERALCO* hired beginning January 1, 2004 were amended to provide for a defined lump sum payment only upon retirement of qualified employees. *MERALCO* also has a contributory provident plan introduced in January 2009 whereby employees hired beginning January 1, 2004 may elect to participate.

The net defined benefit liability or asset of the retirement plan is the aggregate of the present value of the defined benefit obligation at the end of the reporting year 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 years.

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'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 cancellaion of the *MERALCO Group's* own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized in additional paid-in capital.

Retained earnings include net income attributable to the equity holders of the Parent, reduced by dividends declared on common stock. Dividends are recognized as liability and deducted from retained earnings when they are declared. Dividend declarations approved after the financial reporting date are disclosed as events after the financial reporting date.

Non-controlling interests represent the equity interests in *MIESCOR* and subsidiaries, *CEDC* and subsidiary, *AMPSI*, *Comstech* and subsidiary, *Fieldtech* and *Bayad Center*, which are not held by *MERALCO*.

Revenue Recognition

Prior to January 1, 2018, revenue is recognized to the extent that it is probable that the economic benefits associated with the transaction will flow to the *MERALCO Group* and the revenue can be reliably measured. In addition, collectibility is reasonably assured and the delivery of the goods or rendering of the service has occurred. The *MERALCO Group* assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The *MERALCO Group* concluded that it is acting as principal in all of its revenue arrangements.

Beginning January 1, 2018, 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

Revenues are recognized upon supply of power to the customers and are stated at amounts invoiced to customers, inclusive of pass-through components, and net of discounts and/or rebates. The Uniform Filing Requirements ("*UFR*") on the rate unbundling released by the *ERC* on October 30, 2001 specified the following bill components: (a) generation charge, (b) transmission charge, (c) *SL* charge, (d) distribution charge, (e) supply charge, (f) metering charge, (g) Currency Exchange Rate Adjustment ("*CERA*") I and II, where applicable and (h) inter-class rate and lifeline subsidies. *VAT*, business taxes such as *LFT*, the Power Act Reduction (for residential customers) adjustment, universal charges, and Feed-in-Tariff - Allowance ("*FIT-All*") are also separately presented in the customer's billing statement. *VAT* billed and collected on behalf of the national governments, universal charges and *FIT-All* [billed and collected on behalf of *PSALM* and National Transmission Corporation ("*TransCo*")], respectively] do not form part of *MERALCO* and *CEDC's* revenues. Revenues are adjusted for the over and/or under-recoveries of pass-through charges.

Sale of Services

Beginning January 1, 2018, 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 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.

Prior to January 1, 2018, revenues from construction contracts are recognized based on othe output method of accounting and is measured principally on the basis of the estimated completion of a physical proportion of the contract work with reference to the actual costs incurred to date over the estimated total costs of the project. Revenue from contracts to manage, supervise or coordinate construction activity for others and contracts where materials and services are supplied by project owners are recognized only to the extent of the contracted fees.

Contract costs principally include subcontracted costs related to contract performance. Expected losses on contracts are recognized immediately when it is probable that the total contract costs will exceed total contract revenues. The amount of such loss is determined irrespective of whether or not work has commenced on the contract; the stage of completion of contract activity; or the amount of profits expected to arise on other contracts, which are not treated as a single construction contract. Changes in contract performance, contract

conditions and estimated profitability, including those arising after final contract settlements and after gross margins are recognized in the year in which the changes are determined.

Service and consulting fees are recognized when services are rendered.

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

Receivable represents the *MERALCO Group’s* right to an amount of consideration that is 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. Net assets funded by customers do not form part of *MERALCO’s* regulatory asset base until amounts are fully refunded.

Net Over-recoveries of Pass-through Charges

Transmission and *SL* over-recoveries which result 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.

Beginning January 1, 2018, *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.

Prior to January 1, 2018, contract costs principally include all direct materials, labor costs and indirect costs related to contract performance. 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. Changes in contract performance, contract conditions and estimated profitability, including those arising from contract penalty provisions, and final contract settlements which may result in revisions to estimated cost and gross margins are recognized in the year in which the changes are determined.

Total contract costs incurred and estimated earnings recognized in excess of total billings are recognized as an asset.

Leases

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

Company as Lessee

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

Company as Lessor

Leases where the *MERALCO Group* does not transfer substantially all the risk and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the year in which they are earned.

Foreign Currency-Denominated Transactions and Translations

The consolidated financial statements are presented in Philippine peso, which is also *MERALCO’s* functional and presentation currency. The Philippine peso is the currency of the primary economic environment in which the *MERALCO Group* operates, except for *LOIL* and *MPG Asia*. This is also the currency that mainly influences the revenue from and cost of rendering services. Each entity in the *MERALCO Group* determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

The functional currency of *LOIL* and *MPG Asia* is the United States (“*U.S.*”) dollar.

Transactions in foreign currencies are initially recorded in the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are re-translated using functional currency closing rate of exchange prevailing at the end of the reporting date. All differences are recognized in the consolidated statement of income except for foreign exchange differences that relate to capitalizable borrowing costs on qualifying assets. Nonmonetary items that are measured in terms of historical cost in foreign currency are translated using the exchange rate as at the date of the initial transactions.

As at the reporting date, the monetary assets and liabilities of subsidiaries, *LOIL* and *MPG Asia* whose functional currency is other than Philippine peso, are translated into Philippine peso at the rate of exchange prevailing at the end of the reporting date, and income and expenses 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 in the years when the assets are realized or the liabilities are settled, based on tax rates and tax laws that are enacted or substantively enacted as at the reporting date.

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

Deferred income tax items are recognized in correlation to the underlying transaction either in profit or loss or directly in equity.

Earnings per Share

Basic earnings per share is calculated by dividing the net income for the year attributable to equity holders of the parent by the weighted average number of common shares outstanding during the year.

Diluted earnings per share is calculated by dividing the net income for the year attributable to equity holders of the parent by the weighted average number of shares outstanding, adjusted for the effects of any dilutive potential common shares.

Contingencies

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

Events After the Reporting Date

Post reporting date events that provide additional information about the *MERALCO Group's* financial position at the reporting date (adjusting events) are reflected in the consolidated financial statements. Post reporting date events that are non-adjusting events are disclosed in the notes to consolidated financial statements, when material.

5. **Significant Judgments, Accounting Estimates and Assumptions**

The preparation of the *MERALCO Group's* consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the accompanying disclosures, and the disclosure of contingent assets and liabilities, at the end of the reporting date. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amounts of the assets or liabilities affected in future years.

Judgments

In the process of applying the *MERALCO Group's* accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the consolidated financial statements.

Determination of Functional Currency

The functional currencies of the entities under the *MERALCO Group* are the currencies of the primary economic environment in which each entity operates. It is the currency that mainly influences the revenue and cost of rendering services.

Based on the economic substance of the underlying circumstances, the functional and presentation currency of *MERALCO* and its subsidiaries, except *LOIL* and *MPG Asia*, is the Philippine peso. The functional and presentation currency of *LOIL* and *MPG Asia* is the U.S. dollar.

Operating Lease Commitments

As Lessor

The *MERALCO Group* has several lease arrangements as a lessor. Based on the terms and conditions of the arrangements, it has evaluated that the significant risks and rewards of ownership of such properties are retained by the *MERALCO Group*. The lease agreements do not transfer ownership of the assets to the lessees at the end of the lease term and do not give the lessees a bargain purchase option over the assets. Consequently, the lease agreements are accounted for as operating leases.

Principal Vs. Agent

The *MERALCO Group's* revenue recognition requires the *MERALCO Group* to make certain judgments on its revenue arrangements such as on *PPAs* and *PSAs* with power generation companies. The Group has concluded that it is acting as a principal in its revenue arrangements.

Revenue from sale of electricity requires *MERALCO* and *CEDC* to bill customers based various billing cycle cut-off dates, while recording of related purchased power cost is based on calendar month as provided in the terms of the *PPAs* and *PSAs*. The recognition of unbilled revenues for billing cycles with earlier than month-end cut-off dates requires the use of judgment. 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 *CEDC* assessed that revenues from electricity, re-connection and other non-standard connection services arise from a single performance obligation which will be satisfied over the period when the services are expected to be provided.

Arrangement that Contains a Lease

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

Components of purchased power, which have been accounted for similar to a lease, amounted to ₱52,610 million, ₱50,380 million and ₱49,522 million for the years ended December 31, 2018, 2017 and 2016, respectively. These are recognized as “Purchased Power” in the consolidated statements of income.

See *Note 23 – Purchased Power*.

Entity in which the MERALCO Group Holds more than the Majority of the Voting Rights Accounted for as a Joint Venture

MERALCO, through *MGen*, has a 51% interest in San Buenaventura Power Ltd. Co. (“*SBPL*”). While *MERALCO* owns majority of the voting rights in *SBPL*, it does not have sole control 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 less than 20% of the Voting Rights Accounted for as an Associate

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

MERALCO, through *Finserve*, has 10% interest in AF Payments, Inc. (“*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 28 – Contingencies and Legal Proceedings*.

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty as at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial reporting date are discussed as follows:

Estimating Useful Lives of Utility Plant and Others, Intangible Assets with Finite Lives and Investment Properties

The *MERALCO Group* estimates the useful lives of utility plant and others, intangible assets with finite lives and, investment properties based on the years over which such assets are expected to be available for use. The estimate of the useful lives of the utility plant and others, intangible assets with finite lives and investment properties is based on management’s collective assessment of industry practice, internal technical evaluation and experience with similar assets. The estimated useful lives are reviewed at least at each financial reporting date and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limitations on the use of such assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in the factors mentioned in the foregoing. The amounts and timing of recorded expenses for any year would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of utility plant and others, intangible assets with finite lives and investment properties would increase recorded operating expenses and decrease noncurrent assets.

The total depreciation and amortization expense of utility plant and others amounted to ₱7,190 million, ₱6,929 million and ₱6,828 million for the years ended December 31, 2018, 2017 and 2016, respectively. Total carrying values of utility plant and others, net of accumulated depreciation and amortization, amounted to ₱139,846 million and ₱133,874 million as at December 31, 2018 and 2017, respectively.

Total depreciation of investment properties amounted ₱5 million, ₱4 million and ₱5 million for the years ended December 31, 2018, 2017 and 2016, respectively. Total carrying values of investment properties, net of accumulated depreciation, amounted to ₱1,502 million and ₱1,509 million as at December 31, 2018 and 2017, respectively.

Total amortization of intangible assets with finite lives amounted to ₱632 million, ₱587 million and ₱479 million for the years ended December 31, 2018, 2017 and 2016, respectively. Total carrying values of intangible assets with finite lives, net of accumulated amortization, amounted to ₱2,057 million and ₱2,254 million as at December 31, 2018 and 2017, respectively.

See *Note 7 – Utility Plant and Others, Note 9 – Investment Properties* and *Note 10 – Other Noncurrent Assets*.

Impairment of Nonfinancial Assets

PFRS requires that an impairment review be performed when certain impairment indicators are present. These conditions include obsolescence, physical damage, significant changes in the manner by which an asset is used, worse than expected economic performance, drop in revenues or other external indicators, among others. In the case of goodwill, at a minimum, such asset is subject to an annual impairment test and more frequently whenever there is an indication that such asset may be impaired. This requires an estimation of the value in use of the cash generating unit to which the goodwill is allocated. Estimating the value in use requires preparation of an estimate of the expected future cash flows from the cash generating unit and choosing an appropriate discount rate in order to calculate the present value of those cash flows.

Determining the recoverable amount of utility plant and others, intangible assets, investment properties, investments in associates and interests in joint ventures, goodwill and other noncurrent assets, requires (i) the determination of future cash flows expected to be generated from the continued use as well as ultimate disposition of such assets and (ii) making estimates and assumptions that can materially affect the consolidated financial statements. Future events may cause management to conclude that utility plant and others, intangible assets, investment properties, investments in associates and interests in joint ventures, goodwill and other noncurrent assets are impaired. Any resulting impairment loss could have material adverse impact on the *MERALCO Group’s* consolidated financial position and results of operations.

The preparation of estimated future cash flows involves significant estimations and assumptions. While management believes that the assumptions are appropriate and reasonable, significant changes in the assumptions may materially affect the assessment of recoverable values and may lead to future impairment charges under *PFRS*.

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

Account	2018	2017
	<i>(Amounts in millions)</i>	
Utility plant and others	₱139,846	₱133,874
Investments in associates and interests in joint ventures	11,313	11,446
Intangible assets	2,057	2,254
Investment properties	1,502	1,509
Receivable from the <i>BIR</i>	181	181
Goodwill	35	35

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

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:

	2018	2017
	<i>(Amounts in millions)</i>	
Recognized deferred income tax assets	₱29,040	₱26,151
Unrecognized deferred income tax assets	1,564	953

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

Estimating Allowance for Doubtful Accounts (Applicable until December 31, 2017 prior to adoption of PFRS 9)

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

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

Provision for ECL of Receivables and Contract Assets (Applicable starting January 1, 2018 upon adoption of PFRS 9)

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.

To measure the expected credit losses, trade and other receivables and contract assets have been grouped based on share credit risk characteristics and the days past due. 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 expected loss rates are based on the collection profiles of receivables over the period of 36 months before December 31, 2018 and the corresponding historical credit losses experience within the period. The historical rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

The *MERALCO Group* incorporates forward-looking information into both its assessment 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*.

Reversal of expected credit losses for trade and other receivables amounted to ₱1,667 million for the year ended December 31, 2018 and the expected credit losses for trade and other receivables, net of recoveries, recognized in the consolidated statements of income amounted to ₱661 million and ₱171 million for the years ended December 31, 2017, and 2016, respectively. Trade and other receivables, net of asset impairment, amounted to ₱31,343 million and ₱26,288 million as at December 31, 2018 and 2017, respectively.

See *Note 12 – Trade and Other Receivables*.

Estimating Net Realizable Value of Inventories

Inventories consist of materials and supplies used in the power distribution and services segments, and are valued at the lower of cost or net realizable value. The cost of inventories is written down whenever the net realizable value of inventories becomes lower than the cost due to damage, physical deterioration, obsolescence, and change in price levels or other causes. The lower of cost or net realizable value of inventories is reviewed on a periodic basis. Inventory items identified to be obsolete and no longer usable are written off and charged as expense in the consolidated statement of income.

The carrying values of inventories amounted to ₱3,812 million and ₱3,330 million as at December 31, 2018 and 2017, respectively.

See *Note 13 – Inventories*.

Estimation of Retirement Benefit Costs

The cost of defined benefit retirement plans and other post-employment benefits as well as the present value of the retirement obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates and future retirement benefits increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. The retirement and other post-employment benefits expense amounted to ₱1,132 million, ₱908 million and ₱1,265 million for the years ended Decemer 31, 2018, 2017 and 2016, respectively. The retirement and other post-employment benefit liabilities as at December 31, 2018 and 2017 amounted to ₱1,976 million and ₱2,022 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 specific country and is modified accordingly with estimates of mortality improvements. Future salary increases and retirement benefits increases are based on expected future inflation rates for the specific country.

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

Provisions

The *MERALCO Group* has various claims, assessments and cases as discussed in *Note 28 – Contingencies and Legal Proceedings*. The *MERALCO Group's* estimate for probable costs for the resolution of these claims, assessments and cases has been developed in consultation with external 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 ₱10,198 million, ₱8,533 million and ₱9,373 million for the years ended December 31, 2018, 2017 and 2016, respectively.

See *Note 18 – Provisions* and *Note 21 – Trade Payables and Other Current Liabilities*.

Revenue Recognition

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

Revenues from sale of electricity by *MERALCO* and *CEDC* are billed based on customer-specific billing cycle cut-off date for each customer, while recording of related purchased power cost in the accounts is based on calendar month as provided in the terms of the *PPAs* and *PSAs*. The recognition of unbilled revenues for billing cycles with earlier than month-end cut-off dates requires the use of estimates. The difference between the amounts initially recognized based on provisional invoices and the settlement of the actual billings by power generation companies is taken up in the subsequent year. Also, revenues from sale of electricity are adjusted for the estimated over and/or under-recoveries of pass-through charges, which are subject of various applications for recovery and approval by the *ERC*.

Management believes that such use of estimates will not result in material adjustments in future years.

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.

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 *CEDC* franchise areas in Luzon. Electricity distribution within the *MERALCO* franchise area accounts for approximately 55% of the power requirements of the country. *CEDC's* franchise area covers Clark Special Economic Zone and the sub-zones.

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

MGen owns an effective 28% equity in PacificLight Power Pte Ltd. (“*PacificLight Power*”) in Jurong Island, Singapore. *PacificLight Power* owns and operates a 2 x 400 *MW* combined cycle turbine power plant mainly fueled by liquefied natural gas (“*LNG*”) which began commercial operations in February 2014.

MGen, through *SBPL*, a 51% owned joint venture entity, is constructing a 455 *MW* (net) supercritical coal-fired power plant in Mauban, Quezon. The *PSA* with *MERALCO* was approved by the *ERC* on May 19, 2015. Target commercial operations date is third quarter of 2019.

MGen is developing a 2 x 600 *MW* (net) ultra-supercritical pulverized coal-fired power plant in Atimonan, Quezon through its wholly-owned subsidiary, *A1E*. A *PSA* has been executed between *A1E* and *MERALCO* for the full capacity. The regulatory hearing process at the *ERC* for the *PSA* had long been completed and *A1E* has filed its *FOE* on March 8, 2017. The selected Engineering, Procurement and Construction (“*EPC*”) contractors for the project is awaiting the issuance of a “Notice to Proceed” and is engaged in early site preparation works in the interim. Financing has been arranged by the Mandate Lead Arrangers with a madate letter signed with a consortium of eight (8) local banks. *A1E* has also secured on Environmental Compliance Certificate (“*ECC*”) and has been issued a Certificate of Registration as a preferred enterprise by the Board of Investments (“*BOI*”). The expected completion of the first unit is third quarter of 2023 and the second 600 *MW* by first quarter of 2024.

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

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

MERALCO has 50% equity interest in *Pure Meridian*, which is primarily engaged in the development of various mini-hydroelectric power projects.

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

RES – This covers the sourcing and supply of electricity to qualified contestable customers. *MERALCO* and *CEDC* serve as local retail electricity suppliers within their franchise area under a separate business unit, *MPower* and *Cogent Energy*, respectively. Under Retail Competition and Open Access (“*RCOA*”), qualified contestable customers who opt to switch to 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. *Clarion*, a wholly owned subsidiary of *CEDC*, has submitted the requirements for its *RES* licensing to *ERC*. As at February 26, 2019, the approval of its *RES* licensing is pending with the *ERC*.

Other Services

The other services segment is involved principally in electricity-related services, such as; electro-mechanical engineering, construction, consulting and related manpower services, e-transaction and bills collection, telecoms services, rail-related operations and maintenance services, insurance and re-insurance, e-business development, power distribution management, 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 Center*, *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 for the year is measured consistent with reported net income in the consolidated statement of income.

Consolidated core *EBITDA* is measured as *CCNI* excluding depreciation and amortization, interest and other financial charges, interest and other financial income, equity in net earnings or losses of associates and joint ventures and provision for income tax.

CCNI for the year is measured as consolidated net income attributable to equity holders of the parent adjusted for foreign exchange gain or loss, mark-to-market gain or loss, impairment or reversal of impairment of noncurrent assets and certain other non-recurring gain or loss, if any, net of tax effect of the foregoing adjustments.

Billings between operating segments are done on an arm’s-length basis in a manner similar to transactions with third parties. Segment revenues, segment expenses and segment results include transfers among business segments. Those transfers are eliminated upon consolidation.

The *MERALCO Group* operates and generates substantially all of its revenues in the Philippines (i.e., one (1) geographical location). Thus, geographical segment information is not presented. The *MERALCO Group* has no revenues from transactions with a single external customer accounting for 10% or more of its revenues from external customers.

	Note	Power				Other Services		Inter-segment Transactions			Total		
		2018	2017	2016	2018	2017	2016	2018	2017	2016	2018	2017	2016
(Amounts in Millions)													
Revenues		₱295,389	₱275,172	₱249,206	₱11,373	₱9,547	₱9,866	(₱2,308)	(₱2,163)	(₱1,891)	₱304,454	₱282,556	₱257,181
Segment results		₱25,588	₱24,066	₱23,122	₱2,513	₱1,904	₱2,450	₱–	₱–	₱–	₱28,101	₱25,970	₱25,572
Provisions for probable losses and expenses from claims	2, 23 and 28	10,198	8,533	9,373	–	–	–	–	–	–	10,198	8,533	9,373
Depreciation and amortization	7, 8 and 10	(7,334)	(7,135)	(6,948)	(493)	(385)	(364)	–	–	–	(7,827)	(7,520)	(7,312)
Interest and other financial income	24	2,786	2,153	2,027	45	35	53	–	–	–	2,831	2,188	2,080
Equity in net earnings (losses) of associates and joint ventures	8	(679)	293	(1,567)	(46)	(72)	(110)	–	–	–	(725)	221	(1,677)
Interest and other financial charges	24	(1,935)	(1,450)	(1,293)	(98)	(80)	(50)	–	–	–	(2,033)	(1,530)	(1,343)
Provision for income tax - net	27	(6,923)	(6,812)	(6,749)	(520)	(551)	(604)	–	–	–	(7,443)	(7,363)	(7,353)
Net income attributable to non-controlling interests		–	–	–	–	–	–	(85)	(115)	(164)	(85)	(115)	(164)
Net income attributable to equity holders of the Parent		₱21,701	₱19,648	₱17,965	₱1,401	₱851	₱1,375	(₱85)	(₱115)	(₱164)	₱23,017	₱20,384	₱19,176

The inter-segment revenues mainly represent revenues of other services segment earned from the power segment.

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

	2018	2017	2016
		(Amounts in millions)	
<i>EBITDA</i>	₱37,165	₱34,474	₱34,049
Add (deduct):			
Depreciation and amortization	(7,827)	(7,520)	(7,312)
Interest and other financial income	2,831	2,188	2,080
Interest and other financial charges	(2,033)	(1,530)	(1,343)
Equity in net earnings (losses) of associates and joint ventures	(725)	221	(1,677)
Foreign exchange gains	1,134	29	896
Income before income tax	30,545	27,862	26,693
Provision for income tax - net	(7,443)	(7,363)	(7,353)
Net income	₱23,102	₱20,499	₱19,340

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

	2018	2017	2016
		(Amounts in millions)	
<i>CCNI</i>	₱22,408	₱20,213	₱19,583
Add (deduct) non-core items, net of tax:			
Foreign exchange gains	884	27	718
Non-core income (expenses)	(275)	144	(1,125)
Net income for the year attributable to equity holders of the Parent	23,017	20,384	19,176
Net income for the year attributable to non-controlling interests	85	115	164
Net income	₱23,102	₱20,499	₱19,340

7. Utility Plant and Others

The movements in utility plant and others are as follows:										
2018										
	Subtransmission and Distribution	Land	Buildings and Improvements	Communication Equipment	Office Furniture, Fixtures and Other Equipment	Transportation Equipment	Others	Construction in Progress	Total	
(Amounts in millions)										
Cost:										
Balance at beginning of year	₱167,843	₱15,361	₱6,501	₱2,726	₱3,243	₱3,530	₱4,592	₱13,974	₱217,770	
Additions	159	51	15	107	140	218	316	12,228	13,234	
Disposals/retirements	(1,360)	—	(56)	(44)	(543)	(208)	(69)	—	(2,280)	
Transfers from construction in progress	14,869	—	201	68	—	6	54	(15,198)	—	
Reclassifications	—	—	(4)	—	(9)	4	9	—	—	
Balance at end of year	181,511	15,412	6,657	2,857	2,831	3,550	4,902	11,004	228,724	
Less accumulated depreciation and amortization:										
Balance at beginning of year	72,626	—	2,745	1,232	2,497	2,233	2,563	—	83,896	
Depreciation and amortization	5,881	—	176	239	274	273	347	—	7,190	
Disposals/retirements	(1,359)	—	—	(44)	(543)	(198)	(64)	—	(2,208)	
Reclassifications	—	—	(1)	—	(1)	2	—	—	—	
Balance at end of year	77,148	—	2,920	1,427	2,227	2,310	2,846	—	88,878	
Net book value	₱104,363	₱15,412	₱3,737	₱1,430	₱604	₱1,240	₱2,056	₱11,004	₱139,846	
2017										
	Note	Subtransmission and Distribution	Land	Buildings and Improvements	Communication Equipment	Office Furniture, Fixtures and Other Equipment	Transportation Equipment	Others	Construction in Progress	Total
(Amounts in millions)										
Cost:										
Balance at beginning of year		₱160,528	₱15,363	₱6,279	₱2,726	₱3,242	₱3,425	₱4,188	₱10,861	₱206,612
Additions		287	5	79	90	153	306	199	10,850	11,969
Disposals/retirements		(236)	(7)	—	(200)	(149)	(195)	(19)	—	(806)
Deconsolidation of a subsidiary	3 and 8	—	—	(10)	—	(4)	(6)	(15)	—	(35)
Transfers from construction in progress		7,264	—	135	85	—	—	253	(7,737)	—
Reclassifications	10	—	—	18	25	1	—	(14)	—	30
Balance at end of year		167,843	15,361	6,501	2,726	3,243	3,530	4,592	13,974	217,770
Less accumulated depreciation and amortization:										
Balance at beginning of year		67,164	—	2,593	1,301	2,306	2,212	2,222	—	77,798
Depreciation and amortization		5,680	—	191	203	301	276	278	—	6,929
Deconsolidation of a subsidiary		—	—	(9)	—	(4)	(3)	(13)	—	(29)
Disposals/retirements		(218)	—	(29)	(193)	(102)	(252)	(8)	—	(802)
Reclassifications		—	—	(1)	(79)	(4)	—	84	—	—
Balance at end of year		72,626	—	2,745	1,232	2,497	2,233	2,563	—	83,896
Net book value		₱95,217	₱15,361	₱3,756	₱1,494	₱746	₱1,297	₱2,029	₱13,974	₱133,874

As at December 31, 2018 and 2017, the net book values of customer-funded assets included in “Utility plant and others” account amounted to ₱3,231 million and ₱2,922 million, respectively. The corresponding liabilities to customers in the same amounts as at December 31, 2018 and 2017 are included in “Other noncurrent liabilities” account in the consolidated statements of financial position.

See Note 23 – 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. Total interest capitalized amounted to ₱237 million, ₱161 million and ₱190 million for the years ended December 31, 2018, 2017 and 2016, respectively.

MERALCO’s average annual interest rates used for capitalization in 2018, 2017 and 2016 ranged from 4.60% to 4.83%, 4.45% to 4.70% and 4.39% to 4.51%, respectively.

8. Investments in Associates and Interests in Joint Ventures

This account consists of the following as at December 31, 2018 and 2017:

			2018	2017
	Place of Incorporation	Principal Activity	Percentage of Ownership	
Associates				
RP Energy	Philippines	Power generation	47	47
FPM Power Holdings Limited (“FPM Power”)	British Virgin Islands	Investment and holding company	40	40
Bauang Private Power Corporation (“BPPC”)	Philippines	Power generation	38	38
Aclara Meters Philippines, Inc. (“Aclara Meters”)	Philippines	Sale of metering products and services	35	35
Indra Philippines, Inc. (“Indra Philippines”)	Philippines	Management and IT consultancy	25	25
GBPC	Philippines	Power generation	14	14
AF Payments	Philippines	Electronic payment clearing and settlement system operator	10	10
Power Distribution Services Ghana Limited (“PDS Ghana”)	Ghana	Distribution of power	30	—
Joint Ventures				
SBPL	Philippines	Power generation	51	51
MRail-DESCO Joint Venture (“MDJV”)	Philippines	Maintenance of mass transit system	50	50
Pure Meridian	Philippines	Renewable energy	50	50
St. Raphael	Philippines	Power generation	50	50
Mariveles Power	Philippines	Power generation	49	49
MPioneer Insurance Inc. (“MPioneer”)	Philippines	Insurance	49	49
Powersource First Bulacan Solar, Inc. (“First Bulacan”)	Philippines	Renewable energy	40	40
Rockwell Business Center Joint Venture (“RBC JV”)	Philippines	Real estate	30	30

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

	2018	2017
(Amounts in millions)		
Acquisition costs:		
Balance at beginning of year	₱14,477	₱13,620
Additions	1,667	857
Balance at end of year	16,144	14,477
Accumulated equity in net losses:		
Balance at beginning of year	(4,171)	(3,748)
Equity in net earnings (losses)	(725)	221
Dividends	(476)	(473)
Impairment	—	(171)
Balance at end of year	(5,372)	(4,171)
Share in remeasurement adjustments on retirement liabilities:		
Balance at beginning of year	(10)	(12)
Actuarial gain	—	2
Balance at end of year	(10)	(10)
Share in cumulative translation adjustments:		
Balance at beginning of year	1,150	1,064
Translation adjustments	(599)	86
Balance at end of year	551	1,150
	₱11,313	₱11,446

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

	2018	2017
(Amounts in millions)		
GBPC	₱5,138	₱5,197
SBPL	1,306	159
RBC JV	1,043	1,066
RP Energy	1,024	1,373
Mariveles Power	954	954
FPM Power	766	1,863
MPioneer	377	236
Indra Philippines	331	278
Pure Meridian	119	117
First Bulacan	112	51
Aclara Meters	66	71
St. Raphael	48	48
PDS Ghana	15	—
MDJV	12	22
BPPC	2	11
	₱11,313	₱11,446

GBPC

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

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

SBPL

On August 29, 2013, MGen signed a Joint Development Agreement with New Growth B.V., a 100% subsidiary of Electricity Generating Public Company Limited of Thailand (“EGCO”) for the development of a new 455 MW (net) supercritical coal-fired power plant in Mauban, Quezon. MGen’s equity in the joint venture company, SBPL, is 51%. SBPL has an ECC granted by the DENR covering the 455 MW (net) supercritical coal-fired power plant.

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

On May 29, 2014, MERALCO signed a long-term PSA with SBPL. The PSA was approved by the ERC on May 19, 2015.

On October 8, 2015, *SBPL* entered into an Omnibus Agreement and related agreements with certain financial institutions providing for a term loan facility in an amount of up to ₱42.15 billion for the financing of the project. The initial drawdown was made on December 1, 2015. On December 11, 2015, *SBPL* entered into an Operation and Maintenance Agreement with Pearl Energy Philippines Operating, Inc., a wholly owned subsidiary of *QPPL*, for the operations and maintenance of the power plant. The expected commercial operations of *SBPL* is third quarter of 2019.

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

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

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

In April 2016, *RP Energy* signed separate *PSAs* with *MERALCO* and Aboitiz Energy Solutions, Inc. (“*Aboitiz Energy*”). *RP Energy* is awaiting the approval of its *PSA* with *MERALCO* by the *ERC*. On December 22, 2016, *RP Energy* signed a loan agreement with three (3) local banks for the ₱31.5 billion project financing. The approval of the *PSA* between *RP Energy* and *Aboitiz Energy* by the *ERC* is a condition precedent to the first loan drawdown. As at February 26, 2019, the *PSA* was not yet approved by the *ERC* which restricted *RP Energy* to issue a notice to proceed to the *EPC* contractor and led to *RP Energy*’s inability to achieve financial close. The management will reassess the project technology when the pending case with respect to the *ERC*’s restatement of the effectivity of the *CSP* is resolved.

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

Mariveles Power

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

On April 26, 2016, *Mariveles Power* signed a *PSA* with *MERALCO* for 528 *MW* of its capacity. The *PSA* is still pending approval by the *ERC*.

On January 25, 2019, *Mariveles Power* issued a capital call to its shareholders. However, *MGen* waived its right to subscribe additional shares thereby reducing its ownership interest from 49% to 15%.

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

MPioneer

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

Indra Philippines

Indra Philippines is an *IT* service provider in the country and in the Asia Pacific region, with a wide range of services across various industries. *Indra Philippines* provides services which meet certain of *MERALCO*’s *IT* requirements in the area of system development, outsourcing of Information Systems (“*IS*”) and *IT* operations and management consulting.

Pure Meridian

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

First Bulacan

On January 23, 2017, *Spectrum* entered into a shareholders' agreement with Sunseap International Pte Ltd. and Powersource Philippines Development Corporation for the development of solar energy projects through the joint venture, *First Bulacan*. The joint venture is currently in the process of developing a 50 *MW* utility scale solar facility in San Miguel, Bulacan. The *ERC* has issued an interim approved rate of ₱4.7268 per *kWh* on the 20-year *PSA* with *MERALCO* as *First Bulacan* filed a motion for reconsideration on the escalation rate. The solar farm has not commenced commercial operations yet due to its still pending land conversion application.

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.

St. Raphael

On April 27, 2016, *MGen* and Semirara Mining and Power Corporation entered a joint venture agreement to develop a 2 x 350 *MW* sub-critical pulverized coal-fired power plant in Calaca, Batangas. The development and operations shall be undertaken by *St. Raphael*, the joint venture entity. A *PSA* was signed by *St. Raphael* and *MERALCO* in April 2016 for the 400 *MW* of the plant’s capacity. The *PSA* is pending approval by the *ERC*. Development activities for the project are ongoing and target commercial operations of the power plant is in June 2024.

PDS Ghana

MERALCO, through *MPV Limited*, has 30% equity in *PDS Ghana*. *PDS Ghana* was incorporated in June 2018. *PDS Ghana* is part of the consortium that won and was awarded a 25-year concession for the operations covering the area served by the Electricity Company of Ghana (“*ECG*”). The *ECG* serves nearly 85% of the total energy requirement in Ghana.

MDJV

On June 2, 2014, *MRail* and *DESCO* entered into a Joint Venture Agreement for the general overhaul and rehabilitation of three (3) units of diesel electric locomotives by the Philippine National Railways (“*PNR*”). Two (2) units were completed and turned over on January 10, 2017 and one (1) unit on April 19, 2017. The Joint Venture shall remain in existence during the two-year warranty period which shall end in April 2019.

BPPC

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

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

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

On November 24, 2017, *BPPC*’s *BOD* and stockholders approved a resolution to amend its articles of incorporation shortening the term of its existence from “fifty (50) years from the date of incorporation hereof” to “until June 30, 2019”. As at December 31, 2018, *BPPC* is still in the process of obtaining the related necessary regulatory approvals.

AF Payments

MERALCO, through *Finserve*, has a 10% equity interest in *AF Payments*. *AF Payments* was incorporated in February 2014 primarily to operate and maintain an electronic payment clearing and settlement system through a contactless automated fare collection system for public utility, including generic contactless micropayment solution. It shall also supply and issue fare media and store value cards or reloadable cards for use in transport and non-transport facilities and operate and maintain the related hardware and software.

In 2017, due to the lower than expected penetration rate into the micropayments business, *MERALCO* recognized impairment charge of ₱171 million on the carrying amount of its investment in *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 by the discount rate of 11.9%. The cash flows were based on the most recent financial budgets and forecasts representing best estimate of ranges of economic conditions that will exist over the forecast period. The forecast period covers the remaining service concession agreement term.

The condensed statements of financial position of material associates follow:

	2018		
	<i>GBPC</i>	<i>FPM Power</i>	<i>RP Energy</i>
	<i>(Amounts in millions)</i>		
Current assets	₱22,860	₱5,977	₱357
Noncurrent assets	57,147	48,811	1,767
Current liabilities	(11,456)	(25,605)	(49)
Noncurrent liabilities	(34,474)	(26,675)	(5)
Non-controlling interests	(5,173)	(594)	–
Net assets	₱28,904	₱1,914	₱2,070

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

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

	2018			2017			2016		
	<i>GBPC</i>	<i>FPM Power</i>	<i>RP Energy</i>	<i>GBPC</i>	<i>FPM Power</i>	<i>RP Energy</i>	<i>GBPC</i>	<i>FPM Power</i>	<i>RP Energy</i>
	<i>(Amounts in millions)</i>								
Revenues	₱27,183	₱38,356	₱11	₱23,780	₱28,494	₱8	₱17,637	₱28,654	₱5
Costs and expenses	(24,070)	(41,164)	(753)	(20,399)	(29,745)	(50)	(13,472)	(34,880)	(42)
Net income (loss)	3,113	(2,808)	(742)	3,381	(1,251)	(42)	4,165	(6,226)	(37)
Non-controlling interests	(1,033)	994	–	(977)	877	–	(1,372)	1,188	–
Net income (loss) attributable to equity holders of the parent	2,080	(1,814)	(742)	2,404	(374)	(42)	2,793	(5,038)	(37)
Other comprehensive income (loss)	–	(1,503)	–	–	213	–	–	2,874	–
Total comprehensive income (loss)	₱2,080	(₱3,317)	(₱742)	₱2,404	(₱161)	(₱42)	₱2,793	(₱2,164)	(₱37)
Dividends received	₱350	₱–	₱–	₱350	₱–	₱–	₱308	₱–	₱–

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

	2018		
	<i>GBPC</i>	<i>FPM Power</i>	<i>RP Energy</i>
	<i>(Amounts in millions, except % of ownership)</i>		
Net assets of associates	₱28,904	₱1,914	₱2,070
Proportionate ownership in associates (%)	14	40	47
	4,047	766	974
Goodwill	1,091	–	50
	₱5,138	₱766	₱1,024

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

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

	2018	2017	2016
	<i>(Amounts in millions)</i>		
Share in net income (loss)	₱28	(₱1)	(₱84)
Share in other comprehensive income	1	2	–
Share in total comprehensive income (loss)	₱29	₱1	(₱84)
Dividends received	₱21	₱10	₱9

Joint Ventures

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

	2018		
	<i>RBC JV</i>	<i>SBPL</i>	<i>Mariveles Power</i>
	<i>(Amounts in millions)</i>		
Current assets	₱1,021	₱1,081	₱18
Noncurrent assets	2,981	45,834	1,961
Current liabilities	(524)	(947)	(32)
Noncurrent liabilities	–	(43,408)	–
Net assets	₱3,478	₱2,560	₱1,947

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

The foregoing condensed statements of financial position include the following:

	2018		
	<i>RBC JV</i>	<i>SBPL</i>	<i>Mariveles Power</i>
	<i>(Amounts in millions)</i>		
Cash and cash equivalents	₱822	₱935	₱18
Current financial liabilities (excluding trade payables)	(59)	(920)	(31)

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

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

	2018			2017			2016		
	<i>RBC JV</i>	<i>SBPL</i>	<i>Mariveles Power</i>	<i>RBC JV</i>	<i>SBPL</i>	<i>Mariveles Power</i>	<i>RBC JV</i>	<i>SBPL</i>	<i>Mariveles Power</i>
	<i>(Amounts in millions)</i>								
Revenues	₱699	₱–	₱–	₱689	₱–	₱–	₱670	₱–	₱–
Costs and expenses	(207)	(250)	–	(331)	(154)	(10)	(316)	(92)	(12)
Other income - net	10	2	1	135	1	–	100	117	–
Benefit from (provision for) income tax - net	(121)	119	–	(116)	49	–	(112)	(118)	–
Net income (loss)	₱381	(₱129)	₱1	₱377	(₱104)	(₱10)	₱342	(₱93)	(₱12)
Dividends received	₱105	₱–	₱–	₱113	₱–	₱–	₱174	₱–	₱–

The foregoing condensed statements of comprehensive income include the following:

	2018			2017			2016		
	<i>RBC JV</i>	<i>SBPL</i>	<i>Mariveles Power</i>	<i>RBC JV</i>	<i>SBPL</i>	<i>Mariveles Power</i>	<i>RBC JV</i>	<i>SBPL</i>	<i>Mariveles Power</i>
	<i>(Amounts in millions)</i>								
Depreciation	₱208	₱3	₱–	₱206	₱3	₱–	₱200	₱4	₱–
Interest income	(10)	(1)	–	(9)	(1)	–	(11)	(2)	–
Provision for income tax - net	121	119	–	116	49	–	112	118	–

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:

	2018		
	<i>RBC JV</i>	<i>SBPL</i>	<i>Mariveles Power</i>
	<i>(Amounts in millions, except % of ownership)</i>		
Net assets of joint ventures	₱3,478	₱2,560	₱1,947
Proportionate ownership in joint ventures (%)	30	51	49
	₱1,043	₱1,306	₱954
	2017		
	<i>RBC JV</i>	<i>SBPL</i>	<i>Mariveles Power</i>
	<i>(Amounts in millions, except % of ownership)</i>		
Net assets of joint ventures	₱3,554	₱312	₱1,947
Proportionate ownership in joint ventures (%)	30	51	49
	₱1,066	₱159	₱954

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

	2018	2017	2016
	<i>(Amounts in millions)</i>		
Share in net income (loss)	(₱17)	(₱18)	(₱54)
Share in other comprehensive loss	–	–	–
Share in total comprehensive income (loss)	(₱17)	(₱18)	(₱54)

9. Investment Properties

The movements in investment properties are as follows:

	2018		
	<i>Land</i>	<i>Buildings and Improvements</i>	<i>Total</i>
	<i>(Amounts in millions)</i>		
Cost:			
Balance at beginning of year	₱1,427	₱204	₱1,631
Disposals	–	(2)	(2)
Balance at end of year	1,427	202	1,629
Less accumulated depreciation:			
Balance at beginning of year	–	122	122
Depreciation	–	5	5
Balance at end of year	–	127	127
	₱1,427	₱75	₱1,502

	2017		
	<i>Land</i>	<i>Buildings and Improvements</i>	<i>Total</i>
	<i>(Amounts in millions)</i>		
Cost	₱1,427	₱204	₱1,631
Less accumulated depreciation:			
Balance at beginning of year	–	118	118
Depreciation	–	4	4
Balance at end of year	–	122	122
	₱1,427	₱82	₱1,509

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, 2018 and 2017 are as follows:

	2018	2017
	<i>(in millions)</i>	
Land	₱4,501	₱1,881
Buildings and improvements	194	224

Land pertains primarily to properties where the business process outsourcingbuildings 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 ₱155,000. 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. Other Noncurrent Assets

This account consists of:

	<i>Note</i>	2018	2017
	<i>(Amounts in millions)</i>		
Financial assets:			
Debt securities at at amortized cost	<i>14 and 26</i>	₱29,371	₱27,180
Financial assets at <i>FVOCI</i>	<i>26</i>	3,890	4,360
Advance payments to a supplier and others	<i>26 and 29</i>	3,619	3,563
Nonfinancial assets:			
Net under-recoveries of pass-through charges	<i>2</i>	5,185	1,654
Intangible assets	<i>7</i>	2,057	2,254
Deferred input <i>VAT</i>		1,534	1,565
Retirement surplus	<i>25</i>	699	–
Receivable from the <i>BIR</i>	<i>28</i>	181	181
Goodwill		35	35
Others		2,875	1,156
		₱49,446	₱41,948

Debt Securities at Amortized Cost

The details of debt securities at amortized cost are as follows:

	2018			2017		
	Current Portion (see Note 14)	Noncurrent Portion	Total	Current Portion (see Note 14)	Noncurrent Portion	Total
	(Amounts in millions)					
Government securities	₱10,193	₱25,099	₱35,292	₱9,001	₱26,245	₱35,246
Private debt securities	—	4,272	4,272	—	935	935
	₱10,193	₱29,371	₱39,564	₱9,001	₱27,180	₱36,181

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:

	2018	2017
	(Amounts in millions)	
Investment in debt securities:		
Investments in government securities	₱2,946	₱3,233
Investments in corporate bonds and other investments	613	883
Investments in shares of stock and club shares:		
Quoted	287	203
Unquoted	44	41
	₱3,890	₱4,360

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

	2018	2017
	(Amounts in millions)	
Balance at beginning of year	(₱160)	(₱271)
Unrealized fair value gains (losses) on fair value changes on:		
Debt securities	(200)	95
Equity securities	65	16
Balance at end of year	(₱295)	(₱160)

Intangible Assets

The movements of intangible assets are as follows:

	2018			
	Software	Franchise	Land and Leasehold Rights	Total
	(Amounts in millions)			
Cost:				
Balance at beginning of year	₱4,873	₱49	₱431	₱5,353
Additions	435	—	—	435
Balance at end of year	5,308	49	431	5,788
Less accumulated amortization:				
Balance at beginning of year	2,823	—	276	3,099
Amortization	614	—	18	632
Balance at end of year	3,437	—	294	3,731
	₱1,871	₱49	₱137	₱2,057

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

Deferred Input VAT

The amount includes portion of input VAT incurred and paid in connection with purchase of capital assets in excess of ₱1 million per month. As provided for under RA No. 9337 ("EVAT Law"), said portion of input VAT shall be deferred and credited evenly over the estimated useful lives of the related capital assets or 60 months, whichever is shorter, against the output VAT due.

Net Under-Recoveries of Pass-through Charges

This account represents generation, transmission and other pass-through costs incurred by MERALCO and CEDC as DUs and which are still to be billed, covered by the approved recovery mechanism of the ERC. The balance also includes other net under-recoveries of generation, 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.

Allowance for expected credit loss on net under-recoveries of pass-through charges amounted to ₱4,720 million and ₱4,436 million as at December 31, 2018 and 2017, respectively.

See Note 12 - Trade and Other Receivables.

11. Cash and Cash Equivalents

This account consists of:

	2018	2017
	(Amounts in millions)	
Cash on hand and in banks	₱8,574	₱6,178
Cash equivalents	27,897	39,759
	₱36,471	₱45,937

Cash in banks earns 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.

12. Trade and Other Receivables

This account consists of:

	Note	2018	2017
	(Amounts in millions)		
Trade:			
Electricity	22, 23 and 26	₱24,487	₱23,505
Service contracts		4,511	4,196
Unbilled receivables	23	1,220	759
Nontrade	22 and 26	2,805	1,366
		33,023	29,826
Less allowance for expected credit losses		1,680	3,538
		₱31,343	₱26,288

Movements in allowance for expected credit losses for trade and other receivables are as follows:

	2018			Balance at End of Year				
	Balance at Beginning of Year	Provisions (Reversals)	Write-offs					
	(Amounts in millions)							
Trade - electricity	₱3,307	(₱1,840)	(₱107)	₱1,360				
Other trade receivables	229	173	(84)	318				
Nontrade receivables	2	—	—	2				
	₱3,538	(₱1,667)	(₱191)	₱1,680				
	2017			Balance at End of Year				
	Balance at Beginning of Year	Provisions (Reversals)	Write-offs					
	(Amounts in millions)							
Trade - electricity	₱2,991	₱651	(₱335)	₱3,307				
Other trade receivables	219	12	(2)	229				
Nontrade receivables	4	(2)	—	2				
	₱3,214	₱661	(₱337)	₱3,538				
	2018				2017			
	Trade - Electricity	Other Trade Receivables	Nontrade Receivables	Total	Trade - Electricity	Other Trade Receivables	Nontrade Receivables	Total
	(Amounts in millions)							
Individually impaired	₱768	₱318	₱2	₱1,088	₱2,708	₱229	₱2	₱2,939
Collectively impaired	592	—	—	592	599	—	—	599
	₱1,360	₱318	₱2	₱1,680	₱3,307	₱229	₱2	₱3,538

Trade Receivables – Electricity

Trade receivables of *MERALCO* and *CEDC* include charges for pass-through costs. Pass-through costs of *MERALCO* consist of generation, transmission and *SL* charges, which represent 57%, 9% and 4%, respectively, of the total billed amount in 2018 and 55%, 10% and 4%, respectively, of the total billed amount in 2017. Billed receivables are due 10 days after bill date. *MERALCO*’s and *CEDC*’s trade receivables are noninterest-bearing and are substantially secured by bill deposits. Electricity consumed after the meter reading cut-off dates, which will be billed to customers in the immediately following billing period, is included as part of trade receivables.

See Note 26 – Financial Assets and Financial Liabilities.

Trade Receivables – Service Contracts

Service contracts receivable arise from contracts entered into by the *MIESCOR Group*, *e-MVI Group*, *CIS Group*, *MRail*, *MServ*, *Finserve*, *Comstech*, *eSakay* and *Spectrum* for construction, engineering, related manpower, consulting, light rail maintenance, data transport, bills collection, tellering and e-business development, energy management services, energy systems management and harnessing renewable energy to third parties.

Receivables from service contracts and others are noninterest-bearing and are generally on 30- to 90-day terms.

See Note 10 - Other Noncurrent Assets.

13. Inventories

	2018	2017
	<i>(Amounts in millions)</i>	
Materials and supplies:		
At cost	₱4,011	₱3,529
At net realizable value (“ <i>NRV</i> ”)	3,812	3,330
Materials and supplies at <i>NRV</i>	₱3,812	₱3,330

14. Other Current Assets

	Note	2018	2017
		<i>(Amounts in millions)</i>	
Financial assets:			
Short-term investments		₱21,769	₱2,532
Advances to an associate	22 and 26	6,007	5,703
Debt securities at amortized cost	10 and 26	10,193	9,001
Current portion of advance payments to a supplier	26	187	178
Nonfinancial assets:			
Prepayments		2,621	2,507
Prepaid tax		1,260	1,287
Input VAT		757	665
Pass-through VAT – net		520	846
Others		404	158
		₱43,718	₱22,877

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

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.

15. Equity

Common Stock

	2018	2017
	<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 42,687 and 43,449 shareholders of *MERALCO*’s common shares as at December 31, 2018 and 2017, 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 and others and investment properties carried at deemed cost, deferred tax assets and unrealized foreign exchange gains totaling to ₱45,234 million and ₱43,831 million as at December 31, 2018 and 2017, respectively. These amounts are restricted for dividend declaration purposes as of the close of the respective reporting year.

The following are the cash dividends declared on common shares in 2018, 2017 and 2016:

Declaration Date	Record Date	Payment Date	Dividend Per Share	Amount
				<i>(In millions)</i>
July 30, 2018	August 29, 2018	September 24, 2018	₱5.31	₱5,985
February 26, 2018	March 28, 2018	April 25, 2018	8.07	9,090
August 3, 2017	August 30, 2017	September 22, 2017	8.93	10,059
February 27, 2017	March 27, 2017	April 21, 2017	9.30	10,482
July 25, 2016	August 24, 2016	September 19, 2016	13.48	15,193
April 25, 2016	May 25, 2016	June 17, 2016	1.68	1,894
February 26, 2016	March 23, 2016	April 15, 2016	9.92	11,181

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*.

Treasury Shares

Treasury shares represent 172,412 subscribed shares and the related rights of employees who have opted to withdraw from the *ESPP* in accordance with the provisions of the *ESPP* and which *MERALCO* purchased.

16. Interest-bearing Long-term Financial Liabilities

This account consists of the following:

	2018	2017
	<i>(Amounts in millions)</i>	
Long-term portion of interest-bearing financial liabilities – long-term debt	₱24,745	₱24,786
Current portion of interest-bearing financial liabilities:		
Long-term debt	356	388
Redeemable preferred stock	1,487	1,496
	1,843	1,884
	₱26,588	₱26,670

All of the redeemable preferred shares have been called as at June 30, 2011, consistent with the terms of the Preferred Shares Subscription Agreement. The accrued interests amounted to ₱250 million as at December 31, 2018 and 2017. Interest is no longer accrued when the preferred shares are called for redemption.

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

Description	2018	2017
	<i>(Amounts in millions)</i>	
<i>Fixed Rate Loans</i>		
₱11.5 Billion 7-year Bonds	₱11,500	₱11,500
₱7.0 Billion 12-year Bonds	7,000	7,000
₱7.2 Billion Note Facility Agreement	5,760	6,120
₱600 Million Term Loan Facilities	540	600
₱350 Million Note Facility Agreements	350	–
₱130 Million Term Loan Facility	58	82
Total long-term debt	25,208	25,302
Less unamortized debt issuance costs	107	128
	25,101	25,174
<i>Redeemable Preferred Stock</i>	1,487	1,496
	26,588	26,670
Less current portion	1,843	1,884
Long-term portion of interest-bearing financial liabilities	₱24,745	₱24,786

All of the interest-bearing long-term financial liabilities as at December 31, 2018 and 2017 are denominated in Philippine peso. The scheduled maturities of the outstanding long-term debt at nominal values as at December 31, 2018 are as follows:

	Amount
	<i>(In millions)</i>
Less than one (1) year	₱383
One (1) year up to two (2) years	12,053
More than two (2) years up to three (3) years	472
More than three (3) years up to four (4) years	460
More than four (4) years up to five (5) years	460
More than five (5) years	11,380
	₱25,208

₱18.5 Billion Fixed Rate Puttable Bonds

On September 23, 2013, the *BOD* of *MERALCO* authorized the offer, sale and issuance by way of public offering in the Philippines, 7- and 12-year corporate bonds, puttable in five (5) and 10 years, respectively, with an aggregate principal amount of up to ₱15 billion and with an overallotment option of up to ₱5.0 billion. The 12-year corporate bonds also include a call option, whereby *MERALCO* may redeem (in whole but not in part only) the outstanding bonds on the 7th year from issue date at the early redemption price of 101.0%. The put and call options are clearly and closely related to the host instruments, and thus, were not recognized separately.

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

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

₱7.2 Billion Note Facility Agreement

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

₱600 Million Term Loan Facilities

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

₱350 Million Note Facility Agreements

In July 2018, *MServ* obtained a total of ₱350 million, 5-year Fixed Rate Note Facility Agreements due in July 2023. The principal amount is payable semi-annually over five (5) years until July 2023.

₱130 Million Term Loan Facility

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

The annual interest rates for the interest-bearing financial liabilities range from 4.38% to 5.50% as at December 31, 2018 and 2017.

Debt Covenants

MERALCO's loan agreements require compliance with debt service coverage of 1.1 times calculated on specific measurement dates. The agreements also contain restrictions with respect to the creation of liens or encumbrances on assets, issuance of guarantees, mergers or consolidations, disposition of a significant portion of its assets and related party transactions.

As at December 31, 2018 and 2017, *MERALCO* is in compliance with all of the covenants of the loan agreements.

Unamortized Debt Issuance Costs

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

Note	2018	2017
	<i>(Amounts in millions)</i>	
Balance at beginning of year	₱128	₱153
Additions	5	–
Amortization charged to interest and other financial charges	(26)	(25)
Balance at end of year	₱107	₱128

Redeemable Preferred Stock

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

	2018	2017
Balance at beginning of year	149,615,014	150,157,797
Redemptions	(913,690)	(542,783)
Balance at end of year	148,701,324	149,615,014

The original “Terms and Conditions” of *MERALCO*'s Special Stock Subscription Agreement, which required an applicant to subscribe to preferred stock with 10% dividend to cover the cost of extension of, or new, distribution facilities, have been amended by the *Magna Carta* and the *DSOAR*, effective June 17, 2004 and January 18, 2006, respectively. The amendment sets forth the guidelines for the issuance of preferred stock, only if such instrument is available.

17. Customers’ Deposits

This account consists of:

	2018			2017		
	Current Portion (see Note 21)	Noncurrent Portion	Total	Current Portion (see Note 21)	Noncurrent Portion	Total
	(Amounts in millions)					
Bill deposits	₱2,149	₱27,024	₱29,173	₱2,555	₱24,000	₱26,555
Meter deposits	312	—	312	424	—	424
	₱2,461	₱27,024	₱29,485	₱2,979	₱24,000	₱26,979

Bill Deposits

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

As provided in the *Magna Carta* and *DSOAR*, all captive customers are required to pay a deposit to the *DU*, equivalent to the estimated monthly bill calculated based on applied load, which shall be recognized as bill deposit of the captive customer. Such deposit shall be 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.

On February 22, 2010, the amended *DSOAR*, which became effective on April 1, 2010, was promulgated by the *ERC*. Under the amended *DSOAR*, interest on bill deposits for both residential and non-residential customers shall be computed using the equivalent peso savings account interest rate of the Land Bank of the Philippines (“*Land Bank*”) or other government banks, on the first working day of the year, subject to the confirmation of the *ERC*.

As provided for under *ERC* Resolution No. 1, *A Resolution Adopting the Revised Rules for the Issuance of Licenses to Retail Electricity Suppliers*, a local *RES* may require security deposits from its contestable customers, which shall earn interest equivalent to the actual interest earnings of the total amount of deposits received from the customers.

The following are the movements of the bill deposits account:

	Note	2018	2017
		(Amounts in millions)	
Balance at beginning of year		₱26,555	₱26,095
Additions		5,205	4,477
Refunds		(2,587)	(4,017)
Balance at end of year		29,173	26,555
Less portion maturing within one year	21	2,149	2,555
Noncurrent portion of bill deposits and related interests		₱27,024	₱24,000

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 April 2006 for non-residential customers.

The *ERC* released Resolution No. 8, Series of 2008, otherwise known as “Rules to Govern the Refund of Meter Deposits to Residential and Non-Residential Customers” (“*Rules*”) which required the refund of meter deposits from the effectivity of said *Rules* on July 5, 2008. Under the *Rules*, a customer has the option of receiving his refund in cash, 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.

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

In May 2014, *MERALCO* implemented automatic crediting or offsetting of the remaining unclaimed meter deposit refund (“*MDR*”) as approved by *ERC*, including all accrued interests to the corresponding existing and active service contracts. This was done after releasing a “Final Notice” to advise our customers, particularly those who have not yet claimed their *MDR*, to claim the same prior to *MERALCO*’s implementation of auto-crediting. Thus, all remaining unclaimed *MDR* as reported to the *ERC* as at December 31, 2014 are only for terminated services.

In May 2016, the *ERC* promulgated *ERC* Resolution No. 12, Series of 2016 entitled, “Amended Rules to Govern the Refund of Meter Deposits to Residential and Non-Residential Consumers,” directing all *DUs* to deposit all unclaimed meter deposits including all accrued interests in a government or commercial bank under a single savings account and in the name of the *DU* strictly intended for the claimants of meter deposits. Further, customers were given until December 31, 2017 within which to claim their *MDR*, to be facilitated by the *DU*; otherwise, all unclaimed meter deposits, including accrued interest will be subject to an escheat proceeding in favor of the government.

In compliance with said *ERC* directive, in July 2016, *MERALCO* deposited unclaimed meter deposits in a single savings account. In May 2017, *MERALCO* submitted the required reports 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.”

In April 2018, *MERALCO* submitted to the *ERC* the total amount of unclaimed *MDR* that will be subject of regulatory directive. As at February 26, 2019, *MERALCO* is waiting for directive from the *ERC* on the next steps with respect to the unclaimed meter deposit refund.

18. Provisions

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

	Note	2018	2017
		(Amounts in millions)	
Balance at beginning of year		₱34,111	₱38,224
Reversals for the year - net		(1,265)	(2,539)
Settlements		(296)	(1,574)
Balance at end of year		32,550	34,111
Less current portion	21	15,108	15,655
Noncurrent portion of provisions		₱17,442	₱18,456

The balance of provisions substantially represents the amounts of claims related to a commercial contract which remains unresolved and local taxes being contested as discussed in *Note 28 – Contingencies and Legal Proceedings*, consistent with the limited disclosure as allowed in *PFRS*.

19. Customers’ Refund

This account represents the balance of the refund related to the *SC* decision promulgated on April 30, 2003, which is continuously being refunded based on documents presented by claimants.

In June 2003, the *ERC*, in the implementation of the *SC* decision, ordered *MERALCO* to refund to its customers an equivalent ₱0.167 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 February 4, 2019, the *ERC* authorized *MERALCO* to continue with 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.

20. Notes Payable

Notes payable represent unsecured interest-bearing working capital loans obtained from local banks. Annual interest rates range from 2.75% to 7.50% and 2.80% to 4.25% as at December 31, 2018 and 2017, respectively.

Interest expense on notes payable amounted to ₱481 million, ₱348 million and ₱171 million for the years ended December 31, 2018, 2017 and 2016, respectively.

See *Note 24 – Expenses and Income*.

21. Trade Payables and Other Current Liabilities

This account consists of the following:

	Note	2018	2017
		(Amounts in millions)	
Trade accounts payable	22 and 23	₱37,025	₱32,574
Provisions	18 and 28	15,108	15,655
Taxes		11,151	9,116
Accrued expenses:			
Employee benefits		1,747	2,032
Interest	16	179	137
Others		878	1,198
Current portions of:			
Bill deposits and related interests	17	2,149	2,555
Deferred income		987	1,004
Meter deposits and related interests	17	312	424
Refundable service extension costs		3,127	2,261
Dividends payable on:			
Common stock	15	1,247	938
Redeemable preferred stock	16	250	250
Payable to customers		7,766	8,136
Universal charges payable	31	2,986	2,800
FIT-All payable	31	1,313	925
Regulatory fees payable		196	182
Other current liabilities		4,035	3,763
		₱90,456	₱83,950

Trade Accounts Payable

Trade accounts payable mainly represent obligations to power generating companies, National Grid Corporation of the Philippines (“NGCP”) and Independent Electricity Market Operator of the Philippines Inc. (“IEMOP”) for cost of power purchased and transmission charge. In September 2018, IEMOP assumed the market operation functions for the WESM. In addition, this account includes liabilities due to local and foreign suppliers for purchases of goods and services, which include transformers, poles, materials and supplies, and contracted services.

Trade payables are non-interest-bearing and are generally settled within 15 to 30 days from the receipt of invoice. Other payables are non-interest-bearing and due within one (1) year from incurrence.

See Note 22 – Related Party Transactions and Note 29 – Significant Contracts and Commitments.

Refundable Service Extension Costs

Article 14 of the *Magna Carta*, specifically, “Right to Extension of Lines and Facilities”, requires a customer requesting for an extension of lines and facilities beyond 30-meter service distance from the nearest voltage facilities of the DU to advance the cost of the project. The amended DSOAR, which became effective April 1, 2010, requires such advances from customers to be refunded at the rate of 75% of the distribution revenue generated from the extension lines and facilities until such amounts are fully refunded. The related asset shall form part of the rate base only as the refund is paid out. Customer advances are non-interest-bearing.

As at December 31, 2018 and 2017, the noncurrent portion of refundable service extension costs of ₱6,170 million and ₱6,012 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 paid by customers in advance and are applied to their current consumption.

22. Related Party Transactions

The following summarizes the total amount of transactions, which have been provided and/or contracted by the *MERALCO Group* to/with related parties for the relevant year. The outstanding balances are unsecured, non-interest-bearing and settled in cash.

Pole Attachment Contract with PLDT, Inc. (“PLDT”)

MERALCO has a pole attachment contract with PLDT similar to third party pole attachment contracts of MERALCO with other telecommunication companies. Under the pole attachment contract, PLDT shall use the contracted cable position exclusively for its telecommunication cable network facilities.

Sale of Electricity under Various Service Contracts

MERALCO sells electricity to related party shareholder groups within the franchise area such as PLDT, Metro Pacific and JG Summit and their respective subsidiaries, and affiliates for their facilities within MERALCO’s franchise area. The rates charged to related parties are the same ERC-mandated rates applicable to all customers within the franchise area.

Purchase of Telecommunication Services from PLDT and Subsidiaries

The MERALCO Group’s telecommunications carriers include PLDT for its wireline and Smart Communications, Inc. and Digitel Mobile Philippines, Inc., for its wireless services. Such services are covered by standard service contracts between the telecommunications carriers and each legal entity within the MERALCO Group.

Purchase of Goods and Services

In the ordinary course of business, the MERALCO Group purchases goods and services from its affiliates and sells power and renders services to such affiliates.

PSAs with Joint Ventures and Associates

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

Following is a summary of related party transactions in 2018, 2017 and 2016 and the outstanding balances as at December 31, 2018 and 2017:

	Amount of Transactions			Outstanding Receivable (Liability)			
Category	2018	2017	2016	2018	2017	Terms	Conditions
	(Amounts in millions)						
Sale of electricity:							
<i>JG Summit Group</i>	₱3,336	₱2,776	₱2,839	₱434	₱239	10-day; noninterest-bearing	Unsecured, no impairment
<i>PLDT Group</i>	1,306	958	1,240	34	39	10-day; noninterest-bearing	Unsecured, no impairment
<i>Metro Pacific Group</i>	538	486	444	47	6	10-day; noninterest-bearing	Unsecured, no impairment
Purchases of IT services - <i>Indra Philippines</i>	816	1,058	678	(100)	(154)	30-day; noninterest-bearing	Unsecured
Purchases of meters and devices – <i>Aclara Meters</i>	190	454	254	–	(51)	30-day; noninterest-bearing	Unsecured
Revenue from pole attachment - <i>PLDT</i>	369	391	281	81	160	Advance payment	Unsecured, no impairment
Purchases of wireline and wireless services - <i>PLDT Group</i>	100	90	82	(21)	(21)	30-day; noninterest-bearing	Unsecured
Purchases of power:							
Panay Power Corporation (“ <i>PPC</i> ”)	–	211	285	–	(10)	30-day; noninterest-bearing	Unsecured
Toledo Power Corporation (“ <i>TPC</i> ”)	69	357	163	–	(46)	30-day; noninterest-bearing	Unsecured
<i>PEDC</i>	2,258	1,766	–	(344)	(378)	30-day; noninterest-bearing	Unsecured

Advances to FPM Power

FPM Power has a non-interest-bearing loan from MPG Asia amounting to ₱6,007 million and ₱5,703 million (US\$114 million) as at December 31, 2018 and 2017, respectively, which is due and demandable. The loan remains outstanding as at December 31, 2018.

See Note 14 – Other Current Assets.

Transaction with MERALCO Retirement Benefits Fund (“Fund”)

MERALCO’s *Fund* holds 6,000 common shares of *RP Energy* at par value of ₱100 per share, with total carrying amount of ₱600,000 or an equivalent 3% equity interest in *RP Energy*. The fair value of *RP Energy*’s common shares cannot be reliably measured as these are not traded in the financial market. As at December 31, 2018 and 2017, the fair value of the total assets being managed by the *Fund* amounted to ₱34.0 billion and ₱37.2 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:

	2018	2017	2016
	<i>(Amounts in millions)</i>		
Short-term employee benefits	₱758	₱754	₱667
Long-term employee incentives and retirement benefits	300	288	285
Total compensation to key management personnel	₱1,058	₱1,042	₱952

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.

In 2018, 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.

As at December 31, 2018, there are no agreements between the *MERALCO Group* and any of its key management personnel providing for benefits upon termination of employment or retirement, except with respect to benefits provided under (i) a defined benefit retirement plan, (ii) a program which aims to address capability refresh and organizational optimization requirements, and (iii) a contributory provident plan. Post-retirement benefits under the defined benefit retirement plan cover employees hired up to December 31, 2003 only. The provident plan, which is implemented on a voluntary basis, covers employees hired beginning January 1, 2004.

23. Revenues and Purchased Power

Revenues

The Company 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:

	2018	2017
	<i>(Amounts in millions)</i>	
Trade:		
Electricity	₱24,487	₱23,505
Service contracts	4,511	4,196
Contract assets:		
Unbilled receivables	1,220	759
Net under-recoveries of pass-through charges	5,185	1,654
Contract liabilities:		
Nonrefundable liability related to asset funded by customers	745	702
Over-recoveries from transmission and <i>SL</i> charges	820	614

The revenue recognized from the nonrefundable liability related to assets funded by customers amounted to ₱127 million, ₱66 million and ₱62 million in 2018, 2017 and 2016, respectively.

Purchased Power

The details of purchased power are as follows:

	2018	2017	2016
	<i>(Amounts in millions)</i>		
Generation costs	₱196,489	₱178,913	₱153,751
Transmission costs	35,613	35,645	36,102
	₱232,102	₱214,558	₱189,853

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

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

Purchased power includes, among others, capacity fees, fixed operating and maintenance fees, and transmission line fees that are accounted for similar to a lease under Philippine Interpretation *IFRIC 4, “Determining whether an arrangement contains a lease”*. The total fixed amounts billed by the suppliers included as part of “Purchased power” account in the consolidated statements of income amounted to ₱52,610 million, ₱50,380 million and ₱49,522 million in 2018, 2017 and 2016, respectively. These also include the actual *SL* incurred which is within the *SL* cap of 8.5%. *MERALCO*’s actual 12-month moving average *SL* rates are 5.67%, 5.91% and 6.35% in 2018, 2017 and 2016, respectively.

The details of purchased power follow:

	2018	2017	2016
	<i>(Amounts in millions)</i>		
First Gas Power Corporation (“ <i>FGPC</i> ”) and FGP Corp. (“ <i>FGP</i> ”)	₱53,885	₱46,492	₱39,472
<i>NGCP</i>	35,509	35,482	35,870
South Premiere Power Corporation (“ <i>SPPC</i> ”)	30,455	29,606	28,416
<i>PEMC/IEMOP/WESM</i>	29,127	24,286	17,637
<i>QPPL</i>	15,767	14,640	13,817
San Miguel Energy Corporation (“ <i>SMEC</i> ”)	14,922	14,563	13,063
Masinloc Power Partners Co. Ltd. (“ <i>MPPCL</i> ”)	12,959	13,913	12,628
Sem-Calaca Power Corporation (“ <i>Sem-Calaca</i> ”)	12,658	11,391	10,020
Therma Luzon, Inc. (“ <i>TLI</i> ”)	12,176	11,168	10,076
First NatGas Power Corp. (“ <i>FNPC</i> ”)	5,696	–	–
<i>PEDC</i>	2,258	1,766	–
Southwest Luzon Power Generation Corporation	2,076	3,228	2,214
Phinma Energy Corporation (“ <i>Phinma Energy</i> ”)	1,954	2,511	2,268
Therma Mobile, Inc. (“ <i>TMO</i> ”)	1,695	3,112	2,892
Others	965	2,400	1,480
	₱232,102	₱214,558	₱189,853

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, 2018 and 2017, the total transmission costs and *SL* charge over-recoveries included in “Other noncurrent liabilities” account in the consolidated statements of financial position amounted to ₱820 million and ₱614 million, respectively.

24. Expenses and Income

Salaries, Wages and Employee Benefits

	Note	2018	2017	2016
		<i>(Amounts in millions)</i>		
Salaries, wages and related employee benefits		₱11,565	₱11,687	₱11,576
Retirement benefits	25	1,030	798	1,157
Other long-term post-employment benefits	25	102	110	108
		₱12,697	₱12,595	₱12,841

Depreciation and Amortization

	Note	2018	2017	2016
		<i>(Amounts in millions)</i>		
Utility plant and others		₱7,190	₱6,929	₱6,828
Investment properties	25	5	4	5
Intangible assets	25	632	587	479
		₱7,827	₱7,520	₱7,312

Other Expenses

	<i>Note</i>	2018	2017	2016
		<i>(Amounts in millions)</i>		
Materials used	13	₱2,967	₱2,015	₱2,332
Rent and utilities		764	862	732
Transportation and travel		384	418	371
Insurance		371	348	350
Advertising		349	374	346
Communication	22	140	145	135
Others		922	2,029	1,356
		₱5,897	₱6,191	₱5,622

Interest and Other Financial Charges

	<i>Note</i>	2018	2017	2016
		<i>(Amounts in millions)</i>		
Interest expense on interest-bearing long-term financial liabilities, net of interest capitalized	7 and 16	₱930	₱1,057	₱1,046
Interest expense on notes payable	20	481	348	171
Interest expense on bill deposits	17	31	65	65
Amortization of debt issuance costs	16	26	25	24
Others		565	35	37
		₱2,033	₱1,530	₱1,343

Interest and Other Financial Income

	2018	2017	2016
	<i>(Amounts in millions)</i>		
Interest income on cash in banks and cash equivalents	₱1,517	₱789	₱654
Income from debt and equity securities	1,268	1,300	1,238
Others	46	99	188
	₱2,831	₱2,188	₱2,080

25. **Long-term Employee Benefits**

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

	2018	2017
	<i>(Amounts in millions)</i>	
Long-term incentives	₱3,467	₱2,537
Retirement benefits liability	343	432
Other long-term post-employment benefits	1,633	1,590
	5,443	₱4,559
Less current portion	3,463	–
	₱1,980	₱4,559

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)

	2018	2017	2016
	<i>(Amounts in millions)</i>		
Current service costs	₱979	₱873	₱1,085
Net interest costs (income)	18	(101)	70
Past service costs	–	–	(16)
Net retirement benefits expense	₱997	₱772	₱1,139

Retirement Benefits Liability (Asset)

	2018	2017
	<i>(Amounts in millions)</i>	
Defined benefit obligation	₱33,686	₱37,676
Fair value of plan assets	(34,042)	(37,244)
Net retirement benefits liability (asset)	(₱356)	₱432

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

	2018	2017
	<i>(Amounts in millions)</i>	
Retirement surplus under other noncurrent assets	(₱699)	₱–
Retirement benefits liability	343	432
Net retirement benefits liability (asset)	(₱356)	₱432

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

	2018	2017
	<i>(Amounts in millions)</i>	
Retirement benefits liability (asset) at beginning of year	₱432	(₱1,553)
Net retirement benefits expense	997	772
Contributions by employer	(26)	(324)
Amounts recognized in <i>OCI</i>	(1,759)	1,537
Net retirement benefits liability (asset) at end of year	(₱356)	₱432

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

	2018	2017
	<i>(Amounts in millions)</i>	
Defined benefit obligation at beginning of year	₱37,676	₱34,957
Interest costs	1,815	1,828
Current service costs	979	873
Benefits paid	(2,450)	(2,159)
Actuarial losses (gains) due to:		
Changes in financial assumptions	(5,172)	1,128
Experience adjustments	838	1,049
Defined benefit obligation at end of year	₱33,686	₱37,676

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

	2018	2017
	<i>(Amounts in millions)</i>	
Fair value of plan assets at beginning of year	₱37,244	₱36,510
Benefits paid	(2,450)	(2,159)
Interest income	1,797	1,929
Return on plan assets, excluding amount included in net interest on the net defined benefit obligation and interest income	(2,575)	640
Contributions by employer	26	324
Fair value of plan assets at end of year	₱34,042	₱37,244

The Board of Trustees (“*BoT*”) which manages the *Fund*, is chaired by the Chairman of *MERALCO*, who is neither an executive nor a beneficiary. The other members of the *BoT* are (i) an executive member of the *BOD*; (ii) two (2) senior executives; (iii) an independent member of the *BOD*; and (iv) a member of the *BOD* who represents the largest shareholder group, all of whom are not beneficiaries of the plan.

The *Fund* follows a conservative approach by investing in fixed income, money market and equity assets to diversify the portfolio in order to minimize risk while maintaining an adequate rate of return. The assets of the *Fund* are managed by four (4) local and one (1) foreign trustee banks whose common objective is to maximize the long-term expected return of plan assets. The *BoT*, periodically reviews and approves the strategic mandate of the portfolio to ensure the ability of the *Fund* to service its short-term and long-term obligations.

The net carrying amount and fair value of the assets of the *Fund* as at December 31, 2018 and 2017 amounted to ₱34,042 million and ₱37,244 million, respectively. The major categories of plan assets are as follows:

	2018	2017
	<i>(Amount in millions)</i>	
Cash and cash equivalents	₱1,807	₱1,715
Investments quoted in active markets:		
Quoted equity investments		
Holding firms	2,787	3,607
Banks	954	924
Property	733	934
Telecommunication	688	937
Electricity, energy, power and water	655	893
Food, beverages and tobacco	484	653
Retail	349	367
Transportation services	213	212
Construction, infrastructure and allied services	151	223
Mining	127	232
Others	1,297	1,517
Quoted debt investments		
“AAA” rated securities	13,501	14,085
Government securities	7,964	8,517
Unquoted investments		
Receivables	1,317	1,473
Others	1	1
Real property	1,014	954
Fair value of plan assets	₱34,042	₱37,244

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)

	2018	2017	2016
	<i>(Amounts in millions)</i>		
Interest costs	₱78	₱85	₱80
Current service costs	24	25	28
	₱102	₱110	₱108

Other Long-term Post-employment Benefits Liability

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

	2018	2017
	<i>(Amounts in millions)</i>	
Balance at beginning of year	₱1,590	₱1,568
Interest costs	78	85
Current service costs	24	25
Benefits paid	(95)	(55)
Actuarial losses (gains) due to change in assumptions	36	(33)
Balance at end of year	₱1,633	₱1,590

Actuarial Assumptions

The principal assumptions used as at December 31, 2018 and 2017 in determining retirement benefits and other long-term post-employment benefits obligations are shown below:

	2018	2017
Annual discount rate	7.24%	5.00%
Future range of annual salary increases	5.00 %– 11.00%	6.00% – 8.00%

Sensitivity Analysis

The calculation of the defined benefit obligation is sensitive to the assumptions set above. The following table summarizes how the impact on the defined benefit obligation at the end of the reporting year would have increased (decreased) as a result of a change in the respective assumptions by:

	% Change	Effect on Present Value of Defined Benefit Obligation	
		2018	2017
		<i>(Amounts in millions)</i>	
Annual discount rate	+1.0%	(₱1,911)	(₱2,661)
	-1.0%	2,267	2,658
Future range of annual salary increases	+1.0%	1,270	1,666
	-1.0%	(1,153)	(1,665)

Funding

MERALCO contributes to the *Fund* from time to time such amounts of money required under accepted actuarial principles to maintain the Fund in a sound condition, subject to the provisions of the Plan.

The amount of the annual contributions to the *Fund* is determined through an annual valuation report performed by an independent actuary.

The following is the maturity profile of the undiscounted benefit obligation:

	2018	2017
	<i>(Amounts in millions)</i>	
Less than one (1) year	₱3,064	₱1,841
One (1) year up to five (5) years	13,132	8,242
More than five (5) years up to 10 years	22,306	14,715
More than 10 years up to 15 years	16,459	19,271
More than 15 years up to 20 years	14,448	19,221
More than 20 years	19,315	56,428

Risk

The *Fund* is exposed to the following risks:

Credit Risk

The *Fund*’s exposure to credit risk arises from its financial assets which comprise of cash and cash equivalents, investments and 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 *Fund*.

Share Price Risk

The *Fund*’s exposure to share price risk arises from the shares of stock it holds and are traded at the *PSE*. The price share risk emanates from the volatility of the stock market.

The policy is to limit investment in shares of stock to blue chip issues or issues with good fair values or those trading at a discount to its net asset value so that in the event of a market downturn, the *Fund* may still consider to hold on to such investments until the market recovers.

By having a balanced composition of holdings in the equities portfolio, exposure to industry or sector-related risks is reduced. The mix of various equities in the portfolio reduces volatility and contributes to a more stable return over time. Equity investments are made within the parameters of the investment guidelines approved by the *BoT*. The *BoT* also meets periodically to review the investment portfolio based on financial market conditions. Share prices are also monitored regularly.

Liquidity Risk

Liquidity risk is the risk that the *Fund* is unable to meet its payment obligations associated with its financial liabilities as they fall due and to replace funds when they are withdrawn. Liquidity risk is being managed to ensure that adequate fixed income and cash deposits are available to service the financial obligations of the *Fund*. The schedule of the maturities of fixed income investment assets are staggered by tenure or term. Policies are established to ensure that all financial obligations are met, wherein the timing of the maturities of fixed income investments are planned and matched to the due date of various obligations. Thus, for this investment class, maturities are classified into short-, medium- and long-term. A certain percentage of the portfolio is kept as cash to manage liquidity and settle all currently maturing financial obligations.

Defined Contribution Provident Plan

MERALCO has a defined contributory Provident Plan effective January 1, 2009, intended to be a Supplemental retirement benefit for employees hired beginning 2004, the participation of which is voluntary. Each qualified employee-member who chooses to participate in the plan shall have the option to contribute up to a maximum of 25% of his base salary. *MERALCO* shall match the member’s contribution up to 100% of employee’s contribution or 10% of the member’s monthly base salary, subject to a certain threshold. Upon resignation, the member shall be

entitled to the total amount credited to his personal retirement account immediately preceding his actual retirement date, subject to provisions of the Provident Plan. *MERALCO's* contribution to the Provident Plan amounted to ₱33 million, ₱26 million and ₱18 million for the years ended December 31, 2018, 2017 and 2016, respectively.

<i>Consolidated Retirement Benefits Cost (included in “Salaries, wages and employee benefits” account in the consolidated statements of income)</i>			
	2018	2017	2016
	<i>(Amounts in millions)</i>		
Expense recognized for defined benefit plans	₱997	₱772	₱1,139
Expense recognized for defined contribution plan	33	26	18
Retirement benefits expense	₱1,030	₱798	₱1,157

Long-term Incentive Plan (“LTIP”)

MERALCO's LTIP covers qualified employees and is based on the *MERALCO Group's* achievement of specified level of *CCNI* approved by the *BOD* and determined on an aggregate basis for a three (3)-year period as well as employees’ attainment of a minimum level of performance rating. Employees invited to *LTIP* must serve a minimum uninterrupted period to be entitled to an award. Further, the employee should be on active employment at the time of pay-out.

26. Financial Assets and Financial Liabilities

Financial assets consist of cash and cash equivalents, short-term investments and trade and other receivables, which are generated directly from operations, advances to an associate, 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 Asset at Amortized Cost	FVOCI Financial Assets	Liabilities Carried at Amortized Cost	Total Financial Assets and Liabilities
(Amounts in millions)				
Assets as at December 31, 2018				
Noncurrent				
Other noncurrent assets	₱29,990	₱3,890	₱–	₱36,880
Current				
Cash and cash equivalents	36,471	–	–	36,471
Trade and other receivables	30,123	–	–	30,123
Other current assets	38,156	–	–	38,156
Total assets	₱137,740	₱3,890	₱–	₱141,630
Liabilities as at December 31, 2018				
Noncurrent				
Interest-bearing long-term financial liabilities - net of current portion	₱–	₱–	₱24,745	₱24,745
Customers’ deposits - net of current portion	–	–	27,024	27,024
Refundable service extension costs - net of current portion	–	–	6,170	6,170
Current				
Notes payable	–	–	13,428	13,428
Trade payables and other current liabilities	–	–	55,706	55,706
Customers’ refund	–	–	4,359	4,359
Current portion of interest-bearing long-term financial liabilities	–	–	1,843	1,843
Total liabilities	₱–	₱–	₱133,275	₱133,275

	Financial Assets at Amortized Cost	FVOCI Financial Assets	Liabilities Carried at Amortized Cost	Total Financial Assets and Liabilities
	(Amounts in millions)			
Assets as at December 31, 2017				
Noncurrent				
Other noncurrent assets	₱32,397	₱4,360	₱–	₱36,757
Current				
Cash and cash equivalents	45,937	–	–	45,937
Trade and other receivables	26,288	–	–	26,288
Other current assets	17,414	–	–	17,414
Total assets	₱122,036	₱4,360	₱–	₱126,396
Liabilities as at December 31, 2017				
Noncurrent				
Interest-bearing long-term financial liabilities - net of current portion	₱–	₱–	₱24,786	₱24,786
Customers’ deposits - net of current portion	–	–	24,000	24,000
Refundable service extension costs - net of current portion	–	–	6,012	6,012
Current				
Notes payable	–	–	13,586	13,586
Trade payables and other current liabilities	–	–	50,665	50,665
Customers’ refund	–	–	4,603	4,603
Current portion of interest-bearing long-term financial liabilities	–	–	1,884	1,884
Total liabilities	₱–	₱–	₱125,536	₱125,536

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:

	2018		2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(Amounts in millions)			
Financial assets				
Financial assets at amortized cost -				
Advance payments to a supplier and others	₱3,806	₱3,785	₱3,741	₱3,451
Financial assets at FVOCI	3,890	3,890	4,360	4,360
Debt securities at at amortized cost	39,564	33,043	36,181	35,172
	₱47,260	₱40,718	₱44,282	₱42,983

Financial liabilities				
Financial liabilities carried at amortized cost -				
Interest-bearing-long-term financial liabilities	₱26,588	₱27,620	₱26,670	₱27,806

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, Advances to an Associate, Trade Payables and Other Current Liabilities and Notes Payable

Due to the short-term nature of transactions, the fair values of these instruments approximate their carrying amounts as at reporting date.

Advance Payments to a Supplier

The fair values of advance payments to a supplier were computed by discounting the instruments’ expected future cash flows using the rates of 6.71% and 4.74% as at December 31, 2018 and 2017, respectively.

Financial assets at FVOCI

The fair values were determined by reference to market bid quotes as at reporting year.

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 0.12% to 4.03% as at December 31, 2018 and 0.11% to 4.09% as at December 31, 2017.

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:

	2018				2017			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<i>(Amounts in millions)</i>								
Financial assets								
Advance payments to a supplier and others	P–	P3,785	P–	P3,785	P–	P3,451	P–	P3,451
Financial assets at <i>FVOCI</i>	3,846	44	–	3,890	4,321	39	–	4,360
Debt securities at amortized cost	33,043	–	–	33,043	35,172	–	–	35,172
	P36,889	P3,829	P–	P40,718	P39,493	P3,490	P–	P42,983
Financial liabilities								
Interest-bearing long-term financial liabilities	P–	P27,620	P–	P27,620	P–	P27,806	P–	P27,806

For the years ended December 31, 2018 and 2017, 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 cashflows in relation to its long-term interest-bearing financial liabilities.

The *MERALCO Group’s* policy is to manage its interest rate risk exposure using a mix of fixed and variable rate debts. The strategy, which yields a reasonably lower effective cost based on market conditions, is adopted. Refinancing of fixed rate loans may also be undertaken to manage interest cost. All borrowings bear fixed interest rate as at December 31, 2018 and 2017.

The following table demonstrate the sensitivity analysis to a reasonable possible change in the fair value of financial assets:

	2018		2017	
	Increase (decrease) in bps	Effect on Income before Income Tax	Increase (decrease) in bps	Effect on Income before Income Tax
	<i>(In %)</i>	<i>(In millions)</i>	<i>(In %)</i>	<i>(In millions)</i>
PHP				
Government securities	+100 –100	(P198.1) 198.1	+150 –150	(P297.1) 297.1
Corporate bonds	+100 –100	(P36.1) 36.1	+150 –150	(P54.2) 54.2
USD				
Corporate bonds	+100 –100	(P16.1) 16.1	+150 –150	(P22.9) 22.9

Foreign Currency Risk

The revaluation of any of foreign currency-denominated financial assets and financial liabilities as a result of the appreciation or depreciation of the Philippine peso is recognized as foreign exchange gains or losses as at the end of each reporting year. The extent of foreign exchange gains or losses is largely dependent on the amount of foreign currency-denominated financial instruments. While an insignificant percentage of the *MERALCO Group’s* revenues and liabilities is denominated in *U.S.* dollars, a substantial portion 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 as well as *U.S.* dollar-denominated revenues.

The following table shows the consolidated foreign currency-denominated financial assets and financial liabilities as at December 31, 2018 and 2017, translated to Philippine peso at P52.58 and P49.93 to US\$1, respectively.

	2018		2017	
	U.S. Dollar	Peso Equivalent	U.S. Dollar	Peso Equivalent
<i>(Amounts in millions)</i>				
Financial assets:				
Cash and cash equivalents	\$127	P6,693	\$218	P10,876
Trade and other receivables	2	104	2	104
Short-term investments	119	6,237	50	2,497
Advances to an associate	114	5,969	114	5,668
Debt securities at amortized cost	20	1,052	–	–
Financial assets at <i>FVOCI</i>	5	263	5	250
Advance payments to a supplier	55	2,872	55	2,762
	442	23,190	444	22,157
Financial liabilities -				
Trade payables and other liabilities	(7)	(360)	(4)	(182)
	\$435	P22,830	\$440	P21,975

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 P1 movement of the Philippine peso against the *U.S.* dollar will not have a significant impact on the *MERALCO Group’s* obligations.

The following table demonstrates the sensitivity to a reasonably possible change in the *U.S.* dollar exchange rate vis-a-vis the Philippine peso, with all other variables held constant, of the *MERALCO Group’s* income before income tax for the years ended December 31, 2018 and 2017 (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.

	2018		2017	
	Appreciation (Depreciation) of U.S. Dollar	Effect on Income before Income Tax	Appreciation (Depreciation) of U.S. Dollar	Effect on Income before Income Tax
	<i>(In %)</i>	<i>(In millions)</i>	<i>(In %)</i>	<i>(In millions)</i>
<i>U.S.</i> dollar-denominated financial assets and financial liabilities	+5 –5	P1,142 (1,142)	+5 –5	P1,099 (1,099)

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 year 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 *CEDC* to price risk is minimal. The cost of fuel is part of *MERALCO*’s and *CEDC*’s generation costs that are recoverable through the generation charge in the billings to customers.

Credit Risk

Credit risk is the risk that 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

Customer credit risk is managed by each business segment subject to *MERALCO Group*’s procedures and controls relating to customer credit risk management. The *MERALCO Group* manages and controls credit risk by setting limits on the amount of risk that it is willing to accept for individual counterparties and by monitoring exposures in relation to such limits.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss pattern (i.e. residential, industrial, commercial). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

The provision matrix is initially based on the *MERALCO Group* business segment’s historical observed default rates. Each business segment of the *MERALCO Group* will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. At every reporting date, historical observed default rates are updated and changes in the forward-looking estimates are analyzed. The assessment of the correlation between historical observed default rates, forecast economic conditions and *ECLs* is a significant estimate. The amount of *ECLs* is sensitive to changes in circumstances and of forecast economic conditions. The historical credit loss experience and forecast of economic conditions may also not be representative of customers’ actual default in the future.

MERALCO as a franchise holder serving public interest cannot refuse customer connection. To mitigate risk, the *DSOAR* allows *MERALCO* to collect bill deposit equivalent to one (1) month’s consumption to secure credit. Also, as a policy, disconnection notices are sent three (3) days after the bill due date and disconnections are carried out beginning on the third day after receipt of disconnection notice.

The 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.

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:

2018								
	Billed electric receivables					Unbilled receivables	Other receivables	Total
	Days past due							
	1-30	31-60	61-90	Over 90				
	Current	Days	Days	Days	Days			
(Amounts in millions, except % of ECL)								
ECL Rate	0.32%	1.30%	4.78%	14.15%	79.26%	0.15%	3.75%	
Estimated total gross carrying amount at default	₱4,535	₱2,561	₱727	₱249	₱1,565	₱1,385	₱8,536	₱19,558
Expected credit loss	14	33	35	35	1,240	3	320	1,680

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	
	2018	2017
<i>(Amounts in millions)</i>		
Cash and cash equivalents:		
Cash in banks	₱8,483	₱6,118
Cash equivalents	27,897	39,759
Trade and other receivables:		
Electricity	23,127	20,198
Service contracts	4,202	3,973
Unbilled receivables	–	753
Nontrade receivables	2,803	1,364
Other current assets:		
Short-term investments	21,769	2,532
Advances to an associate	6,007	5,703
Debt securities at amortized cost	10,193	9,001
Current portion of advance payments to a supplier	187	178
Other noncurrent assets:		
Debt securities at amortized cost	29,371	27,180
Financial assets at <i>FVOCI</i>	3,890	4,360
Advance payment to a supplier and others	3,619	3,563
	₱141,548	₱124,682

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:

	2018					
	Neither Past Due nor Impaired			Past Due but not Impaired	Impaired Financial Assets	Total
	High Grade	Standard Grade	Sub-standard Grade			
	(Amounts in millions)					
Cash in banks and cash equivalents	₱36,380	₱—	₱—	₱—	₱—	₱36,380
Trade and other receivables:						
Electricity	5,921	2,660	11,811	2,735	1,360	24,487
Service contracts	1,787	—	149	2,266	309	4,511
Nontrade receivables	2,393	4	—	406	2	2,805
Other current assets:						
Short-term investments	21,769	—	—	—	—	21,769
Advances to an associate	6,007	—	—	—	—	6,007
Debt securities at amortized cost	10,193	—	—	—	—	10,193
Current portion of advance payments to a supplier	187	—	—	—	—	187
Other noncurrent assets:						
Debt securities at amotized cost	29,371	—	—	—	—	29,371
Financial assets at <i>FVOCI</i>	3,890	—	—	—	—	3,890
Advance payment to a supplier and others	3,619	—	—	—	—	3,619
	₱121,517	₱2,664	₱11,960	₱5,407	₱1,671	₱143,219

	2017					
	Neither Past Due nor Impaired					
	High Grade	Standard Grade	Sub-standard Grade	Past Due but not Impaired	Impaired Financial Assets	Total
	(Amounts in millions)					
Cash in banks and cash equivalents	₱45,877	₱—	₱—	₱—	₱—	₱45,877
Trade and other receivables:						
Electricity	4,817	2,089	9,438	3,854	3,307	23,505
Service contracts	1,443	—	186	2,344	223	4,196
Unbilled receivables	—	—	453	300	6	759
Nontrade receivables	895	26	173	270	2	1,366
Other current assets:						
Debt securities at amortized cost	9,001	—	—	—	—	9,001
Advances to an associate	5,703	—	—	—	—	5,703
Short-term investments	2,532	—	—	—	—	2,532
Current portion of advance payments to a supplier	178	—	—	—	—	178
Other noncurrent assets:						
Debt securities at amortized cost	27,180	—	—	—	—	27,180
Financial assets at <i>FVOCI</i>	4,360	—	—	—	—	4,360
Advance payment to a supplier and others	3,563	—	—	—	—	3,563
	₱105,549	₱2,115	₱10,250	₱6,768	₱3,538	₱128,220

Credit ratings are determined as follows:

- **High Grade**

High grade financial assets include cash in banks, cash equivalents, advances to associates, *HTC* investments, *FVOCI* financial assets and advance payments to a supplier to counterparties with good credit rating or bank standing. Consequently, credit risk is minimal. These counterparties include large prime financial institutions, large industrial companies and commercial establishments, and government agencies. For trade receivables, these consist of current month's billings (less than 30 days) that are expected to be collected within 10 days from the time bills are delivered.
- **Standard Grade**

Standard grade financial assets include trade receivables that consist of current month's billings (less than 30 days) that are expected to be collected before due date (10 to 14 days after bill date).
- **Sub-standard Grade**

Sub-standard grade financial assets include trade receivables that consist of current month's billings, which are not expected to be collected within 60 days.

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:

	2018				
	Less than 3 Months	Over 3–12 Months	Over 1–5 Years	More than 5 Years	Total
	(Amounts in millions)				
Notes payable	₱806	₱12,835	₱—	₱—	₱13,641
Trade payables and other current liabilities	50,118	—	—	—	50,118
Customers’ refund	4,359	—	—	—	4,359

	2018				
	Less than 3 Months	Over 3–12 Months	Over 1–5 Years	More than 5 Years	Total
	(Amounts in millions)				
Interest-bearing long-term financial liabilities:					
Fixed rate borrowings	₱246	₱1,194	₱14,984	₱12,103	₱28,527
Redeemable preferred stock	1,487	—	—	—	1,487
Customers’ deposits	607	1,854	5,768	21,256	29,485
Refundable service extension costs	345	2,782	3,539	2,631	9,297
Nonrefundable liability related to asset funded by customers	127	127	127	364	745
Over-recoveries from transmission and SL charges	—	—	—	820	820
Total undiscounted financial liabilities	₱58,095	₱18,792	₱24,418	₱37,174	₱138,479

	2017				
	Less than 3 Months	Over 3–12 Months	Over 1–5 Years	More than 5 Years	Total
	(Amounts in millions)				
Notes payable	₱1,080	₱12,867	₱—	₱—	₱13,947
Trade payables and other current liabilities	45,425	—	—	—	45,425
Customers' refund	4,603	—	—	—	4,603
Interest-bearing long-term financial liabilities:					
Fixed rate borrowings	324	1,202	16,423	13,032	30,981
Redeemable preferred stock	1,496	—	—	—	1,496
Customers' deposits	1,094	1,885	5,089	18,911	26,979
Refundable service extension costs	84	2,177	4,646	1,366	8,273
Total undiscounted financial liabilities	₱54,106	₱18,131	₱26,158	₱33,309	₱131,704

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 ₱2,149 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, 2018.

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.

	2018	2017
	<i>(Amounts in millions, except debt to equity ratio)</i>	
Long-term debt	₱25,101	₱25,174
Redeemable preferred stock	1,487	1,496
Notes payable	13,428	13,586
Debt (a)	₱40,016	₱40,256
Equity attributable to the holders of the parent (b)	₱82,002	₱73,610
Debt to equity ratio(a)/(b)	0.49	0.55

27. Income Taxes and Local Franchise Taxes

Income Taxes

The components of net deferred income tax assets and liabilities are as follows:

	Note	2018	2017
		(Amounts in millions)	
Deferred income tax assets:			
Provisions for probable losses and expenses from claims	18 and 21	₱26,503	₱23,021
Accrued employee benefits	25	488	1,235
Unfunded retirement benefits cost and unamortized past service cost	25	1,332	1,056
Allowance for expected credit losses	12	438	615
Allowance for excess of cost over net realizable value of inventories	13	58	58
Others		221	166
		29,040	26,151
Deferred income tax liabilities:			
Revaluation increment in utility plant and others	15	6,896	6,994
Actuarial gains	25	1,536	1,035
Capitalized interest		750	733
Capitalized duties and taxes deducted in advance		602	631
Depreciation method differential		249	434
Others		274	230
		10,307	10,057
		₱18,733	₱16,094

The deferred income tax assets and liabilities are presented in the consolidated statements of financial position as follows:

	2018	2017
	(Amounts in millions)	
Deferred income tax assets - net	₱18,800	₱16,146
Deferred income tax liabilities - net	(67)	(52)
	₱18,733	₱16,094

Provision for (benefit from) income tax consists of:

	2018	2017	2016
	(Amounts in millions)		
Current	₱10,522	₱10,031	₱10,099
Deferred	(3,079)	(2,668)	(2,746)
	₱7,443	₱7,363	₱7,353

The deferred tax assets charged directly to *OCI* amounted to ₱525 million (expense), ₱443 million (benefit) and ₱1,009 million (expense) for the years ended December 31, 2018, 2017 and 2016, respectively.

A reconciliation between the provision for income tax computed at statutory income tax rate of 30% for the years ended December 31, 2018, 2017 and 2016, and provision for income tax as shown in the consolidated statements of income is as follows:

	2018	2017	2016
	(Amounts in millions)		
Income tax computed at statutory tax rate	₱9,163	₱8,359	₱8,008
Income tax effects of:			
Interest income subjected to lower final tax rate	(845)	(652)	(602)
Nondeductible interest expense	349	269	248
Nontaxable income	(251)	(10)	(234)
Equity in net losses (earnings) of associates and joint ventures	217	(66)	503
Difference in tax due resulting from <i>OSD</i> availment	(2,025)	(1,064)	(217)
Unrecognized deferred tax assets	449	533	—
Others	386	6	(353)
	₱7,443	₱7,363	₱7,353

On December 18, 2009, the *BIR* issued Revenue Regulations (“*RR*”) No. 16-2008, which implemented the provisions of *RA* No. 9504 on Optional Standard Deductions (“*OSD*”). Such regulation allows both individual and corporate taxpayers to use *OSD* in computing their taxable income. For

corporations, they may elect to adopt standard deduction in an amount not exceeding 40% of gross income in lieu of the allowed itemized deductions. In 2018 and 2017, *MERALCO* elected to adopt the *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 taxable year 2019, for which the related income and expense are not considered in determining gross income for income tax purposes, are not recognized. This is because the manner by which *MERALCO* expects to recover or settle the underlying assets and liabilities would not result to any future tax consequence under the *OSD* method.

Meanwhile, certain deferred income tax assets and liabilities expected to be recovered or settled in taxable year 2019, for which the related income and expense are considered in determining gross income for income tax purposes, are recognized only to the extent of their future tax consequence under *OSD* method. Hence, the tax base of these deferred income tax assets and liabilities is reduced by the 40% allowable deduction provided for under the *OSD* method resulting into an adjusted tax rate of 18% from 30%.

The deferred income tax assets and liabilities expected to recovered or settled in taxable years 2020 onwards are still measured at the tax rate of 30% 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, 2018 and 2017, which were not recognized due to the expected use of the *OSD* method in the taxable year 2019 and 2018 are as follows:

	2018	2017
	(Amounts in millions)	
Deferred tax assets:		
Provisions for various claims	₱1,177	₱287
Allowance for expected credit losses	—	375
Others	32	55
	1,209	717
Deferred tax liabilities:		
Depreciation method differential	86	66
Revaluation increment in utility plant and others	53	57
Allowance for expected credit losses	32	—
Capitalized interest	28	27
Capitalized duties and taxes deducted in advance	23	24
Others	5	10
	227	184
	₱982	₱533

The temporary difference for which deferred tax assets have not been recognized pertains to the tax effect of net operating loss carryover (“*NOLCO*”) amounting to ₱1,940 million and ₱1,401 million as at December 31, 2018 and 2017, respectively. These are not recognized because the Company does not expect to utilize such deferred tax assets against sufficient taxable profit.

NOLCO totaling to ₱1,940 million may be claimed as deduction against taxable income as follows:

Date Incurred	Expiry Date	Amount
		(In millions)
December 31, 2016	December 31, 2019	₱465
December 31, 2017	December 31, 2020	613
December 31, 2018	December 31, 2021	862
		₱1,940

NOLCO amounting to ₱322 million, ₱500 million and ₱402 million expired in 2018, 2017 and 2016, respectively.

LFT

Consistent with the decisions of the *ERC*, *LFT* is a recoverable charge of the *DU* in the particular province or city imposing and collecting the *LFT*. It is presented as a separate line item in the customer's bill and computed as a percentage of the sum of generation, transmission, distribution services and related *SL* charges.

The *IRR* issued by the *ERC* provide that *LFT* shall be paid only on its distribution wheeling and captive market supply revenues. Pending the promulgation of guidelines from the relevant government agencies, *MERALCO* is paying *LFT* based on the sum of the foregoing charges in the customers' bill.

28. Contingencies and Legal Proceedings

Overpayment of Income Tax related to SC Refund

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

The BIR then approved the refund of ₱894 million for issuance of tax credit certificates (“TCCs”), proportionate to the actual refund of claims to utility customers. The BIR initially issued TCCs amounting to ₱317 million corresponding to actual refund to customers as at August 31, 2005. In May 2014, the BIR issued additional TCCs amounting to ₱396 million corresponding to actual refund to customers as at December 31, 2012.

As at December 31, 2018 and 2017, the amount of unissued TCCs amounting to ₱181 million, is presented as part of “Other noncurrent assets” account in the consolidated statements of financial position.

See Note 10 – Other Noncurrent Assets.

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

On appeal by the BIR to the CTA En Banc, MERALCO’s petition was dismissed on the ground of prescription in the Decision of the CTA En Banc dated May 8, 2012. On 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 26, 2019, 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 LGU’s from customers in the relevant areas with the ERC and will file for similar recovery for succeeding payments.

On January 30, 2017, PEPOA filed a Petition for rule-making proposing that RPT be allowed as a pass through cost in the light of the SC Decision. Hearings have been completed and MERALCO filed its intervention and submitted its comments. As at February 26, 2019, the Petition is pending before the ERC.

See Note 18 – Provisions.

Mediation with NPC

The NPC embarked on a Power Development Program (“PDP”), which consisted of contracting generating capacities and the construction of its own, as well as private sector, generating plants, following a crippling power supply crisis. To address the concerns of the creditors of NPC, namely, Asian Development Bank and the World Bank, the Department of Energy (“DOE”) required 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 and the rates and amounts charged to MERALCO therein, were approved by the BOD of NPC and the then Energy Regulatory Board, respectively.

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

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

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

The mediation resulted in the signing of a Settlement Agreement (“SA”) between the parties on July 15, 2003. The SA was approved by the respective 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 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 OSG with the CA, MERALCO filed a motion for the reception of its evidence ex-parte with the RTC-Pasig pursuant to the ruling of the CA. In a Decision dated May 29, 2012, the RTC-Pasig declared the SA valid and binding, independent of the pass-through for the settlement amount which is reserved for the ERC. The OSG has filed a Notice of Appeal with the RTC-Pasig on June 19, 2012. After both parties filed their respective appeal briefs, the CA rendered a Decision dated April 15, 2014 denying the appeal and affirming the RTC Decision, which declared the SA as valid and binding. The OSG filed a Petition for Review with the SC. On November 10, 2014, MERALCO filed its comment to the Petition. PSALM likewise filed its comment to the Petition. In a Resolution dated July 8, 2015, the SC resolved to serve anew its Resolutions requiring NPC to comment on the Petition. In compliance, NPC submitted its Comment dated September 8, 2015. MERALCO submitted its Motion for Leave to File and to Admit Attached Reply on October 12, 2015. Pursuant to the SC Resolution dated November 11, 2015, the OSG filed a Consolidated Reply to the comments filed by NPC, MERALCO and PSALM. MERALCO then filed a Motion for Leave to File and to Admit the Attached Rejoinder. The parties have filed their respective memoranda. As at February 26, 2019, MERALCO is awaiting further action of the SC on the matter.

Sucat-Araneta-Balintawak Transmission Line

The Sucat-Araneta-Balintawak transmission line is a two-part transmission line, which completed the 230 kV line loop within Metro Manila. The two 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 26, 2019, *MERALCO* is awaiting further action of the *SC* on the matter.

Petition for Dispute Resolution against PEMC, TransCo, NPC and PSALM

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

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

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

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

In an Order dated March 4, 2013, the *ERC* approved the methodology proposed by *MERALCO* and *PEMC* in computing the double charged amount on line losses by deducting 2.98% from the *NPC-TOU* amount. Accordingly, the *ERC* determined that the computed double charge amount to be collected from *NPC* is ₱5.2 billion, covering the period November 2006 to August 2012 until actual cessation of the collection of the 2.98% line loss charge in the *NPC-TOU* rates imposed on *MERALCO*. In this regard, *NPC* was directed by the *ERC* to refund said amount by remitting to *MERALCO* the equivalent amount of ₱73.9 million per month until the over-recoveries are fully refunded. In the said Order, the *ERC* likewise determined that the amount to be collected from the successor generating companies (“*SGCs*”) is ₱4.7 billion. Additionally, *MERALCO* was directed to file a petition against the following *SGCs*: *MPPCL*, Aboitiz Power Renewables, Inc. (“*APRI*”), *TLI*, *SMEC* and *Sem-Calaca*, within 30 days from receipt thereof, to recover the line loss collected by them. On April 19, 2013, *MERALCO* filed a Motion for Clarification with the *ERC* regarding the directives contained in the March 4, 2013 Order. On April 30, 2013 and May 8, 2013, *PSALM* and *NPC*, respectively, filed motions seeking reconsideration of the March 4, 2013 Order. *MERALCO* filed a motion seeking for an additional 15 days from its receipt of the *ERC's* Order resolving its Motion for Clarification, within which to file its Petition against the *SGCs*.

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

On September 12, 2013, *MERALCO* filed a Manifestation with Motion with the *ERC* seeking approval of its proposal to offset the amount of ₱73.9 million per month against its monthly remittances to *PSALM*. *PSALM* and *NPC* filed their comments *Ad Cautelam* and Comment and Opposition *Ad Cautelam*, respectively, on *MERALCO's* Manifestation and Motion. On November 4, 2013, *MERALCO* filed its reply. As at February 26, 2019, *MERALCO's* Manifestation and Motion is pending resolution by the *ERC*.

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

On February 3, 2014, *MERALCO* filed a Comment with Opposition to the Application for *TRO* or Writ of Preliminary Injunction dated January 30, 2014. *PEMC* filed a Comment and Opposition Re: Petition for Certiorari with Urgent *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 26, 2019, *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 26, 2019, the Joint Motion to Dismiss is pending resolution by the *ERC*.

PSALM versus PEMC and MERALCO

Due to the significant increases in *WESM* prices during the 3rd and 4th months of the *WESM* operations, *MERALCO* raised its concerns with the *PEMC* with request for the latter to investigate whether *WESM* rules were breached or if anti-competitive behavior had occurred.

While resolutions were initially issued by the *PEMC* directing adjustments of *WESM* settlement amounts, a series of exchanges and appeals with the *ERC* ensued. *ERC* released an order directing that the *WESM* settlement price for the 3rd and 4th billing months be set at *NPC-TOU* rates, prompting *PSALM* to file a Motion for Partial Reconsideration, which was denied by the *ERC* in an Order dated October 20, 2008. *PSALM* filed a Petition for Review before the *CA*, which was dismissed on August 28, 2009, prompting *PSALM* to file an *MR*, which was likewise denied by the *CA* on November 6, 2009. In December 2009, *PSALM* filed a Petition for Review on Certiorari with the *SC*. *MERALCO* has filed its comments on the Petition and its Memorandum. As at February 26, 2019, *PSALM's* Petition for Review is pending resolution by the *SC*.

Petition for Dispute Resolution with NPC on Premium Charges

On June 2, 2009, *MERALCO* filed a Petition for Dispute Resolution against *NPC* and *PSALM* with respect to *NPC's* imposition of premium charges for the alleged excess energy it supplied to *MERALCO* covering the billing periods May 2005 to June 2006. The premium charges amounting to ₱315 million during the May-June 2005 billing periods have been paid but are the subject of a protest by *MERALCO*, and premium charges of ₱318 million during the November 2005, February 2006 and April to June 2006 billing periods are being disputed and withheld by *MERALCO*. *MERALCO* believes that there is no basis for the imposition of the premium charges. The hearings on this case have been completed. As at February 26, 2019, 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* last 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) 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 Energy, 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. The *CA* has yet to resolve the motions for reconsideration filed by *MERALCO* and *ERC*.

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

On April 22, 2014, the *SC* extended indefinitely the *TRO* issued on December 23, 2013 and February 18, 2014 and directed generating companies, *NGCP* and *PEMC* not to collect from *MERALCO*. As at February 26, 2019, 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 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 Philippine Competition Commission now holds original, exclusive, and primary jurisdiction over all competition-related cases, the *CA* reiterated its view that the Philippine Competition Act has no retroactive effect.

SPPC vs. PSALM

SPPC and *PSALM* are parties to an Independent Power Producer Administration ("*IPPA*") Agreement covering the Ilijan Power Plant. On the other hand, *MERALCO* and *SPPC* have a *PSA* covering the sale of electricity from the Ilijan Power Plant to *MERALCO*. In a letter dated September 8, 2015, *SPPC* informed *MERALCO* that due to an ongoing dispute with *PSALM* arising from difference in interpretation of the provisions of the *IPPA* Agreement, the latter terminated 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* has 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. As at February 26, 2019, hearings are ongoing before the new presiding judge.

Ombudsman Cases Against Directors

On January 30, 2018, *MERALCO* received an Order dated January 22, 2018 from the Office of the Ombudsman directing *MERALCO*'s directors to comment on a complaint-affidavit for syndicated estafa filed by a consumer group which charged that there was conspiracy between *MERALCO* directors and the *ERC* regarding the alleged misappropriation of the bill deposits received from *MERALCO* consumers. On February 9, 2018, *MERALCO*'s directors filed their Counter-Affidavits where they refuted the arguments of the consumer group. 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.

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. As at February 26, 2019, *MERALCO* is awaiting further action of the Office of the Ombudsmen on the matter.

Others

Liabilities for certain local taxes amounting to ₱2,688 million and ₱2,810 million as at December 31, 2018 and 2017, respectively, are included in the “Other noncurrent liabilities” account in the consolidated company statements of financial position.

Management and its internal and external counsels believe that the probable resolution of these issues will not materially affect *MERALCO*’s financial position and results of operations.

29. Significant Contracts and Commitments

MERALCO

Contracts for the CSE and PSAs with Privatized Plants and IPPAs

MERALCO entered into separate *PSAs* with *SPPC*, *Sem-Calaca* and *MPPCL* on December 12, 20 and 21, 2011, respectively. Also, separate *PSAs* with *TLI* and *SMEC* were executed on February 29 and June 26, 2012, respectively. These *PSAs* are for a period of seven (7) years, extendable for three (3) years upon agreement of the parties. Thereafter, applications for approval of the *PSAs* were filed with the *ERC*.

MPower likewise signed separate *PSAs* with *SPPC*, *MPPCL*, *Sem-Calaca*, and *TLI* on December 12, 2011, March 16, 2012, June 25, 2012, October 10, 2012 and October 19, 2012, respectively.

In separate Decisions dated December 17, 2012, the *ERC* approved with modifications the *PSAs* of *MERALCO* with *SPPC*, *Sem-Calaca*, *MPPCL*, *TLI* and *SMEC*.

MRs were filed regarding the *ERC* decisions on the *PSAs* with *SPPC*, *Sem-Calaca* and *SMEC*. *MERALCO* is awaiting the decision of the *ERC* on the *SPPC* and *Sem-Calaca MRs*. In an Order dated December 16, 2013, the *ERC* denied the Motion for Partial Reconsideration on the *PSA* with *SMEC*. Both *MERALCO* and *SMEC* have filed separation motions with respect to such order. 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 26, 2019, remains pending for resolution of the *ERC*. Meanwhile, the terms of the *PSA* with *Sem-Calaca* expired on December 25, 2018.

MERALCO entered into separate Supplemental Agreements with *MPPCL* and *TLI* on April 8 and 27, 2016, respectively, for the extension of the term of these *PSAs* for an additional period of three (3) years up to December 25, 2022. Thereafter, relevant Manifestations with Motion for Approval of the Supplemental Agreements were filed with the *ERC*.

Under the *PSAs* approved by the *ERC*, fixed capacity fees and fixed operating maintenance fees are recognized monthly based on their contracted capacities. The annual projection of these payments is shown in the table below:

Year	Contracted Capacity	Fixed Payment Amount
	<i>(In Megawatt)</i>	<i>(In millions)</i>
2019	2,894	₱35,695
2020	1,624	24,706
2021	1,114	14,984
2022	1,114	15,073
2023	1,714	27,090
2024-2030	13,774	243,296

On January 1, 2018, the *Tax Reform for Acceleration and Inclusion (“TRAIN”)* Law became effective. Among other things, the *TRAIN* Law increased the excise tax on coal from ₱10.00 per metric ton to ₱50.00 per metric ton, effective January 1, 2018. 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 *TLI*, 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. On July 19, 2018, *MERALCO* and *TLI* filed a joint application for approval of recovery of the increase in excise tax as a result of the implementation of the *TRAIN* Law. On November 9, 2018, the parties filed their joint *FOE*. As at February 26, 2019, the parties await decision of the *ERC*.

FGPC and FGP

In compliance with the *DOE*’s program to create a market for Camago-Malampaya gas field and enable its development, *MERALCO* has committed to contract 1,500 *MW* of the 2,700 *MW* output of the Malampaya gas field.

Accordingly, *MERALCO* entered into separate 25-year *PPAs* with *FGPC* (March 14, 1995) and *FGP* (July 22, 1999) for a minimum number of *kWh* of the net 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. Under the terms of the amended *PPA*, *MERALCO* is committed to purchase a specified volume of electric power and energy from *QPPL*, subject to certain terms and conditions. The *PPA* is for a period of 25 years from the start of commercial operations up to July 12, 2025.

In a Letter Agreement signed on February 21, 2008, the amount billable by *QPPL* included a transmission line charge reduction in lieu of a previous rebate program. The Letter Agreement also provides that *MERALCO* make advances to *QPPL* of 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 10 – Other Noncurrent Assets*.

Committed Energy Volume to be Purchased

The following are forecasted purchases/payments to *FGPC*, *FGP* and *QPPL* corresponding to the Minimum Energy Quantity (“*MEQ*”) provisions of the contracts. The forecasted fixed payments include capacity charge and fixed operation and maintenance cost escalated using the U.S. and Philippine Consumer Price Index.

Year	MEQ	Equivalent Amount
	<i>(In million kwh)</i>	<i>(In Millions)</i>
2019	14,195	₱25,684
2020	14,195	25,835
2021	14,195	25,990
2022	14,195	26,148
2023	14,195	26,310
2024-2030	35,661	57,585

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. As at February 26, 2019, 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 16, 2015. In its Order December 9, 2013, the *ERC* allowed the *CSE* to be extended until March 15, 2015. On March 12, 2015, *MERALCO* and *BEI* executed a Letter of Agreement extending the *CSE* until March 16, 2016. On March 16, 2015, *MERALCO* filed a Manifestation with Motion to the *ERC* for approval of the extended term. On March 1, 2016, *BEI* requested for another extension of the *CSE* for another two (2) years. In its letter dated April 7, 2016, *MERALCO* denied *BEI*'s request to extend the *CSE*. On May 18, 2018 and January 25, 2019, *MERALCO* filed Urgent Motions to Resolve the case. As at February 26, 2019, the contract term has expired and *MERALCO* is awaiting the *ERC*'s decision.

Pangea Green Energy Philippines, Inc. ("PGE")

On May 31, 2012, *MERALCO* signed a *CSE* with *PGE*, 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 *PGE* executed a Letter of Agreement extending the *CSE* until February 29, 2016. On March 4, 2015, *MERALCO* filed a Manifestation with Motion with the *ERC* for approval of the extended term. On September 16, 2015, *MERALCO* received a letter from *PGE* 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 *PGE*'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. As at February 26, 2019, the contract term has expired and the Decision remains pending with the *ERC*.

TMO

On March 4, 2013, *MERALCO* signed an Interconnection Agreement with *TMO* for their 243 *MW* generating facility at the Navotas Fish Port Complex, Navotas City, which is an interconnection at *MERALCO*'s Grace Park-Malabon 115 *kV* line. *TMO* is an embedded generator. *TMO* shall construct at its own cost, operate and maintain the 115 *kV* line connecting its generating facility to *MERALCO*'s system. *TMO* and *MERALCO* subsequently signed a Supplement to the Interconnection Agreement dated July 3, 2014 covering the construction of a second line from the connection point at the Grace Park-Malabon 115 *kV* line to the *TMO* switchyard.

On September 27, 2013, *MERALCO* signed a *PSA* with *TMO* for the output of the barge-mounted, bunker oil-fired diesel engines moored at the Fish port Complex in Navotas, Manila. On September 30, 2013, *MERALCO* filed an application with the *ERC* for the approval of the *PSA*. In an Order dated November 4, 2013, the *ERC* granted the prayer for provisional authority. After hearing and submission of the required documents, including the *FOE*, the case is now submitted for decision.

On December 17, 2014, *MERALCO* and *TMO* entered into an Amendment to the *PSA* based on the power situation outlook for 2015 and 2016 issued by the *NGCP* that the reserve capacity will be below the Contingency Reserves due to the maintenance shutdowns and forced outages of major power plants in Luzon. The amendment to the *PSA* was filed for approval with the *ERC* on January 21, 2015. In an Order dated April 6, 2015, the *ERC* approved the amendment in the *PSA* between *MERALCO* and *TMO* with modification. In an Order dated July 1, 2015, the *ERC* clarified that the provisional approval, while not specifically modifying nor stating any condition with respect to the implementation of the outage provisions of the amendment, covers the increase in outage allowance and the minor change in operating procedures.

On June 16, 2015, *MERALCO* received the Omnibus Motion for Partial Reconsideration and Deferment of Implementation of the Order dated April 6, 2015; Urgent Resolution of the Application; and Confidential Treatment filed by *TMO*.

In an Order dated April 5, 2016, the *ERC* ruled that the provisional authority granted to *MERALCO* and *TMO* is extended unless revoked or made permanent. On June 10, 2016 and July 5, 2016, respectively, *MERALCO* and *TMO* filed a Motion for Clarification of the *ERC* Order dated April 5, 2016. Said motions are still pending decision by the *ERC*. On January 3, 2017, *MERALCO* filed a Manifestation with Motion informing the *ERC* of the extension of the term of the *PSA* from June 26, 2017 to June 25, 2018. In an Order dated June 6, 2017, the *ERC* noted *MERALCO*'s Manifestation and Motion and confirmed the one (1) year extension of the *PSA*. *MERALCO* and *TMO* were further directed to strictly comply with the provisions of *ERC* Resolution No. 1, Series of 2016, in particular, the one (1) time limit for renewal of the *PSA*. As at February 26, 2019, the contract term has expired and the decision remains pending with the *ERC*.

SBPL

On May 30, 2014, *MERALCO* signed a long-term *PSA* for a 455 *MW* net capacity and electric output with *SBPL*. *SBPL* will be constructing a supercritical coal-fired power plant in Mauban, Quezon.

On June 2, 2014, *MERALCO* filed an application with the *ERC* for approval of its *PSA* with *SBPL*. On May 19, 2015, *MERALCO* received the *ERC* Decision approving with modification the *PSA* between *MERALCO* and *SBPL*.

Bacman Geothermal, Inc. ("BGI")

On November 25, 2014, *MERALCO* signed a *PSA* with *BGI* for the purchase of up to 50 *MW* capacity and energy from the latter's power plant. The *PSA* shall expire on December 25, 2019, extendible by an additional two (2) years upon mutual agreement of the parties. On March 4, 2015, the Joint Application for approval of said *PSA* was filed with the *ERC*. As at February 26, 2019, the case is pending decision by the *ERC*.

RP Energy

On April 20, 2016, *MERALCO* signed a 20-year *PSA* with *RP Energy* for the purchase of 225 *MW* capacity and energy from the first 300 *MW* unit of 2 x 300 *MW* coal-fired power plant that *RP Energy* intends to construct, own, operate, manage and maintain in Subic, Zambales, within the Subic Bay Freeport Zone. On April 29, 2016, the Joint Application for approval of the said *PSA* was filed with the *ERC*. After hearings and filing by *MERALCO* and *RP Energy* of their respective *FOE*, several consumers filed their petitions to intervene. On July 19, 2017, *MERALCO* filed its consolidated opposition to these petitions. On August 30, 2017, the *ERC* issued an order denying the requests for intervenor status but treating them instead as oppositors. Oppositors filed their respective *MRs* which the *ERC* likewise denied in an order dated November 17, 2017. On January 5, 2018, the *ERC* conducted a hearing for the purpose of giving the consumer group a chance to present its evidence. However, due to its unjustified and continued absence, the consumer group was deemed to have waived its right to present its evidence. Thus, the *ERC* deemed the case submitted for decision. However, despite the case having been submitted for decision, the *ERC* hearing officer allowed an oppositor to submit his written comment/opposition to the continuation of the proceedings. On January 15, 2018, a written comment/opposition was filed by oppositor and on January 19, 2018, *MERALCO* filed its opposition to the said comment/opposition. As at February 26, 2019, the case is pending decision by the *ERC*.

A1E

On April 26, 2016, *MERALCO* signed a 20-year *PSA* with *A1E* for the purchase of 1,200 *MW* of electric output from the 2 x 600 *MW* supercritical coal-fired power generating facility that *A1E* intends to construct, own, operate, manage and maintain in Atimonan, Quezon. On April 29, 2016, the Joint Application for approval of said *PSA* was filed with the *ERC*. After completion of the hearings and filing by *MERALCO* and *A1E* of their respective *FOE* on March 8, 2017, several consumers filed their petitions to intervene. On July 19, 2017, *MERALCO* filed its consolidated opposition to these petitions. On August 30, 2017, the *ERC* issued an order denying the requests for intervenor status but treating them instead as oppositors. Oppositors filed their respective *MRs*, which the *ERC* likewise denied in an order dated November 17, 2017. On March 29, 2017, *MERALCO* and *A1E* filed their Joint Urgent Motion to Resolve. On May 22, 2017, *A1E* filed its Manifestation for Urgent Resolution. Thereafter, on May 23, 2017, *MERALCO* and *A1E* both filed separate letters for Urgent Resolution of the case. On October 19, 2017, *MERALCO* filed its Third Urgent Motion to Resolve. Then on November 8, 2017, *MERALCO* received *A1E*'s Urgent Motion for Resolution. On August 30, 2018, *A1E* filed another Very Urgent Motion for Resolution of the case, and it was followed by *MERALCO*'s Extremely Urgent Motion to Resolve filed on September 10, 2018. Thereafter, on September 14, 2018, *MERALCO* and *A1E* filed a Joint Manifestation with Extremely Urgent Motion for Resolution. As at February 26, 2019, the case is pending decision by the *ERC*.

St. Raphael

On April 26, 2016, *MERALCO* signed a 20-year *PSA* with *St. Raphael* for the purchase of up to 400 *MW* of electric output from the 2 x 350 *MW* coal-fired power generating facility that *St. Raphael* intends to construct, own, operate, manage and maintain in Calaca, Batangas. On April 29, 2016, the Joint Application for approval of said *PSA* was filed with the *ERC*. After hearings and filing by *MERALCO* and *St. Raphael* of their respective *FOE*, several consumers filed their petitions to intervene. On July 19, 2017, *MERALCO* filed its consolidated opposition to these petitions. On August 30, 2017, the *ERC* issued an order denying the requests for intervenor status but treating them instead as oppositors. Oppositors filed their respective *MRs*, which the *ERC* likewise denied in an order dated November 17, 2017. On January 10, 2018, the *ERC* conducted a hearing for the purpose of giving the consumer group a chance to present its evidence. However, due to its unjustified and continued absence, the consumer group was deemed to have waived its right to present its evidence. Thus, the *ERC* deemed the case submitted for decision. Nevertheless, on April 13, 2018, the *ERC* issued an Order directing *MERALCO* and *St. Raphael* to submit additional compliance documents (all to be provided by *St. Raphael*) in order to aid *ERC* in its evaluation of the present case. In a Compliance dated June 18, 2018, *St. Raphael*, from whom all of *ERC*'s requested documents are to come, completed its submissions. At the same time, per directive of the *ERC*, *MERALCO* and *St. Raphael* submitted their respective comments on *MSK's Manifestation and Prayer* on June 8, 2018 and July 3, 2018. As at February 26, 2019, the case is pending decision by the *ERC*.

Central Luzon Premiere Power Corp. ("Central Luzon Power")

On April 26, 2016, *MERALCO* signed a 20-year *PSA* with *Central Luzon Power* for the purchase of up to 528 *MW* of electric output from the 4 x 150 *MW* circulating fluidized bed coal-fired power generating facility that *Central Luzon Power* intends to construct, own and operate in Pagbilao, Quezon. On April 29, 2016, the Joint Application for approval of said *PSA* was filed with the *ERC*. In its Order dated January 25, 2017, the *ERC* held the processing of the application in abeyance. On March 2, 2017, *MERALCO* received the *MR* of *Central Luzon Power* on of the said *ERC* Order. Meanwhile, several consumers filed their petitions to intervene. On July 25, 2017, *MERALCO* received a copy of a Motion filed by several consumers with the *ERC* on July 14, 2017 seeking the dismissal of the case, to which *MERALCO* filed an Opposition. In an Order dated March 20, 2018, *ERC* directed *MERALCO* and *Cental Luzon Power* to submit a written explanation on the status of the *ECC* application, or in the

alternative, should the *ECC* be ready, to submit the same to the *ERC*. *Central Luzon Power* filed a pleading explaining status of the *ECC* application. As at February 26, 2019, further *ERC* action is pending.

<i>Mariveles Power</i>	
On April 26, 2016, <i>MERALCO</i> signed a 20-year <i>PSA</i> with <i>Mariveles Power</i> for the purchase of up to 528 <i>MW</i> of electric output from the 4 x 150 <i>MW</i> circulating fluidized bed coal-fired power generating facility that <i>Mariveles Power</i> intends to construct, own and operate in Mariveles, Bataan. On April 29, 2016, the Joint Application for approval of said <i>PSA</i> was filed with the <i>ERC</i> . In its Order dated August 9, 2016, the <i>ERC</i> held the processing of the application in abeyance. On September 30, 2016, <i>Mariveles Power</i> filed a <i>MR</i> of the said <i>ERC</i> Order. Meanwhile, several consumers filed their petitions to intervene. On July 25, 2017, <i>MERALCO</i> received a copy of a Motion filed by several consumers with the <i>ERC</i> on July 14, 2017 seeking the dismissal of the case, to which <i>MERALCO</i> filed an Opposition. In an Order dated March 20, 2018, <i>ERC</i> directed <i>MERALCO</i> and <i>Mariveles Power</i> to submit a written explanation on the status of the <i>ECC</i> application, or in the alternative, should the <i>ECC</i> be ready, to submit the same to the <i>ERC</i> . <i>Mariveles Power</i> filed a pleading explaining status of the <i>ECC</i> application. As at February 26, 2019, further <i>ERC</i> action is pending.	

<i>PEDC</i>	
On April 26, 2016, <i>MERALCO</i> signed a 20-year <i>PSA</i> with <i>PEDC</i> for the purchase of up to 70 <i>MW</i> of electric output from the 150 <i>MW</i> coal-fired power generating facility that <i>PEDC</i> owns and operates in Brgy. Ingore, La Paz, Iloilo. In its letter dated November 23, 2016, the <i>ERC</i> informed <i>MERALCO</i> that <i>ERC</i> has provisionally approved the <i>PSA</i> between <i>MERALCO</i> and <i>PEDC</i> in its order dated July 11, 2016. On January 10, 2017, <i>MERALCO</i> and <i>PEDC</i> filed their Joint Motion to Admit the <i>FOE</i> with Joint Urgent Motion for Early Resolution of the Application, seeking to, among other things, already source 70 <i>MW</i> from <i>PEDC</i> beginning January 28, 2017 in order to temper the anticipated additional burden that the <i>SPEX</i> -Malampaya outage may bring to end-users. On January 17, 2017, <i>MERALCO</i> received a letter dated November 23, 2016, informing <i>MERALCO</i> that <i>ERC</i> provisionally approved the <i>PSA</i> . On March 3, 2017, <i>PEDC</i> filed a Motion partially seeking reconsideration of the provisional rate approved under the <i>PSA</i> . On October 3, 2017, <i>PEDC</i> filed a Supplemental Motion for Reconsideration. On April 30, 2018, <i>MERALCO</i> received <i>PEDC</i> 's Manifestation and Motion praying that <i>MERALCO</i> be authorized by the <i>ERC</i> to collect from its customers the difference between the provisional rate approved by the <i>ERC</i> and the rates originally applied for under the <i>PSA</i> . As at February 26, 2019, further <i>ERC</i> action is pending.	

Meanwhile, several consumers filed their petitions to intervene. On July 19, 2017, *MERALCO* filed its consolidated opposition to these petitions. On August 30, 2017, the *ERC* issued an order denying the requests for intervenor status but treating them instead as oppositors. Oppositors filed their respective *MRs*, which the *ERC* likewise denied in an order dated November 17, 2017. On January 15, 2018, the *ERC* conducted a hearing for the purpose of giving intervenor, a consumer group, a chance to present its evidence. However, due to its unjustified and continued absence, the consumer group was deemed to have waived its right to present its evidence. Thus, the *ERC* deemed the case submitted for decision. On January 19, 2018, *MERALCO* received a motion filed by an oppositor before the *CA* seeking additional time to file a Petition for Review. On January 26, 2018, *MERALCO* received the Petition for Review. In a decision dated February 28, 2018, the *CA* denied the Petition, prompting the oppositor's filing of an *MR*. On December 3, 2018, *MERALCO* received the *CA*'s Notice of Resolution grating the oppositor's *MR* without necessarily giving due course to the oppositor's Petition for Review and requiring *MERALCO* and *PEDC* to file their respective comments thereto. *MERALCO* and *PEDC* have filed their respective comments. On December 7, 2018, *MERALCO* filed its Comment with Opposition to the *CA*'s Resolution. As at February 26, 2019, the case is awaiting further action from the *CA*.

<i>Global Luzon Energy Development Corporation (“GLEDC”)</i>	
On April 27, 2016, <i>MERALCO</i> signed a 20-year <i>PSA</i> with <i>GLEDC</i> for the purchase of 600 <i>MW</i> of electric output from the 2 x 335 <i>MW</i> coal-fired power generating facility that <i>GLEDC</i> intends to construct, own, operate, manage and maintain in Luna, La Union. On April 29, 2016, the Joint Application for approval of said <i>PSA</i> was filed with the <i>ERC</i> . In its Order dated August 9, 2016, the <i>ERC</i> held the processing of the application in abeyance. On October 21, 2016, <i>MERALCO</i> received <i>GLEDC</i> 's <i>MR</i> of the said Order. Meanwhile, several consumers filed their petitions to intervene. On July 25, 2017, <i>MERALCO</i> received a motion seeking the dismissal of the case, to which <i>MERALCO</i> filed an Opposition. On March 6, 2018, <i>GLEDC</i> filed a Manifestation updating the <i>ERC</i> of the status of its <i>ECC</i> Application. In an Order dated March 20, 2018, <i>ERC</i> directed <i>MERALCO</i> and <i>GLEDC</i> to submit a written explanation on the status of the <i>ECC</i> application, or in the alternative, should the <i>ECC</i> be ready, to submit the same to the <i>ERC</i> . <i>GLEDC</i> initially filed a pleading explaining status of the <i>ECC</i> application. <i>GLEDC</i> thereafter filed a Compliance with the <i>ERC</i> submitting the <i>ECC</i> granted to it by the <i>DENR</i> and moved that the August 9, 2016 Order of the <i>ERC</i> be lifted so that the case can proceed. As at February 26, 2019, the case is still awaiting further action from the <i>ERC</i> .	

<i>First Bulacan</i>	
On September 16, 2016, <i>MERALCO</i> signed a 20-year <i>PSA</i> with <i>First Bulacan</i> for the purchase of 50 <i>MW</i> of electric output from its solar plant in San Miguel, Bulacan. On February 23, 2017, after conduct of a Competitive Selection Process (“ <i>CSP</i> ”) wherein <i>First Bulacan</i> was declared as the winning power supplier, the application for approval of the <i>PSA</i> with <i>First Bulacan</i> was filed. Hearings have been completed and <i>MERALCO</i> filed its <i>FOE</i> on July 12, 2017. In an Order dated November 28, 2017, the <i>ERC</i> resolved to grant interim relief for approval of the <i>PSA</i> . <i>First Bulacan</i> filed a Motion for Reconsideration and an Urgent Motion to Resolve the Motion for Reconsideration, which sought reconsideration of the Order of interim relief. As at February 26, 2019, both are pending resolution by the <i>ERC</i> .	

<i>Solar Philippines Tanauan Corporation (“Solar Philippines Tanauan”)</i>	
On September 16, 2016, <i>MERALCO</i> signed a 20-year <i>PSA</i> with <i>Solar Philippines Tanauan</i> for the purchase of 50 <i>MW</i> of electric output from its solar plant in Tanauan, Batangas. On February 27, 2017, after conduct of a <i>CSP</i> wherein <i>Solar Philippines Tanauan</i> was declared as the winning power supplier, the application for approval of the <i>PSA</i> with <i>Solar Philippines Tanauan</i> was filed. Hearings have been completed and <i>MERALCO</i> filed its <i>FOE</i> on July 12, 2017. In a letter dated December 29, 2017, the <i>ERC</i> informed <i>MERALCO</i> and <i>Solar Philippines Tanauan</i> that the <i>ERC</i>	

resolved to grant an interim relief for approval of the *PSA*. However, such interim relief is not contemplated under the *PSA* and the parties have yet to implement the *PSA*.

<i>Solar Philippines Tarlac Corporation (“Solar Philippines Tarlac”)</i>	
On October 6, 2017, after being declared the winner power supplier in a <i>CSP</i> , <i>MERALCO</i> signed a 20-year <i>PSA</i> with <i>Solar Philippines Tarlac</i> for the purchase of up to 85 <i>MW</i> of electric output from its solar plant in Tarlac. The application for approval of the <i>PSA</i> with <i>Solar Philippines Tarlac</i> was filed on October 19, 2017. Hearings have been completed and parties await <i>ERC</i> resolution on <i>Solar Philippines Tarlac</i> 's opposition to a consumer group's intervention, which shall prompt submission of case for final decision. Meanwhile, in an Order dated November 28, 2017, the <i>ERC</i> granted Interim Relief to provisionally implement the <i>PSA</i> . On July 3, 2018, <i>Solar Philippines Tarlac</i> filed a Motion for Partial Reconsideration of the said Order. <i>MERALCO</i> and <i>Solar Philippines Tarlac</i> have agreed on a way forward, subject to resolution of the Motion for Partial Reconsideration. As at February 26, 2019, the Motion for Partial Reconsideration is still pending resolution by the <i>ERC</i> .	

<i>FNPC</i>	
Following conduct and completion of a <i>CSP</i> , <i>MERALCO</i> confirmed effectivity of the <i>PSA</i> with <i>FNPC</i> dated December 13, 2017, for the purchase of 414 <i>MW</i> electric energy generated by the San Gabriel Gas Plant beginning <i>ERC</i> approval and ending on February 23, 2024. A joint application for approval of the <i>PSA</i> with <i>FNPC</i> was filed on March 19, 2018. In an Order dated June 5, 2018, <i>ERC</i> granted interim relief to provisionally implement the <i>PSA</i> . On June 26, 2018, <i>MERALCO</i> and <i>FNPC</i> implemented the <i>PSA</i> based on the June 5, 2018 Order of the <i>ERC</i> . On August 8, 2018, a party filed an intervention to the case. <i>MERALCO</i> and <i>FNPC</i> filed their Comment/Opposition to said intervention. <i>FNPC</i> thereafter filed a Compliance with Motion for Confidential Treatment of Information. Thereafter, the pre-trial conference on the case was concluded. As at February 26, 2019, the parties are awaiting the order of the <i>ERC</i> resolving the intervention and <i>FNPC</i> 's Compliance with Motion by the <i>ERC</i> and setting the case for another hearing.	

<i>Interim Power Supply Agreements (“IPSAs”)</i>	
On January 19, 2016, after the conduct of a price challenge in compliance with <i>ERC</i> Resolution No. 13, Series of 2015, <i>MERALCO</i> signed an <i>IPSA</i> with 1590 Energy Corporation. The <i>IPSA</i> is for the 170 <i>MW</i> (firm from February 26 to July 25, 2016; non-firm from July 26, 2016 to February 25, 2017) output from the Bauang power plant – a 215 <i>MW</i> bunker oil-fired diesel engine power plant in Bauang, La Union. The term of the <i>IPSA</i> is until February 25, 2017, and shall be automatically extended for an additional period of one (1) year up to two (2) times, unless terminated by either party prior to the expiration of its term. The <i>IPSA</i> was filed for approval by the <i>ERC</i> on February 10, 2016 and shall become effective upon the approval by the <i>ERC</i> . In an Order dated April 5, 2016, the <i>ERC</i> provisionally approved the <i>IPSA</i> . Pursuant to provisions of the <i>IPSA</i> , in a letter dated November 10, 2017, <i>MERALCO</i> informed 1590 Energy Corporation that it is no longer interested in renewing the <i>IPSA</i> , thus, the <i>IPSA</i> will only be until February 25, 2017. As at February 26, 2019, the contract term has expired and <i>MERALCO</i> awaits the <i>ERC</i> 's final decision on the <i>IPSA</i> .	

On January 21, 2016, after the conduct of a price challenge in compliance to *ERC* Resolution No. 13, Series of 2015, *MERALCO* signed two (2) separate *IPSAs* with the following wholly owned subsidiaries of *GBPC*, namely; (i) *TPC* for the 28 *MW* (firm) output from its 40 *MW* diesel-fired power plant in Carmen, Toledo City; and (ii) *PPC* for the 45 *MW* (firm) output from its 72 *MW* diesel-fired power plant in La Paz, Iloilo City. The term of the *IPSAs* is until February 25, 2017, and shall be automatically extended for an additional period of one (1) year up to four (4) times, unless terminated by either party prior to the expiration of its term. On February 10, 2016, both *IPSAs* were filed for approval of the *ERC*. In an Order dated April 5, 2016, the *ERC* provisionally approved these *IPSAs*.

On January 26, 2017, considering the imminent Malampaya shutdown from January 28 until February 16, 2017, *MERALCO* agreed to extend the *IPSAs* with *TPC* and *PPC* until February 25, 2018, provided that beginning January 28, 2017, (i) supply from *TPC* and *PPC* will be through replacement energy at a price lower than the contract price and (ii) supply from *PPC* will be on a firm basis until August 25, 2017, and on a non-firm basis from August 26, 2017 until end of the term thereof. All other terms and conditions under the *IPSAs*, as may be approved by the *ERC*, remain the same. Pursuant to provisions of the *IPSA*, in a letter dated November 10, 2017, *MERALCO* informed *TPC* and *PPC* that it is no longer interested in renewing their respective *IPSAs*, thus, the *IPSAs* will only be until February 25, 2018. As at February 26, 2019, the contract term has expired and *MERALCO* awaits the *ERC*'s final decision on the *IPSA*.

On January 24, 2017, in view of the Malampaya shutdown that was to coincide with the scheduled outage of other plants, *MERALCO* signed an *IPSA* with Strategic Power Development Corporation (“*SPDC*”) for the supply of 100 *MW* per hour of electric power from 0901H to 1000H and from 2001H to 2100H, and 150 *MW* per hour of electric power from 1001H to 2000H, from January 28, 2017 until February 16, 2017. An application for approval of such *IPSA* was filed before the *ERC* on February 9, 2017. The said *IPSA* was effective immediately, on the condition that disallowances and penalties that the *ERC* may impose as a result thereof shall be for the account of *SPDC*. *MERALCO* and *SPDC*, in a letter agreement dated February 15, 2017, agreed to extend the term of the *IPSA* until March 25, 2017 under the same terms and conditions of the *IPSA*. On February 16, 2017, *MERALCO* and *SPDC* filed a Joint Manifestation with Motion with the *ERC* apprising the Honorable Commission of the extended term and praying that the same be duly considered and approved accordingly. The hearings on this case have been completed and *MERALCO* filed its *FOE* on July 21, 2017. As at February 26, 2019, the contract term has expired and *MERALCO* awaits the *ERC*'s final decision on the *IPSA*.

CEDC

SMEC

On March 20, 2013, *CEDC* and *SMEC*, as the Independent Power Producer 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 55,000 *kWh* which may be increased up to 70,000 *kWh*.

On July 28, 2015, *CEDC* and *SMEC* filed a joint application for the amendment of the *PSA* for “*SMEC* to offer replacement contract capacity and associated energy form other sources, provided, such shall be lower than its forecast replacement power cost from *WESM*”.

On September 30, 2016, the *ERC* approved an interim relief to allow *CEDC* to procure additional supply from *SMEC* in light of the planned outage of Sual Unit 1 from October 2016 to November 2016.

With the effectivity of *RCOA*, the various contestable customers shifted their power supply sourcing from the *CEDC* to their respective *RES*. In line with the switching, the *CEDC* 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 captive customers.

SPDC

On February 20, 2017, *CEDC* executed an agreement for the supply of Contract Electric Energy with *SPDC*, the Independent Power Producer Administrator of the 345 *MW* San Roque Hydroelectric Power Plant in Barangay San Roque, San Miguel, Pangasinan. *CEDC* 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. This *PSA* was entered into by *CEDC* to diversify its source of capacity and also to mitigate its exposure to the *WESM* during the outages of its then lone power supplier, *SMEC*. The *PSA* was jointly filed by *CEDC* and *SPDC* on May 19, 2017 for *ERC* approval. As at February 26, 2019, no decision has been received from the *ERC* with regard to the application.

TransCo/ NGCP

CEDC entered into a Transmission Service Agreement (“*TSA*”) with *TransCo* beginning March 30, 2006 until terminated, in accordance with the Open Access Transmission Service (“*OATS*”) rules.

In January 2009, by virtue of *RA* No. 9511, *NGCP* has acquired the franchise to engage in *TransCo*’s business of conveying or transmitting electricity. *NGCP* eventually became *CEDC*’s transmission service supplier upon taking over the whole of *TransCo*’s regulated business.

With the termination of the previous *TSA*, *CEDC* executed a *TSA* on December 26, 2013 with *NGCP* for the provision of necessary transmission services in accordance with the *OATS* rules. The term of the *TSA* ends on December 25, 2018.

Interconnection Agreement with Alternergy Wind One Philippine Holdings Corporation (“Alternergy”)

On March 1, 2012, *MERALCO* signed an Interconnection Agreement with *Alternergy* for the latter’s 90 *MW* wind farm renewable energy plant in Pililla, Rizal, which shall interconnect at *MERALCO*’s Malaya-Teresa 115 *kV* line. *Alternergy* is an embedded generator. *Alternergy* shall construct at its own cost, operate and maintain the 115 *kV* line connecting its generating facility to *MERALCO*’s system. On September 3, 2014, *MERALCO* signed a supplement to the Interconnection Agreement with *Alternergy* to temporarily connect the latter’s facilities to *MERALCO*’s Malaya-Caliraya 115 *kV* line until December 31, 2015 and thereafter, proceed to the ultimate connection at the Malaya-Teresa 115 *kV* line. In its letter to *MERALCO* dated October 30, 2015, *Alternergy* expressed its intention to extend its use of the 115 *kV* line until the completion of the construction of the Phase 2 Line or until December 31, 2017. In the letter agreement dated December 2, 2015, *MERALCO* and *Alternergy* formalize the extended use of said line.

Interconnection Agreement with Alternergy Sembrano Wind Corporation (“Alternergy Sembrano”)

On March 23, 2017, *MERALCO* signed an Interconnection Agreement with *Alternergy Sembrano* for the latter’s 81 *MW* wind farm renewable energy plant in Pililla, Rizal, which shall also interconnect at *MERALCO*’s Malaya-Teresa 115 *kV* line. *Alternergy Sembrano* is also an embedded generator. On May 4, 2018, *Alternergy Sembrano* filed an Application with the *ERC* to develop, own and/or operate a dedicated point-to-point 115 *kV* line connecting its generating facility to *MERALCO*’s system. On November 15, 2018, the said case was submitted for decision by the *ERC*.

Interconnection Agreement with Maibarara Geothermal, Inc. (“MGI”)

On December 6, 2012, *MERALCO* signed an Interconnection Agreement with *MGI* for the latter’s 20 *MW* (with maximum capacity of 40 *MW*) geothermal facility plant in Sto. Tomas, Batangas, which shall interconnect at *MERALCO*’s FPIP - Los Baños 115 *kV* line. *MGI* is an embedded generator. *MGI* shall construct at its own cost, operate and maintain the 115*kV* line connecting its generating facility to *MERALCO*’s system. In its Decision dated September 30, 2013, the *ERC* approved *MGI*’s application for authority to develop, own and operate dedicated point-to-point facilities to connect to the distribution system of *MERALCO*.

Interconnection Agreement with ATN Philippines Solar Energy Group, Inc. (“ATN”)

On December 8, 2014, *MERALCO* signed an Interconnection Agreement with *ATN* for the latter’s 25.2 *MW* solar generating facility in Rodriguez, Rizal, to be connected to *MERALCO*’s Novaliches 44 *YJ*, Diliman 435 *VU* and Parang 412 *YL* circuits. *ATN* is an embedded generator. *ATN* shall construct at its own cost, operate dedicated point-to-point lines and facilities that will connect its generating facility to *MERALCO*’s system. In its Decision dated June 8, 2015, the *ERC* approved *ATN*’s application for authority to develop, own and operate a dedicated point-to-point lines and facilities.

Lease Agreement with CDC

On June 23, 2004, *CEDC* 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.

Investment and Management Agreement with PELCO II

On February 12, 2014, *Comstech* entered into an *IMC* with *PELCO* II for a period of 20 years. *PELCO* II is an electric cooperative with franchise to distribute electric power in certain municipalities of Pampanga.

Pursuant to the *IMC*, *Comstech* shall render technical and management services for the operation, maintenance and management and improvement of *PELCO* II’s electric distribution. As consideration for its technical, consultancy and management services, *Comstech* is entitled to a performance-based remuneration and management fee based on a certain percentage of the operating revenues of *PELCO* II.

Agreement and Registration with PEZA

On May 26, 2014, *MERALCO* and *PEZA* entered into a concession agreement for 25 years, whereby *MERALCO* has been contracted to operate the distribution system of *CEZ* beginning May 26, 2014.

On January 24, 2013, *MERALCO* entered into a tripartite agreement with *PEZA* and *Phinma Energy* for the sale of power to *CEZ* and its locators beginning January 26, 2013. Said tripartite agreement was extended several times. The last extension was through the letter dated December 22, 2017, extending the tripartite agreement until December 25, 2019.

On December 29, 2014, *MERALCO* has secured its Certificate of Registration No.10-01-U from *PEZA*, which confirms *MERALCO* as an Ecozone Utilities Enterprise at the *CEZ*.

30. Earnings Per Share Attributable to Equity Holders of the Parent

Basic and diluted earnings per share are calculated as follows:

	2018	2017	2016
	<i>(Amounts in millions)</i>		
Net income attributable to equity holders of the Parent (a)	₱23,017	₱20,384	₱19,176
Weighted average common shares outstanding (b)	1,127	1,127	1,127
Per Share Amounts:			
Basic and diluted earnings per share (a/b)	₱20.42	₱18.09	₱17.01

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 2018 and 2017.

There are no other transactions involving common shares or potential common shares between the reporting date and the date of completion of these consolidated financial statements.

31. Other Matters

Revised SL Caps

On December 8, 2008, the *ERC* promulgated resolution No.17, Series of 2008 adopting a lower maximum rate of *SL* (technical and non-technical) that a utility can pass on to its customers. The revised *SL* cap is 8.5% for private utilities, starting their January 2010 billing. The said cap is one (1) percentage point lower than the *SL* cap of 9.5% provided under *RA* No. 7832. The actual volume of electricity used by *MERALCO* (administrative loss) is treated as part of the operation and maintenance expense beginning July 2011. The manner by which the utility is rewarded for its efforts in *SL* reduction is addressed by the *ERC* in the Performance Incentive Scheme (“*PIS*”) under the *PBR*.

On October 4, 2016, a legislator proposed a bill to lower the current cap of *SL* rate from 8.5% to 5% for private *DUs* and from 13% to 10% for electric cooperatives and to exclude non-technical *SL* and electricity used by the private *DUs* and electrical cooperatives from what may be passed on to consumers as *SL* charges. As at February 26, 2018, this proposed bill is still subject for deliberation of the Senate.

On May 9, 2017, the *ERC* posted on its website the draft rules on the Proposed Rules for Setting the Distribution System Loss Cap and Establishing Performance Incentive Scheme for Distribution Efficiency. The *ERC* engaged a third party consultant to conduct the study on the *SL* of *DUs* and propose new caps. Said rules proposed different *SL* caps according to four (4) clusters. Electric cooperatives (“*EC*”) were grouped in clusters 1 to 3 and private *DUs* in cluster 4. *ECs* and *DUs* in clusters 1 to 4 have proposed system loss caps of 11.5%, 10%, 7.75%, and 4%, respectively. These caps, which include feeder technical loss and nontechnical loss but exclude sub- transmission and substation technical losses are proposed to be implemented based on the *DU*’s next regulatory reset schedule. For *MERALCO*, the proposed implementation date is July 2019. A series of public consultations and focus group discussions followed, the latest of which was a public consultation for Mindanao stakeholders held in Pasig City on August 9, 2017. In said public consultation, the third party consultant proposed a graduated reduction in system loss caps per cluster. Beginning 2018, *ECs* in clusters 1 to 3 shall have a cap of 12% and *DUs* in cluster 4 shall have a cap of 8%, all of which exclude subtransmission and substation system losses. The caps of cluster 1 to 3 will remain/be lowered to 12%, 10.25%, 8.25% by 2022, respectively. For private *DUs*, the cap will be reviewed based on their submission of annual feeder data to the *ERC*. If private *DUs* fail to submit one (1) year data (from 2018-2020), its cap in 2022, shall be set at 4.75% excluding subtransmission and substation *SL*. The latest proposal of the third party consultant also includes a 1% cap on subtransmission and substation *SL* which was not previously capped in the original draft rules.

On February 23, 2018, the *ERC* posted in its website its Rules for Setting the Distribution System Loss (“*DSL*”) Cap and Establishing Performance Incentive Scheme for Distribution Efficiency.

The Rules allow for a gradual reduction of Feeder System (Primary and Secondary Distribution System) Loss caps as follows:

Year of Implementation	EC Cluster 1	EC Cluster 2	Cluster 4 (Private	
			EC Cluster 3	DUs)
		(in percentage)		
2018	12.00	12.00	12.00	6.50
2019	12.00	11.00	11.00	6.25
2020	12.00	10.25	10.00	6.00
2021	12.00	10.25	9.00	5.50
2022 and onwards	12.00	10.25	8.25	4.75*

*if no annual submission of feeder data.

On May 7, 2018, the *ERC* posted on its website Resolution No. 10, Series of 2018, or “A Resolution Clarifying the System Loss Calculation and Providing the Effectivity of the Rules for Setting the Distribution System Loss Cap”. The Resolution was issued in response to the request for clarification of *ECs* on certain issues regarding the Rules for Setting the *DSL* Cap and Establishing Performance Incentive Scheme for Distribution Efficiency. The Rules for Setting the *DSL* Cap and Establishing Performance Incentive Scheme for Distribution Efficiency was published on the same day. Accordingly, the prescribed system loss cap shall be effective on the next billing cycle of the *DUs* customers.

Subtransmission and substation loss is fully recoverable. However, if *DUs* do not submit monthly metered subtransmission and substation distribution loss data, such losses, as well as distribution feeder losses, will be set to zero in the computation of the recoverable system loss charge. The *DU* may also elect for an individualized *DSL* cap.

Benefit-Sharing Scheme to Lower System Loss

On January 26, 2011, *MERALCO*, together with *PEPOA* and Philippine Rural Electric Cooperative Association (“*PHILRECA*”), filed a joint petition to the *ERC* to initiate rule-making to adopt the Proposed Guidelines for the Implementation of an Incentive Scheme to Lower the System Losses of Private Distribution Utilities and Electric Cooperatives to Level Below the System Loss Cap, for the Benefit of End-Users. This was aimed to encourage the *DUs* to reduce *SL* levels below the cap set by the *ERC* and benefit the end-users through lower *SL* charges. Public hearings were conducted and completed on June 15, 2011.

On December 11, 2012, the *ERC* posted on its website the second draft of the Rules to Govern the Implementation of a Benefit Sharing to Lower the System Losses of Electric Distribution Utilities. As at February 26, 2019, the Joint Petition is pending further action or decision by the *ERC*.

RCOA

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

On March 31, 2014, the *ERC* issued a resolution on the Withdrawal of the Rules on Customer Switching and the Retention of the Code of Conduct for Competitive Retail Market Participants. On the same date, *ERC* also issued a resolution adopting the Rules on the Establishment of Customer Information by the Central Registration Body (“*CRB*”) and Reportorial Requirements, mandating all *DUs* to submit to the *ERC* and *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 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 26, 2019, the *ERC* has yet to respond to *MERALCO*'s letter.

Interim Pre-Emptive Mitigating Measure in the WESM

On May 5, 2014, the *ERC* issued Resolution No 8, Series of 2014, setting an interim pre-emptive mitigating measure in the *WESM*, which established a price threshold in the *WESM* applied over a 72-hour period, which is determined through a rolling average generated weighted average price (“*GWAP*”) of ₱8,186 per *MWh*. Also, a secondary cap amounting to ₱6,245 per *MWh* is imposed upon a breach of the threshold, or secondary cap mechanism. Such interim measure aims to mitigate sustained high prices in the *WESM* during the May and June 2014 supply months. On June 16, 2014, the *ERC* issued another resolution extending the effectivity of the pre-emptive mitigating measure for 45 days from expiration or until August 9, 2014. Public consultation and a subsequent focus group discussion were held on July 23 and 25, 2014, respectively. On August 5, 2014, the *ERC* resolved to (i) adopt a permanent pre-emptive mitigating measure that will be applied in the *WESM*; (ii) direct all interested stakeholders to submit their proposed measures within 20 days from effectivity of such resolution; and (iii) extend the effectivity of the secondary cap mechanism for a period of 120 days from August 10, 2014 or until the *ERC* establishes a permanent pre-emptive mitigating measure in the *WESM*, whichever comes earlier.

On September 29, 2014, the *ERC* conducted a public consultation on the proposed permanent pre-emptive mitigating measures in the *WESM*. Parties were then given until October 7, 2014 to file their additional comments, if any.

On October 24, 2014, the *WESM* Tripartite Committee issued a Joint Resolution to further extend the interim offer price cap in the *WESM* for 120 days starting October 24, 2014 to harmonize with the finalization of the permanent pre-emptive mitigating measure which shall be applied in the *WESM*. On February 20, 2015, the *WESM* Tripartite Committee issued a joint resolution which extended further the imposition of the interim *WESM* offer price cap at its current level until September 30, 2015.

In December 2014, in its Resolution No. 20, Series of 2014, the *ERC* adopted and established a permanent pre-emptive mitigation measure in the *WESM*. The *ERC* set a cumulative price threshold (“*CPT*”) amounting to an average spot price of ₱9,000 per *MWh* over a rolling 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 26, 2019, the case is pending before the *SC*.

On May 9, 2017, the *ERC* issued Resolution No. 4, Series of 2017, entitled, “A Resolution Adopting Amendments to the Pre-emptive Mitigating Measure in the *WESM*”. They adopted a recalculated cumulative price threshold level of ₱1,080,000 and a shorter five (5) -day (120-hour) rolling average period. This is equivalent to ₱9,000 per *MWh* over said period.

PEZA – ERC Jurisdiction

On September 13, 2007, *PEZA* issued “Guidelines in the Registration of Electric Power Generation Facilities/Utilities/Entities Operating Inside the Ecozones” and “Guidelines for the Supply of Electric Power in Ecozones” (“*Guidelines*”). Under these Guidelines, *PEZA* effectively bestowed upon itself franchising and regulatory powers in Ecozones operating within the legislative franchise areas of *DUs* which are under the legislatively-authorized regulatory jurisdiction of the *ERC*. The Guidelines are the subject of an injunction case filed by the *DUs* in *RTC-Pasig*.

On February 4, 2015, the *RTC-Pasig* issued an Order setting a clarificatory hearing on April 15, 2015. During the said hearing, *MERALCO* manifested that it previously filed a Motion to Withdraw as plaintiff on the basis of letter agreements between *MERALCO* and *PEZA*, which is pending before the *RTC-Pasig*. *MERALCO* submitted the Tripartite Agreement among *PEZA*, *PEPOA* and *MERALCO* for approval of the *RTC-Pasig*. In a Decision dated July 3, 2015, the *RTC-Pasig* approved the Compromise Agreement between *PEZA*, *PEPOA* and *MERALCO*. In the hearing on February 10, 2016, the *RTC-Pasig* dismissed the petition upon motion by *PEZA*. The *ERC* filed 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. During the hearing, *TransCo* was given three (3) days from the said date to file its Comment on the subsequent pleadings filed, after which the case is deemed submitted for resolution.

In an Order dated March 4, 2015, the *ERC* considered but denied the new and substantive allegations in *MERALCO*'s Motion to Reopen Proceedings. *MERALCO* then filed a Petition for Review with the *CA* to question the Orders of the *ERC*. In a Decision dated August 12, 2016, the *CA* dismissed the Petition. On September 17, 2016, *MERALCO* filed a *MR*. In an Amended Decision dated September 15, 2017, the *CA* granted *MERALCO*'s *MR* and approved the sale of the 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*. *MERALCO* is currently preparing its Comment to the Petition.

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 is pending resolution. In a Letter dated December 27, 2017, *Labrador* denied *TransCo*'s request for settlement of the warrant of distraints issued by said city against *TransCo*'s properties, including the subject properties for local business tax claims. As at February 26, 2019, *MERALCO* is awaiting for *CA*'s decision before any action may be taken in relation to the contract to sell.

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 as a renewable energy policy that offers guaranteed payments on a fixed per *kWh* for electricity from wind, solar, ocean, hydropower and biomass energy sources, excluding any generation for own use.

On May 16, 2011, the National Renewable Energy Board (“NREB”) filed its Petition to Initiate Rule Making for the Adoption of *FIT*. The Petition proposed a specific *FIT* Rate for each emerging renewable resource. On July 27, 2012, after undergoing several public consultations and public hearings, the ERC approved *FIT* Rates lower than the rates applied by the NREB.

To fund the *FIT* payments to eligible *RE* developers, a *FIT-All* charge shall be imposed on all end-users. The *FIT-All* will be established by the ERC upon petition by *TransCo*, which had been designated as the *FIT* Fund Administrator.

On February 5, 2014, the ERC released the *FIT-All* disbursement and Collection Guidelines (“*FIT Guidelines*”) to supplement the *FIT* Rules. This set of guidelines will govern how the *FIT-All* will be calculated using the formulae provided. It will also outline the process of billing and collecting the *FIT-All* from the electricity consumers, the remittance to a specified fund, the disbursement from the *FIT-All* fund and the payment to eligible *RE* developers.

On July 30, 2014, *TransCo* filed its Application for Approval of the *FIT-All* for calendar years 2014 and 2015. On October 7, 2014, the ERC provisionally approved a *FIT-All* of ₱0.0406 per *kWh* effective in the January 2015 billing as a separate line item in the bills of end consumers. In its letter to *MERALCO* dated December 18, 2014, the ERC clarified that the January 2015 billing covers consumption of customers for the period December 26, 2014 to January 25, 2015.

On December 23, 2014, *MERALCO* received a copy of a Petition for Prohibition and Certiorari filed with the SC against the ERC, DOE, *TransCo*, NREB and *MERALCO*. The Petition seeks (i) the issuance of a *TRO* and/or *WPI*, and after giving due course to the Petition, a Writ of Prohibition to enjoin the respondents from implementing the *FIT-All*, the *FIT* Rules and *FIT* Guidelines; and (ii) the annulment of the *FIT* Rules and *FIT* Guidelines. The parties have been directed to submit their respective memoranda.

On April 30, 2014, the DOE issued a certification revising the installation target for solar from 50 MW to 500 MW, an additional capacity of 450 MW. In its certification, the DOE stated that “solar energy generation projects given their short installation period can greatly contribute in providing additional generating and reserve capacity in the summer seasons of 2015 and 2016”.

On January 28, 2015, the ERC conducted a public consultation on the increase of the installation target for solar renewable energy generation (additional 450 MW) and the *FIT* Rate for the additional solar capacity. In the said hearing, it was clarified that the additional 450 MW installation capacity for solar is already approved by the DOE. On April 28, 2015, the ERC issued a Decision dated March 27, 2015 setting the new solar *FIT* Rate at ₱8.69 per *kWh*, which shall apply prospectively.

On April 7, 2015, the DOE issued a certification revising the installation target for wind from 200 MW to 400 MW. On April 13, 2015, the ERC initiated the review of the *FIT* for wind technology. In a letter dated April 15, 2015, the ERC directed the NREB to submit a proposal regarding the review of *FIT* for wind technology beyond the original 200 MW installation target. The NREB proposed a Wind *FIT* of ₱8.49 per *kWh*. On July 30, 2015, the ERC conducted a public consultation on the new proposed Wind *FIT*. In a Decision dated October 6, 2015, the ERC set the Wind *FIT* at ₱7.40 per *kWh*. *MERALCO* filed a *MR* on the Decision. As at February 26, 2019, the *MR* is pending further action of the ERC.

On December 22, 2015, *TransCo* filed its Application for Approval of the *FIT-All* for calendar year 2016. In an Order dated February 16, 2016, the ERC provisionally approved a *FIT-All* of ₱0.1240 per *kWh* effective in the succeeding billing period after *TransCo* received the Order. The *FIT-All* was implemented starting April 2016 billing month. In a Decision dated May 9, 2017, the ERC approved the final *FIT-All* for calendar year 2016 of ₱0.1830 per *kWh* effective in the succeeding billing period after *TransCo* received the Decision. The final *FIT-All* rate was implemented starting June 2017 billing.

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.

On December 1, 2016, *TransCo* filed for an application with the ERC seeking to collect a *FIT-All* rate of ₱0.2291 per *kWh* for 2017. In a Decision docketed May 11, 2018, the ERC approved the final *FIT-All* for calendar year 2017 of ₱0.2563 per *kWh* effective in the succeeding billing period after *TransCo* received the Decision. The final *FIT-All* rate was implemented starting June 2018 billing.

On August 30, 2017, *TransCo* filed its Application for Approval of the *FIT-All* for calendar year 2018 seeking to collect a *FIT-All* rate of ₱0.2932 per *kWh*. The case has been submitted for decision of the ERC.

On July 27, 2018, *TransCo* filed its Application for Approval of the *FIT-All* for calendar year 2019 seeking to collect a *FIT-All* rate of ₱0.2780 per *kWh*, effective January 2019 billing. As at February 26, 2019, proceedings in the case are on going.

On November 23, 2018, the ERC issued an Order and Notice of Proposed Rule Making to review and re-adjust the Run-of-River (“ROR”) Hydro and Biomass *FIT* rates due to the extension by the DOE of the *FIT* eligibility of of ROR Hydro and Biomass for an additional 2 years, or from

January 1, 2018 up to December 31, 2019, or upon successful commissioning of the remaining balance of their respective installation targets, whichever comes first. The petition for rule making stemmed from the endorsement by the NREB of submissions from PhilHydro Associations, Inc. and Biomass Renewable Energy Alliance (“BREA”), which sought for the currently degressed *FIT* rates of ₱5.8705 per *kWh* for ROR Hydro and ₱6.5969 per *kWh* for Biomass. The public consultations by the ERC concluded last January 18, 2019 and parties await further action by the ERC.

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. 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.

Net Metering Program

The RE Act mandates the *DUs* to provide the mechanism for the “physical connection and commercial arrangements necessary to ensure the success of the *RE* programs”, specifically the Net Metering Program. The RE Act defines Net Metering as “a system, appropriate for distributed generation, in which a distribution grid user has a two-way connection to the grid and is only charged for his net electricity consumption and is credited for any overall contribution to the electricity grid”. By their nature, net metering installations will be small (less than 100 kW) and will likely be adopted by households and small business end-users of *DUs*.

After consultations with stakeholders, the ERC issued on July 3, 2013 its Resolution No. 09, Series of 2013, entitled, “A Resolution Adopting the Rules enabling the Net Metering Program for Renewable Energy”. The Rules will govern the *DUs*’ implementation of the Net Metering Program. Included in the Rules are the interconnection standards that shall provide technical guidance to address engineering, electric system reliability, and safety concerns for net metering interconnections. The final pricing methodology, however, will be addressed in another set of rules and will be endorsed to the ERC in due course. In the meantime, the *DUs*’ blended generation cost equivalent to the generation charge, shall be used as the preliminary reference price in the net metering agreement. The Rules took effect on July 24, 2013. As at December 31, 2018, *MERALCO* has already installed 1,831 meters and energized 1,695 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” and DOE Circular No. DC2015-06-0003 “Providing the Interim Manner for Declaring Bilateral Contract Quantities in the Wholesale Electricity Spot Market and Directing the Philippine Electricity Market Corporation to Establish Necessary Protocols to Complement the Interruptible Load Program”.

As at December 31, 2018, there are 162 companies with a total committed de-loading capacity of 584 MW that have signed up with *MERALCO*, *MPower* and with other retail electricity suppliers as ILP participants.

Long-Term Indebtedness Application

On June 25, 2015, *MERALCO* filed an application, with prayer for provisional authority, for continuing authority to (a) issue bonds or other evidence of indebtedness for as long as it maintains 50:50 long-term debt to equity ratio; and (b) whenever necessary, to mortgage, pledge or encumber any of its property to any creditor in connection with its authority to issue bonds or any other evidence of long-term indebtedness. The hearing on the application was conducted on October 6, 2015. In an Order dated October 12, 2015, the ERC directed *MERALCO* to submit additional documents in support of its application which *MERALCO* complied with. However, due to changes in the financial climate which may affect the terms and conditions of any financial borrowings, *MERALCO* has filed a Motion to withdraw the application without prejudice to its refiling at a later date. In an Order dated March 22, 2016, the ERC granted *MERALCO*’s Motion to Withdraw but still required *MERALCO* to submit certain documents. *MERALCO* filed a Motion for Partial Reconsideration questioning the requirement which is pending before the ERC. As at February 26, 2019, the ERC has yet to resolve *MERALCO*’s Motion for Partial Reconsideration.

Prepaid Retail Electricity Service (“PRES”)

On December 12, 2014, *MERALCO* filed an application for authority to offer and provide PRES to its customers as well as the applicable rules to govern PRES. In a Decision dated April 27, 2015, the ERC approved the application with modification. As at December 31, 2018, there are 101,844 customers availing of PRES.

CSP for PSAs

As early as February 2013, the *ERC* posted the first draft of rules on *PSA* approval, solicited comments from stakeholders thereon and conducted various focused group discussions. Said draft required *DUs* to undergo *CSP* in their supply procurement, required a specific procedure for such and prescribed a *PSA* template.

Meanwhile, in October 2014, the *DOE* issued for comments its draft Circular on Demand Aggregation and Supply Auctioning Policy (“*DASAP*”). This was likewise subjected to public consultations.

In June 2015, *DOE* promulgated *DOE* Circular No. 2015-06-0008, “Providing Policies for Further Enhancement of the *WESM* Design and Operations”, prescribing *DUs* to procure all its uncontracted demand through *CSP*, through the participation of a third party and which may be done by *DUs* on an aggregated basis. The *DOE* Circular gave *DOE* and *ERC* 120 days to issue the necessary Implementing Guidelines (“*IG*”). Instead of issuing an *IG*, in a Joint Resolution dated October 20, 2015, it was agreed by *DOE* and the *ERC* that the latter shall be the one to issue the relevant *CSP* regulations. On the same date, the *ERC* promulgated Resolution No. 13, Series of 2015.

ERC Resolution No. 13, Series of 2015 included the following provisions:

- All *DUs* are required to undergo *CSP*. Pending the *ERC*’s issuance of a prescribed process, *DUs* may adopt any accepted form of *CSP*, provided that the terms of reference shall include, among others, the following – (a) contract capacity or energy volume, (b) generation source, (c) method of fuel procurement, (d) contract period, (e) tariff structure, (f) Philippine peso or foreign currency denominated payment, (g) penalties, (h) applicable transmission projects, and (i) other key parameters.
- A *CSP* is successful if there are at least two (2) qualified bids. Should there be at least two (2) failed bids, then a *DU* can proceed with direct negotiation.
- The *CSP* requirement shall apply to *PSAs* that although executed, have not yet been filed for approval before the *ERC*.

On March 15, 2016, the *ERC* released Resolution No. 1, Series of 2016 entitled, "A Resolution Clarifying the Effectivity of *ERC* Resolution No. 13, Series of 2015". In this new Resolution, the *ERC* clarified that after judicious study and due consideration of views raised by different industry stakeholders, it has resolved that:

- The effectivity of *ERC* Resolution No. 13, Series of 2015 is hereby restated to be April 30, 2016.
- On the other forms of *CSP* referred to in Section 2 of the *ERC* Resolution No. 13, Series of 2015, these should likewise comply with the minimum terms of reference and the requirement of at least two (2) qualified bids for the *CSP* to be considered successful.

In reference to *PSAs* with provisions allowing the automatic renewal or extension of their term, *PSAs* that were previously approved by the *ERC* or filed with the *ERC* before the effectivity of this Resolution may have one (1) automatic renewal or extension for a period not exceeding one (1) year from the end of their respective terms. Upon effectivity of this Resolution, automatic renewal clauses or extension of *PSAs* shall no longer be permitted.

On November 18, 2016, *MERALCO* received a copy of the Petition dated April 28, 2016 filed by a consumer group in the *SC* against the *ERC*, *DOE*, *MERALCO*, *Central Luzon Power*, *St. Raphael*, *PEDC*, *Mariveles Power*, *A1E*, *RP Energy* and the Philippine Competition Commission which sought to declare as void Resolution No. 1, Series of 2016 and to mandate the *ERC* to disapprove all *PSA* applications for failing to comply with the *CSP* requirement. In a Resolution dated November 16, 2016, the *SC* directed all parties to comment on the Petition. *MERALCO* has filed its comments to the Petition. In a Resolution dated June 17, 2017, the petitioners were directed to file their replies to the comments filed by respondents.

On February 9, 2018, the *DOE* published *DOE* Circular No. DC2018-02-0003, entitled, “Adopting and Prescribing the Policy for the Competitive Selection Process in the Procurement by Distribution Utilities of Power Supply Agreements for the Captive Market”. Upon effectivity of the Circular, all prospective *PSAs* in grid and off-grid areas shall be procured through *CSP*. The *CSP* under the Circular involves publication of invitation to bid, pre-bid conference, bid evaluation, and pre-/post-qualification of winning bidder. Exemption from *CSP* may be granted by the *DOE* in the following instances:

- i. Generation project owned by the *DU* funded by grant or donations
- ii. Negotiated procurement of emergency supply
- iii. Provision of supply in off-grid areas prior to the entry of New Power Providers
- iv. Provision of supply by *PSALM* through bilateral contracts for power produced from undisposed generating assets and *IPP* contracts sanctioned by *EPIRA*

PSAs that were granted exemption from *CSP* shall be implemented by the *DU* immediately without prejudice to the evaluation and final decision of the *ERC*.

The *DU*’s *CSP* may be managed by a Third Party Bids and Awards Committee (“*TPBAC*”) or a Third Party Administrator (“*TPA*”). Each *CSP* shall be completed within five (5) months from the time of the publication of the Invitation to Bid until submission of the *PSA* to the *ERC*.

Direct negotiations may be made by the *DUs* after at least two (2) failed *CSPs* and there is no outstanding dispute on the conducted *CSP*. A *CSP* is considered failed when during its conduct:

- 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

Within 60 days upon effectivity of the Circular, the *ERC* shall develop rules and procedures to: (i) support the Circular, including guidelines for *TPA* accreditation and a *PSA* template, and (ii) address disputes arising from the conduct of the *CSP*. On April 26, 2018, the *ERC* posted in its website the draft "Rules Governing the Execution, Review and Evaluation of Power Supply Agreements (“*PSA*”) Entered into by Distribution Utilities for the Supply of their Captive Market". *ERC* has conducted a public consultation and received comments thereon. On September 28, 2018, the *ERC* posted on its website the second draft of the said Rules. *ERC* has conducted another round of public consultations and received comments thereon. As at February 26, 2019, *MERALCO* is awaiting the rules and procedures to be promulgated by the *ERC*.

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 or they were covered or not during the relevant test periods. As at February 26, 2018, The *ERC* has yet to act on the Motion.

32. Event After the Financial Reporting Date

On February 26, 2019, the *BOD* of *MERALCO* approved the declaration of cash dividends of ₱10.59 a share to all shareholders of record as at March 22, 2019, payable on April 15, 2019.

Glossary of Terms

CONSUMER SATISFACTION INDEX (CSI)

is the weighted index that measures general and specific areas of customer satisfaction and priorities. Both satisfaction and level of importance by attribute are dictated by customers through an annual survey (bi-annual starting 2015). This survey is conducted among all customer segments: residential, commercial, industrial, local government units (LGUs), and national government offices.

CONTESTABLE CUSTOMER is an electricity end-user that belongs to the contestable market.

CONTESTABLE MARKET the electricity end-users who have a choice of a supplier of electricity as may be determined by the ERC in accordance with the EPIRA.

DISTRIBUTION CHARGE is the tariff component associated with the cost of developing, constructing, operating and maintaining the distribution system of Meralco, which delivers power from high voltage transmission grids to commercial and industrial establishments and residential end-users.

DISTRIBUTION SYSTEM refers to the system of wires and associated facilities of a franchised DU extending between: (a) the delivery points on the transmission or subtransmission system or generating plant connection and (b) the points of connection to the premises of end-users.

DISTRIBUTION UTILITY (DU) refers to any electric cooperative, private corporation, government-owned utility or existing local government unit which has an exclusive franchise to operate a distribution system in accordance with its franchise and the EPIRA.

ELECTRIC POWER GENERATION is the process of converting primary energy sources, e.g. fossil fuels (oil, natural gas and coal), flowing water, geothermal energy, solar and wind and radioactive (uranium) materials into electricity.

ELECTRIC POWER PLANT refers to facilities for producing electricity through electric power generation.

ELECTRIC POWER INDUSTRY REFORM ACT (EPIRA) OF 2001 or Republic Act No. 9136, which was signed into law on June 8, 2001 by Pres. Gloria Macapagal-Arroyo.

ELECTRIC POWER INDUSTRY

PARTICIPANT refers to any person or entity engaged in the generation, transmission, distribution or supply of electricity as defined in Chapter I, Section 4 (s) of the EPIRA.

ENERGY is the integral of the active power with respect to time, measured in watt- hour or multiples thereof. It is power derived from the utilization of physical or chemical resources, especially to provide light and heat or to work machines.

ENERGY REGULATORY COMMISSION (ERC) is the independent, quasi-judicial regulatory body that was created pursuant to Section 38 of the EPIRA.

FEED-IN-TARIFF (FIT) refers to a renewable energy policy that offers guaranteed payments on a fixed rate per kilowatthour for emerging renewable energy sources, applicable for a given period of time.

FEED-IN-TARIFF ALLOWANCE (FIT-All) is a uniform charge in peso per kWh (PhP/kWh) billed to all on-grid electricity consumers nationwide. The FIT-All charge forms part of a fund which is used to pay the FIT-eligible developers of renewable energy-based power plants (i.e. solar, wind, biomass, run-of-river hydro) for the energy they produce. For Meralco customers, the FIT-All charge appeared on their electricity bills starting February 2015, with the label iFIT-All (Renewable)l.

GENERATION CHARGE is the tariff component associated with the cost of Meralco's purchase of power from its suppliers ñ Independent Power Producers (IPPs), via Power Supply Agreements (PSAs) and the WESM.

GIGAWATT (GW) is the unit of electric power equal to 1,000,000,000 watts.

GIGAWATT HOUR (GWh) is the unit of electric energy equal to 1,000,000,000 watt-hours.

GRID is the high voltage backbone system of interconnected transmission lines, substations and related facilities, located in each of Luzon, Visayas and Mindanao, or as may be determined by the ERC in accordance with Section 45 (c) of the EPIRA.

INDEPENDENT POWER PRODUCER (IPP) is an existing power-generating entity not owned by the NPC.

KILOVOLT-AMPERE (kVA) is the practical unit of apparent power, equivalent to 1,000 volt-amperes.

KILOWATT (kW) is the unit of electric power equal to 1,000 watts.

KILOWATTHOUR (kWh) is the unit of energy equal to 1,000 watthours.

LOAD is the entity or electrical equipment that consumes or draws electrical energy.

LOAD FACTOR is the ratio of the total energy delivered during a given period to the product of the maximum demand and the number of hours during the same period.

LOCAL FRANCHISE TAX is levied by provinces and cities for businesses enjoying a franchise, and paid to such LGUs, in accordance with the provisions of Sections 15 and 137 of the Local Government Code (LGC). This is a pass-through charge for Meralco, paid and collected in accordance with the LGC and ERC Regulations.

LOCAL RES is the non-regulated business segment of the DU authorized by the ERC to supply electricity to contestable customers within the DU's franchise area only, or persons authorized by appropriate entities to supply within their respective economic zones. As local retail electricity supplier, the DU is not required to secure a supplier's license.

LUZON GRID is the high voltage backbone system of interconnected transmission lines, substations and related facilities located in the island of Luzon.

MAINTENANCE is any activity intended to keep equipment in satisfactory working condition including tests, measurements, replacements, adjustments and repairs that are either corrective or preventive in nature.

NATIONAL GRID CORPORATION OF THE PHILIPPINES (NGCP) is a privately-owned corporation which was awarded the concession to operate and maintain the Philippines' electricity transmission network. NGCP was granted a 50-year franchise under Republic Act No. 9511. As the system operator of the power grid, NGCP balances the demand and supply of electricity to efficiently serve all of its customers which are generators, private distribution utilities, electric cooperatives, government-owned utilities, ecozones, industries and directly connected companies.

NATIONAL POWER CORPORATION (NPC)

is the government-owned and controlled corporation created under Republic Act No. 6395, as amended.

NATIONAL TRANSMISSION CORPORATION (TRANSCO) is a government-owned and controlled corporation created under Section 8 of the EPIRA to which NPC transferred its transmission and sub-transmission facilities.

NET METERING is a consumer-based incentive program which supports renewable energy (RE) initiatives. It covers electric power generated by an end-user from an eligible on-site RE system, for instance, facilities with solar panels. The end-user is credited for any electric energy exported to the DU. This system of distributed generation shall not exceed one hundred kilowatts (100 kW) in capacity as defined in R.A. 9513.

OPEN ACCESS refers to the system of allowing any qualified person the use of transmission and/or distribution system and associated facilities subject to the payment of transmission and/or distribution retail wheeling rates duly approved by the ERC.

PERFORMANCE-BASED REGULATION (PBR) is an internationally accepted rate- setting methodology adopted by the ERC, pursuant to Section 43 (f) of the EPIRA to replace the Return-on-Rate Base (RORB) or Cost-Plus regulation. PBR is a forward- looking framework that aims to ensure that capital and operating expenditures are efficiently undertaken to provide timely, reliable, adequate and affordable power by the distribution utility to consumers in its franchise area. PBR entails the use of incentive mechanisms that reward or penalize the utility for exceeding or falling short of the prescribed performance standards.

POWER is the average of the instantaneous power over one period of the electrical wave, measured in watts or multiples thereof.

POWER SECTOR ASSETS AND LIABILITIES MANAGEMENT CORPORATION (PSALM) is a government-owned and controlled corporation created under Section 49 of the EPIRA, which took ownership of all existing NPC generation assets, liabilities, IPP contracts, real estate and all other disposable assets.

RULES FOR SETTING DISTRIBUTION

WHEELING RATES (RDWR) is a price cap variation of the PBR as adopted by the ERC for private distribution utilities. This is an update of the Distribution Wheeling Rates Guidelines (DWRG) considering specific entry points among private distribution utilities. RDWR includes a reward and penalty mechanism called the Performance Incentive Scheme (PIS), which includes the following: a) Price linked Incentive (S-factor) scheme which determines the rewards or penalties of DUs using a weighted performance measure, based on the performance levels achieved against a number of indices in the calendar year preceding each regulatory year; b) Guaranteed Service Level (GSL) scheme which provides customers guarantees regarding responsiveness and effectiveness of DUs. If GSLs are not met, predetermined penalties will be paid by distribution utilities directly to customers.

SYSTEM LOSS in a distribution system, is the difference between the electric energy input to the system and electric energy output from the system. It refers to technical and non- technical losses occurring in a distribution system during the conveyance of electricity to end-users.

SYSTEM LOSS CHARGE is the tariff component associated with the cost of technical and non-technical system losses. The maximum level of losses that may be recovered by private distribution utilities was set at 9.5% by Republic Act No. 7832 which was reduced to 8.5% starting 2010, as provided under ERC Resolution No.17, Series of 2008.

SYSTEM TROUBLES are multiple outages compromising the security and reliability of the transmission and/or distribution network.

TRAIN LAW TAX REFORM FOR ACCELERATION AND INCLUSION (TRAIN) LAW or Republic Act No. 10963 was promulgated on December 19, 2017 which amended certain provisions of the 1997 National Internal Revenue Code, including the base of Value Added Tax (VAT) and excise taxes. For power, the TRAIN Law re-imposed VAT on transmission costs and provided for a phased increase in the excise tax on certain fuels starting January 1, 2018.

TRANSITION SUPPLY CONTRACT (TSC) is a document, that contains the agreement between a generator and a distribution utility on the terms and conditions of the supply and purchase of energy including a corresponding schedule of applicable rates and consistent with Section 67 of the EPIRA.

TRANSMISSION CHARGE is the tariff component associated with: a) the cost of delivery of electricity from generators, usually located in other provinces or in remote areas outside the DU's franchise area, to the distribution system of the DU such as Meralco, and b) charges for ancillary services procured by the transmission service provider, which is the NGCP.

UNIVERSAL CHARGE is the tariff component associated with the charge imposed on all electricity end-users as determined, fixed and approved by the ERC, pursuant to Section 34 of the EPIRA. It is remitted to the PSALM. At present, this includes the stranded contract costs of NPC, stranded debts of NPC, missionary electrification, and environmental charges. Other possible components of the Universal Charge which are yet to be resolved by the ERC are: a) Stranded Contract Costs of Distribution Utilities, and b) Equalization of the taxes and royalties applied to indigenous or renewable sources of energy vis-à-vis imported fuels.

VALUE ADDED TAX (VAT) is a tax imposed on the value added in the generation, transmission, distribution, and retail supply of electricity. It is a form of indirect sales tax because the VAT at each of the stages mentioned is charged to the final consumer as part of the electricity price, with generation companies, NGCP. DUs and RESs acting merely as collecting agents.

WHOLESALE ELECTRICITY SPOT MARKET (WESM) is the market where trading of electricity is made and was established by the DOE pursuant to Section 30 of the EPIRA.

Awards and Recognitions

STEVIE AWARDS: 2018 INTERNATIONAL BUSINESS AWARDS (IBA)

	Award	Title of Entry
1	Gold	Power Ideas EV Talk & Tour: A Push for Green Agenda
2	Silver	115: Over a Century of Light and Life - Meralco and One Meralco Foundation 2017 Unified Annual Reports
3	Silver	Meralco: Empowering the Country with Nation-Building Communications
5	Silver	Meralco Electrification of Remote Island Schools
4	Silver	Office 365: The New Normal - Maximizing Productivity for Meralco's Digital Pivot
6	Silver	Meralco and Project Liwanag: Empowering Aeta Communities
7	Silver	Meralco Energy Education Program
8	Silver	Communications Team of the Year - Public Information Office
9	Bronze	Meralco Household Electrification Program
10	Bronze	Meralco Power Club Golf Invitational: A Tee-Off That Brought The Lights On
11	Bronze	The 7th Luminaries: Welcoming Our Brightest Future, Today
12	Bronze	Meralco Cybersecurity Education Program and Care-a-Van
13	Bronze	Meralco Technology and Innovation Summit (MTECH) 2017: Journey to Tomorrow
14	Bronze	Meralco Power Club: Powering Innovative Partnerships

16TH PHILIPPINE QUILL AWARDS

Company of the Year

Excellence Award 14

Merit Award 13

54TH ANVIL AWARDS

Gold Anvil 2

Silver Anvil 2

PR AWARDS ASIA

Finalist In-House PR Team of the Year

THE GOLD STANDARD AWARDS

Finalist In-House Team of the Year

ISO Certifications

CERTIFICATION OF ENVIRONMENTAL MANAGEMENT SYSTEMS

Certified Entities	Certification Standard	Date of Certification
<ul style="list-style-type: none">• Meralco Ortigas Center• Balintawak Sector• Valenzuela Sector• Plaridel Sector• Manila Sector• Rizal Sector• Pasig Sector• Parañaque Sector• Dasmariñas Sector• San Pablo Sector• Santa Rosa Sector• Sub-Transmission Services	ISO 14001:2015 Environmental Management System	April 26, 2019

CERTIFICATION OF OCCUPATIONAL HEALTH AND SAFETY MANAGEMENT SYSTEMS

Certified Entities	Certification Standard	Date of Certification
<ul style="list-style-type: none">• Meralco Ortigas Center• Balintawak Sector• Valenzuela Sector• Plaridel Sector• Manila Sector• Rizal Sector• Pasig Sector• Parañaque Sector• Dasmariñas Sector• San Pablo Sector• Santa Rosa Sector• Sub-Transmission Services	OHSAS 45001: 2018 Occupational Health and Safety Management System	April 26, 2019

CERTIFICATION OF QUALITY MANAGEMENT SYSTEMS

Certified Entities	Certification Standard	Date of Certification
<ul style="list-style-type: none">• Supply Chain Management• Procurement• Materials Management• Strategic Sourcing and Vendor Management• Supply Chain & Logistics Process & Standards	ISO 9001: 2015 Quality Management Systems	June 28, 2018



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The Meralco and One Meralco Foundation 2018 Unified Annual Reports and the Meralco 2018 Sustainability Report can be viewed and downloaded at the Meralco website, www.meralco.com.ph.

*Telephone numbers will be in effect until the official rollout of the National Telecommunications Commission (NTC) 8-Digit Migration Project.

COMMON STOCK

The Company's common stock is listed on the Philippine Stock Exchange (Ticker: MER). The declassification of the Company's common stock removed the Class "A" and Class "B" classifications effective September 3, 2007. The declassification does not entail a recall, a cancellation or a replacement of certificates previously issued. All existing stock certificates, whether Class "A" or Class "B", remain valid. Shares are available to foreign investors up to a maximum of 40 percent of the outstanding capital stock.

2018 MERALCO ANNUAL REPORT

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ABOUT THE PAPER

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**OUR COMMUNITY CHAMPION.
OUR MERALCO.**

2018 ANNUAL REPORT



48,930

FAMILIES DIRECTLY
BENEFITED FROM OUR VARIOUS
SOCIAL DEVELOPMENT
PROGRAMS



6,960

LOW-INCOME
HOUSEHOLDS
ENERGIZED



19

PUBLIC SCHOOLS
ENERGIZED



4,973

STUDENTS WITH IMPROVED
LEARNING EXPERIENCE
THROUGH SCHOOL
ELECTRIFICATION



682,942

STUDENTS BENEFITING
FROM THE USE OF
ENERGY ED FLASHCARDS



2,279

YOUTH DEVELOPMENT
PROGRAM
PARTICIPANTS



180

COMMUNITY RELATIONS
PROJECTS



10,596

FAMILIES BENEFITED FROM
RELIEF OPERATIONS



10,000

FAMILIES BENEFITED
FROM POWER
RESTORATION



P139.34 M

FUNDS UTILIZED FOR
VARIOUS PROGRAMS



2,955

MERALCO EMPLOYEE
VOLUNTEERS



26,667

VOLUNTEER HOURS



248

PARTNER
ORGANIZATIONS

ABOUT OUR REPORT

This report presents the 2018 accomplishments of One Meralco Foundation, Inc. with respect to its advocacy pillars namely Household Electrification, School Electrification, Energy Education, Youth Development, Emergency Preparedness and Disaster Response, Grassroots Partnerships, and Employee Volunteerism. As a responsible social development institution, we exercised utmost transparency in preparing this report, making sure that our benefactors and beneficiaries are provided clear and factual information about our accomplishments and financial performance in accordance with generally accepted accounting principles.

ABOUT OUR COVER

A circle of stakeholders lift up their hands in joy to express their appreciation of the many benefits provided by Meralco — household electrification, school electrification, energy education, youth development, grassroots partnerships, emergency preparedness and disaster response, and employee giving and volunteerism. A Meralco employee stands in their midst to represent the company's staunch commitment to be of service to its customers, stakeholders, and partners. It is what real champions do — serve unconditionally at all costs, at all times, and in all seasons. This is our Meralco. Our Community Champion.

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FROM OUR LEADERS

Year of the **Champions**

2018 was a champion year for One Meralco Foundation (OMF) especially for its flagship programs focused on electrification and energy education. Our household electrification program, which helps low income families in the Meralco franchise area gain access to electricity, breached the 40,000 mark — energizing a total of 40,809 households since the program was launched. This includes the 6,845 families connected to the grid, and the 115 Aeta homes in Capas, Tarlac energized through a solar microgrid project with Project Liwanag PH this year.

Another advocacy of the Foundation, school electrification, energized its 225th off-grid school in the province of Negros Oriental, with no less than Department of Education Secretary Leonor M. Briones gracing the occasion in October.

The seven-year old program provides an alternative source of electricity to off-grid public schools in some of the most challenging-to-reach mountain and island communities mostly located outside of Meralco's franchise area. The solar photovoltaic (PV) systems installed by OMF in these schools generate up to 1 kilowatt of electricity — enough to power three desktop computers, four standfans, five laptops, five printers, 30 LED lights, or a 230-watt sound system for an entire school day.

In 2018, we began switching to a more cost-efficient, compact, and easier to maintain PV system that is ideal for small to average-sized schools. The 19 schools we energized this year — six (6) in Luzon, nine (9) in the Visayas, and four (4) in Mindanao — are now using this newer, more efficient Lithium battery-based system.

Apart from powering up far-flung schools, OMF also endeavors to mould the Filipino youth to become responsible and sustainable energy consumers through energy education.

The program is geared towards building the capacity of teachers in integrating energy related issues and topics in the classroom. To achieve this, the Foundation engaged the expertise of the Coalition for Better Education (CBE) to develop training programs on energy that are focused on teachers. The first batch of 37 teachers trained by the program in 2015 developed the "Energy Ed" kit, a package of 200 flashcards which may be used to incorporate energy topics in various subjects of the K to 12 curriculum, from Grades 4 to 10.

By the end of 2018, close to 700,000 school children enrolled in 1,101 public schools nationwide are using these flashcards. Aside from day-to-day classroom discussions, some of the schools are using the cards as a diagnostic tool for new enrollees, and as teaching aide to make learning easier especially for students with cognitive developmental delay in special education classes.

To determine and measure the long-term effects of these core programs, OMF commissioned an impact assessment study of its school electrification program in 2017, and its household electrification program in 2018. Both were conducted by the University of the Philippines Research and Extension Services Foundation (UPPAF), an organization affiliated with the University of the Philippines National College of Public Administration (NCPAG).



OMF supports the community relations programs of Meralco's business units, subsidiaries, and associates so they, too, can become **champions of their respective communities.**

Meanwhile, CBE also conducted its own monitoring and assessment of the impact of the energy education program on both teachers trained and students using the “Energy Ed” flashcards.

Among the salient findings of these studies is that the majority of the families benefiting from the household electrification program are spending much less on their electric bill at present than when they were connected via sub-meter or were using an alternative energy source (e.g. kerosene, LPG, etc. for those totally without any kind of access to electricity previously).

Others have become entrepreneurs, setting up shops in their respective communities since electrification has allowed them to use desktop computers, washing machines, refrigerators, freezers, electric sewing machines and the like.

For the school electrification program, teachers reported an increase in their productivity since multimedia equipment may now be used as visual aides, allowing them to focus more on teaching rather than preparing instructional materials manually. They are also now able to encode students’ grades and monthly reports without having to travel long distances just to get to the nearest on-grid town where both electricity and the Internet are available. Electrification also opened doors for other institutions to donate appliances for school use.

Students, on the other hand, have become more enthusiastic as they are able to experience technology-aided learning. They have also demonstrated improved skills in research, creativity, and teamwork given the new learning experience in class.

Finally, teachers who used the Energy Ed flashcards in class reported that they noticed an increase in their students’ interest especially in Science, and their comprehension of complex energy concepts have greatly improved. Majority of them also found the cards to be compatible with the K to 12 curriculum, making these easy to integrate in any subject, not just in Science.

The results of these studies are presented in detail in a special section of this annual report (See page 22).

OMF also supports the community relations programs of Meralco’s business units, subsidiaries, and associates so they, too, can become champions of their respective communities. Its grassroots partnerships program unifies these CSR efforts and implements a cohesive strategy to achieve maximum impact.

In 2018, OMF and its partners within the Meralco organization implemented 180 community relations projects, among them is the landmark solar electrification of a fishermen’s shelter on Mavulis Island, a small island in the northernmost tip of the archipelago near the border between the Philippines and Taiwan. This joint project with the Armed Forces of the Philippines - Northern Luzon Command (NOLCOM) is set to be completed in May 2019.

We continue to invest in programs that promote the well-being of the Filipino youth and inspire them to reach greater heights.

One such program is our MVP Academic Achievement Awards (MVP AAA), an annual recognition of the academic performance of dependents of Meralco employees. In 2018, we awarded 210 students, 76 of whom were recognized as Top Achievers, having maintained their excellent standing in previous years.

Meralco’s employee clubs serve as conduits of the Foundation in reaching out to disadvantaged youths in the Meralco franchise area through sports activities such as volleyball and chess clinics and tournaments facilitated by the Meralco Power Spikers and the Meralco Chess Club, respectively.

The Foundation also supported various youth-oriented initiatives of our partners such as the Philippine Marine Corps’ “Football for Peace,” Ateneo de Davao’s “Mindanao Peace Games,” and the Cordillera Conservation Trust’s “Cordillera Mountain Marathon Ultra,” which also promotes sustainable tourism in the Cordilleras.

In times of adversity, One Meralco Foundation provides immediate relief to victims of calamities and provides an opportunity for Meralco’s engineers and linemen to render service beyond the call of duty through power restoration activities.

Over 10,000 families affected by fires, typhoons, floods, and other forms of disasters have benefited from OMF’s relief operations in 2018.

In the aftermath of Typhoon Ompong (International name: Mangkhut) in September, the Foundation sent two (2) power restoration teams to Aparri, Cagayan to help rehabilitate a vital section of the electric distribution network of the Cagayan Electric Cooperative II (CAGELCO II).

The project helped restore electricity service immediately to the homes of some 10,000 typhoon victims serviced by the said electric cooperative.

Behind the Foundation’s hard work in the communities are the real champions: Meralco’s employees who devote their time, treasure, and talent to help OMF carry out its mission of “spreading the light” to communities that need it the most.

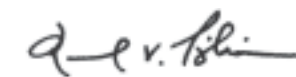
In 2018, we have engaged 2,955 employees in 31 volunteering activities that include greening initiatives, sports clinics, community outreach, disaster response, school and household electrification community launches, among others.

Meralco employees rendered 26,667 volunteer hours valued at PhP11.40 million, and raised PhP2.74 million worth of donations during two major campaigns: (1) “Power Pack: Back-to-School” campaign in July, and the (2) “Kita Kita Ngayong Pasko” campaign for the skills development of the visually impaired in December.

These accomplishments could not have been achieved without the support of our leaders and advocacy partners.

We recognize the guiding presence of our Board of Trustees and officers in providing the Foundation with a clear vision and enabling it to empower more community champions. We also pay gratitude to the hard work of our Foundation’s program management and operations team who, together with our partner organizations, ensured that our initiatives reach those who need assistance the most.

May our programs and partnerships continue to develop more champions in the communities we serve and contribute to a brighter and more productive Philippines.



Manuel V. Pangilinan
Chairman



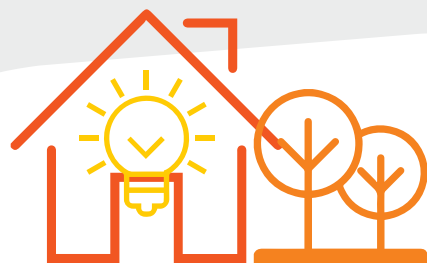
Oscar S. Reyes
Vice Chairman



Jeffrey O. Tarayao
President

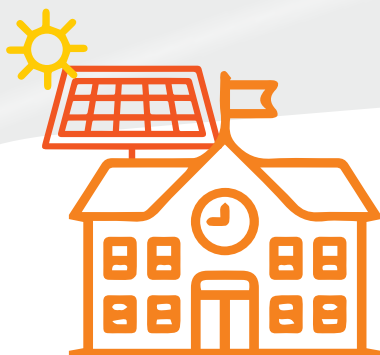
Our Programs

One Meralco Foundation’s programs are built upon the following advocacy pillars which were designed to address various social development needs through interventions that are aligned with the thrusts of Meralco’s energy-related businesses.



Provides assistance to low income families in the Meralco franchise area so that they can comply with the minimum requirements for electrification. It also serves indigenous peoples’ communities where solar photovoltaic technology is utilized.

HOUSEHOLD ELECTRIFICATION



Improves the learning experience of students in off-grid public schools by providing an alternative source of electricity (usually solar energy) and modern learning hardware such as laptop computers and multimedia equipment.

SCHOOL ELECTRIFICATION



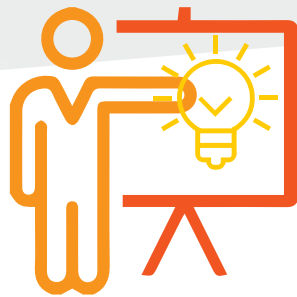
Working hand-in-hand with government, private, and non-government organizations to implement advocacies in grassroots communities.

GRASSROOTS PARTNERSHIPS



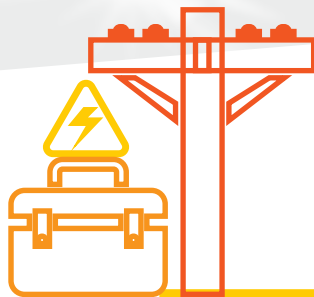
Extends Meralco’s corporate value of “malasakit” (compassion) to the Filipino youth through academic, sports, skills-building and talent-enhancing programs.

YOUTH DEVELOPMENT



Develops learning resources on energy and builds the capacity of educators to teach the subject to promote deeper understanding of energy and campaigns for its sustainable use.

ENERGY EDUCATION



Delivers immediate relief to calamity victims and helps electric cooperatives immediately restore power services in areas affected by disasters.

EMERGENCY PREPAREDNESS AND DISASTER RESPONSE



Opens opportunities for Meralco’s employees to give back to society by sharing their time, talent, and treasure through the Foundation’s various fundraising and volunteering campaigns.

EMPLOYEE GIVING AND VOLUNTEERISM

We champion the electrification of low income households in the Meralco franchise area, and of indigenous, off-grid communities.

6,845

TOTAL LOW INCOME
HOUSEHOLDS IN THE
MERALCO FRANCHISE
AREA ENERGIZED

115

AETA FAMILIES
BENEFITING FROM SOLAR
MICROGRID PROJECT



HOUSEHOLD ELECTRIFICATION

Despite Meralco's extensive efforts in expanding its electric distribution network and introducing innovative ways of interfacing with customers, a few families in its franchise area remain without access to electricity due to financial and legal constraints. Many of these are informal settlers or located in relocation sites. A few others are not as distant, but could not be energized due to right-of-way issues, among others.

One Meralco Foundation steps in by bringing together stakeholders in the community — homeowners' associations, local governments, Meralco's business centers, networks personnel, and certified contractors — to work out a solution to this electricity access gap.

In 2018, this initiative resulted in the electrification of 6,845 homes in the cities of Las Piñas, Malabon, Parañaque, Quezon, Taguig, Tagaytay, Manila, Caloocan, Mandaluyong, Pasig, Marikina, Makati, Valenzuela; and municipalities in the provinces of Laguna, Quezon, Bulacan, Rizal, and Cavite. Barangay 649 Zone 68 in Baseco Compound, Manila was the biggest community with 240 newly energized households.

By the end of the year, the number of families benefiting from the program since its inaugural reached more than 40,000.

Based on data gathered in the last eight (8) years, 94.4 percent of the families energized by the program have sustained their electrification to this day.

Outside of the Meralco franchise area, the Foundation supported the installation of a solar microgrid in Sitio Alunan, one of the largest off-grid Aeta settlements in Capas, Tarlac. The project was implemented in partnership with Project Liwanag PH, a group of millennials aspiring to make a difference in the lives of indigenous peoples. Over 100 homes, light posts and an elementary school are now drawing power from the said microgrid.



Residents of Villa Ilagan, a relocation site in Brgy. Muzon, San Jose del Monte, Bulacan are all smiles now that they have access to electricity through OMF's household electrification program. A total of 170 families benefited from the project in 2018.



Every electrification project culminates with a ceremonial lighting event attended by stakeholders — Meralco, One Meralco Foundation, local government units and the beneficiaries — emphasizing that the project is a shared responsibility.



Aeta elders inspect a solar photovoltaic (PV) system installed by OMF in their community in Capas, Tarlac in partnership with Project Liwanag PH and Meralco's Corporate Business Group (CBG).

We champion technology-aided education in the peripheries.

4,973

STUDENTS WITH IMPROVED
LEARNING EXPERIENCE
THROUGH SCHOOL
ELECTRIFICATION

225

SCHOOLS ENERGIZED
SINCE 2012

19

OFF-GRID SCHOOLS
ENERGIZED IN 2018



SCHOOL ELECTRIFICATION

In today's technology-dependent world, the link between electricity and education is becoming growingly more apparent. According to an energy policy study covering 120 countries¹, there is a strong correlation between electricity consumption per capita and academic performance of school children in the same community. The study adds that schools without electricity had the tendency to perform more poorly than those that are energized.

According to the Department of Education (DepEd), more than 5,000 public schools in the Philippines have no access to electricity,² of which 1,308 were considered off-grid. This affects some 1.1 million learners who are not able to use digital learning tools.

The Foundation's school electrification program was born out of this need. It seeks to address the digital divide by providing far-flung schools with an alternative source of power (such as solar). To date, OMF has equipped 225 public schools with up to 2-kilowatt peak solar photovoltaic (PV) systems to power classroom lights, electric fans, laptop computers, printers, and audio-visual equipment.

In 2018, the program energized 19 schools all over the Philippines (Luzon: 6, Visayas: 9, Mindanao: 4), benefiting 4,973 students and 153 teachers. These are located in Lanao del Norte, Masbate, Iloilo, Palawan, Negros Oriental, Tarlac, and Bulacan.

To help sustain the electrification of the OMF-energized schools in the Central Visayas and Caraga regions, the Foundation conducted refresher trainings on the proper operation and maintenance of the solar PV systems. Sixty three (63) teachers attended the two-day training sessions held in the cities of Cebu and Butuan.

During a community launch in Dumaguete City to celebrate the electrification of schools in Negros Oriental, DepEd Secretary Leonor M. Briones emphasized the importance of electricity in education, and the role of the private sector in improving the quality of education in the country.

"Technology changes or reforms even the production of teaching materials. We need electricity for that," she said. "Education is not the exclusive responsibility or mandate of the public sector. The Constitution is clear on this issue. It talks about the complementarity between the public and private sectors on matters related to education."



A teacher in Apo Island High School, Negros Oriental uses a laptop computer to teach Science to her Grade 7 students. Prior to electrification, she relied on traditional visual aides to teach complex lessons.



OMF conducted two refresher trainings on solar PV technology for teachers of energized schools to arm them with practical knowledge about the proper use and maintenance of the donated equipment. These were attended by 63 teachers from Regions 7 and 13.



Each school energized by the school electrification program also receives a multimedia package donated by Meralco employees through the Meralco Employees' Fund for Charity, Inc. (MEFCI). This helps teachers be more efficient and innovative, and allows students to gain first-hand experience with technology.

¹Makoto Kanagawa, Toshihiko Nakata, Assessment of access to electricity and the socio-economic impacts in rural areas of developing countries, Energy Policy 36 (2008) 2016-2029

²ABS-CBN News (2015), "DepEd: 1.1 M students go to schools without electricity," <https://news.abs-cbn.com/nation/metro-manila/08/01/15/deped-11-m-students-go-schools-without-electricity>

We champion efficient and sustainable energy use.

682,942
PUBLIC SCHOOL STUDENTS
USING ENERGY ED
FLASHCARDS

1,101
SCHOOLS ENGAGED
THROUGH THE
ENERGY ED PROGRAM

233
PUBLIC SCHOOLS IN THE
MERALCO FRANCHISE
AREA ASSESSED
FOR ELECTRICAL SAFETY



ENERGY EDUCATION

Outside of school electrification, the Foundation also contributes to education through programs that build the capacity of teachers and students, and help make schools safer and more conducive to learning.

The energy education program, also referred to as "Energy Ed," continues to train educators on innovative and engaging ways to teach energy-related topics in class. Its ultimate goal is to bring energy closer to the consciousness of students so they grow up mindful of its safe, efficient and sustainable use.

In partnership with the Coalition for Better Education (CBE), OMF developed the "Energy Ed," a learning resource kit containing 200 flashcards on energy and related topics. These cards complement the lessons in various subjects of the K to 12 curriculum from Grades 4 to 10.

By the end of 2018, a total of 1,101 Energy Ed kits have been distributed to 678 elementary, 396 high school, and 27 integrated schools, and are being used by 682,942 learners nationwide. These cards may be downloaded by teachers at www.energied.ph.

Safer schools in Meralco's franchise area

Each year, the Foundation supports the DepEd's annual school maintenance week, also known as "Brigada Eskwela." Its objective is to engage community stakeholders in preparing the schools for the opening of classes in June.

The Foundation contributes to this activity by sending Meralco employee-volunteers, mostly from the Company's business centers and sectors, to assess the safety of electrical installations in classroom and office buildings, and remove potential electrical hazards in and around the school premises.

OMF's campaign dubbed "Safe ang School Ko!" assessed 233 public schools in 2018.



Apart from being useful in teaching Science, the Energy Ed flashcards are also used by some public schools in assessing the level of knowledge of new entrants, and as therapy materials in special education classes since the colorful visuals make learners with special needs more attentive and focused.

In support of DepEd's "Brigada Eskwela," OMF deploys Meralco employee-volunteers to inspect electrical installations and assess the overall electrical safety of public schools in the Meralco franchise area.



We champion inclusive development in communities.

180

COMMUNITY RELATIONS
PROJECTS IMPLEMENTED

146

DESKTOP COMPUTERS
DONATED TO VARIOUS
GRASSROOTS INSTITUTIONS

GRASSROOTS PARTNERSHIPS

One Meralco Foundation supports the grassroots initiatives of organizations in their respective communities through various interventions designed and developed to address the beneficiaries' unique needs.

In many cases, these 180 projects implemented in 2018 are community relations efforts of Meralco's frontliners on the ground: business centers, network sectors, subsidiaries, and associates.

These include the solar electrification of a fishermen's shelter on Mavulis Island in Batanes, the northernmost isle in the Philippines, near its border with Taiwan. A joint project with the Armed Forces of the Philippines - Northern Luzon Command (NOLCOM), it aims to provide a temporary shelter for fisherfolks stranded at sea in the event of a typhoon, which is prevalent in the area.

Once up and running, the fishermen's shelter will be equipped with basic lighting, a small freezer to preserve their catch while on the island and radio communications equipment.

The Foundation also supported the social service activities of various local government units in the Meralco franchise area such as medical missions, education-related programs, community and sports programs, and relief operations.



Meralco and OMF Chairman Manuel V. Pangilinan and Armed Forces of the Philippines North Luzon Commander Major General Emmanuel Salamat led the signing of a Memorandum of Agreement for the solar electrification of a fishermen's shelter in the island of Mavulis, Batanes.



The PNP Traffic Enforcement Unit of Valenzuela City was among the recipients of computer units and printers donated by Meralco through One Meralco Foundation in 2018.



OMF facilitated MPower's donation of a classroom building to a public school in Sta. Rosa, Laguna.



Students of a remote school in Zambales receive solar-powered lamps donated by OMF through the Redondo Peninsula (RP) Energy, Inc.

We champion the well-being of future generations of Filipinos.

210

EMPLOYEE-DEPENDENTS
RECOGNIZED THROUGH THE
MVP ACADEMIC ACHIEVEMENT
AWARDS (MVP AAA)

2,279

ENGAGED IN VARIOUS
YOUTH DEVELOPMENT
PROGRAMS



YOUTH DEVELOPMENT

One Meralco Foundation implements programs that promote the well-being of the Filipino youth through education, sports, and talent development activities.

Within the Meralco organization, the MVP Academic Achievement Awards (MVP AAA) program recognizes the academic excellence of dependents (children or siblings) of rank-and-file and supervisory employees of the Company.

This year, the program recognized 210 dependents, 76 of which received recognition as Top Achievers, having maintained their exemplary performance the year before. Each received an educational assistance package and a medal of honor.

In partnership with interest clubs of Meralco employees, the Foundation implemented volleyball and chess clinics attended by 937 young athletes in Manila, Quezon City, and Batangas City.

The Foundation also supported the Cordillera Mountain Marathon Ultra of the Cordillera Conservation Trust (CCT), an annual racing event that promotes sustainable eco-tourism in the Cordilleras.

In Mindanao, OMF continued to support initiatives that promote peace through sports such as the "Football for Peace" program of the Philippine Marine Corps and the "Mindanao Peace Games" spearheaded by the Ateneo de Davao University. Both programs engaged a total of 857 young athletes and 50 coaches from all six regions in Mindanao.



(Clockwise from top-left) Meralco President and CEO Oscar S. Reyes congratulates an MVP Academic Achievement Awardee; Members of the Meralco Spikers teach volleyball to young athletes in Batangas City; about 200 children from conflict areas in the ARMM participate in the "Football for Peace" program; and a member of the Meralco Chess Club introduces the sport of chess to school children in a public school during one of the chess clinics in Metro Manila.

We champion resilience in vulnerable communities.

10,596

FAMILIES AFFECTED
BY DISASTERS
BENEFITED FROM
RELIEF OPERATIONS

10,000

FAMILIES OUTSIDE OF THE
FRANCHISE AREA BENEFITED
FROM POWER RESTORATION

DISASTER RESPONSE



In times of calamities, the Foundation responds to the needs of affected communities through relief operations and power restoration.

In 2018, OMF provided relief packages (easy-to-prepare food, hygiene kits, blankets, among others) to 10,596 families affected by both natural and human-caused disasters such as fires (4,291), typhoons and floods (5,730), the eruption of Mt. Mayon (375), and the continued relief and rehabilitation work after the Marawi armed conflict (200).

In the aftermath of Typhoon Ompong (International name: Mangkhut), the Foundation deployed Meralco's power restoration teams to Aparri, Cagayan to help the Cagayan Electric Cooperative (CAGELCO) II rehabilitate electrical facilities damaged by the typhoon. This has helped speed up the response and rehabilitation work in the province. Ten thousand households benefited from this initiative.



(Clockwise from top) Meralco linemen and engineers manually erect an electric pole along a countryside road in Aparri, Cagayan after Typhoon Ompong damaged distribution facilities of the Cagayan Electric Cooperative (CAGELCO) II; Employee-volunteers distribute relief goods to victims of typhoons and other calamities throughout the year; Members of the Meralco Power Restoration team in Aparri, Cagayan.

We create an environment
where **champions emerge**
and thrive.

2,955

EMPLOYEE-VOLUNTEERS
PARTICIPATED IN OMF'S
VARIOUS PROJECTS

26,667

VOLUNTEER HOURS DEVOTED
BY MERALCO EMPLOYEES TO
OMF'S PROGRAMS

EMPLOYEE VOLUNTEERISM

Meralco employees contribute to the advocacies of the Foundation by donating their time, talent, and treasure to its various social development programs.

Throughout the year, OMF engaged 2,955 employees in 31 volunteering activities such as tree planting, sports clinics, outreach, relief operations, power restoration, school and community electrification launches, among others.

Employee volunteers contributed a total of 26,667 volunteer hours and raised Php2.74 million for two (2) fundraising campaigns—the “Power Pack: Back-to-School” campaign in July, and the “Kita Kita Ngayong Pasko” campaign in December.

Over 900 Meralco employees participated in a month-long distribution of back-to-school meal box sets to 6,382 school children in 63 public schools in the Meralco franchise area.

At the start of the Christmas season, OMF launched a campaign to raise funds for the digital literacy and skills development training of visually impaired persons. The “Kita Kita Ngayong Pasko” campaign raised a total of Php2.2 million from employees and corporate partners. These will benefit more than 150 visually impaired persons, and provide training on adaptive technology to about a hundred public school teachers nationwide.

OMF employees also donate multimedia packages to schools energized by the school electrification program through the Meralco Employees’ Fund for Charity, Inc. (MEFCI), a giving institution within Meralco.



In 2018, over 2,000 Meralco employees participated in various activities of the Foundation such as (clockwise from top-left) the “Brigada Eskwela,” “Power Pack” back-to-school distribution of meal box kits to thousands of public schools students; “Kita Kita Ngayong Pasko” campaign benefiting visually impaired persons; and greening initiatives in the Meralco franchise area.



We're focused on impact.



In measuring the performance of its social development programs, One Meralco Foundation takes note not only of the year-on-year qualitative or quantitative metrics but also on the overall impact — the short- and long-term effects of the intervention on the lives of their intended beneficiaries.

Each year, OMF measures and reports key performance indicators especially of its core energy-focused programs namely household electrification, school electrification, and energy education programs. These advocacy pillars comprise more than 50 percent of the annual social investment of the Foundation.

In 2017, six (6) years after it energized its six (6) pilot schools in Isla Verde, OMF commissioned an impact assessment study to look at how the school electrification program has improved the teaching/learning experiences of teachers and students in these far-flung schools. It wanted to find out how electricity (or the lack thereof) could impact the quality of education in these schools, and what other effects has the electrification produced outside of the expected results when the program was designed in 2011.

The U.P. Research and Extension Services Foundation (UPPAF), an organization affiliated with the National College of Public Administration and Governance (NCPAG) of the University of the Philippines, conducted the study in nine (9) beneficiary-schools spread out across the country: Batangas (2), Rizal (3), Cebu (1), Southern Leyte (1), and South Cotabato (2). These were the earliest recipients of OMF's solar photovoltaic (PV) systems in their respective DepEd regions in the Meralco franchise area, Luzon, Visayas, and Mindanao.

Last year, the same institution conducted an impact assessment of OMF's other flagship electrification program: household electrification. The objective

of the study was to find out, among other things, whether the electrification has resulted in cost savings for the beneficiaries, increased their productivity and income (due to entrepreneurship or other means), improved the quality and safety of electric service, and whether they were able to sustain their electrification.

Lastly, energy education, a follow-up initiative of the school electrification program and the latest addition to OMF's core group of advocacies has reached its 1,000th beneficiary school in 2018, three years after its introduction in 2015. The Foundation saw this as an opportunity to get a sample of how the program could impact education when it rolls out on a much wider scale in the years to come.



A teacher in Apo Island High School, Negros Oriental uses OMF's Energy Ed flashcards in her Science class. The cards were designed to be used also in other subjects of the K to 12 curriculum.

After electrification, teachers became more innovative in the way they taught their subjects. It allowed teachers to make use of slideshows and audio-visual presentations to explain complex topics especially in Science.

The Coalition for Better Education (CBE), a Cebu-based non-profit organization which develops and implements capacity building programs for teachers, conducted in 2018 its monitoring and evaluation of the program's impact. CBE is OMF's partner in implementing the program.

SCHOOL ELECTRIFICATION

Overview

OMF launched the school electrification in 2012 to help the Department of Education (DepEd) address the lack of electricity access in more than 5,000 public schools across the country then.

Since the majority of these are located in off-grid communities — mountains and island villages not reached by power distribution facilities — the Foundation had to consider alternative sources of electricity with a strong emphasis on renewables.

After reviewing the available renewable energy options, it became clear that solar photovoltaic (PV) system was the most viable solution since not all communities have ample amount of wind or at least a micro-hydro power source.

OMF set a criteria in prioritizing schools for electrification. This includes student population, the distance between the school and the last energized community (priority is given to schools farther from the last electrical pole), among others.

Once candidate schools are determined, the Foundation makes an on-site assessment of each of the schools to determine the viability of a solar PV installation (e.g. solar coverage, sturdiness of school buildings), the cost of installation and maintenance, the preparedness of the school community to operate the equipment and cover for its maintenance, the security situation in the community (e.g. incidence of theft, violence), among others.

As a courtesy to the electric company or cooperative operating where the schools are located, OMF seeks their explicit approval prior to the installation of solar PV equipment. Without their approval, the Foundation could not consider the electrification of schools in their area.

OMF then installs the solar PV systems in the schools that pass the criteria. Depending on factors such as student population and number of classrooms, the installed capacity could be between 500 watts and 2 kilowatts.

Each of the schools also receives a multimedia package consisting of a laptop computer, a printer-scanner-photocopier machine, and an LED TV. In the earlier years of the program, schools were also provided with a DVD player. This was no longer included beginning in 2015 since newer LED TVs are already equipped with USB ports making audio and video content easily playable directly on the TV.

OMF hopes that by providing these modern tools of learning, the schools can maximize the use of their newly found energy source.

The study captured data and insights on the use of both the solar PV systems and multimedia packages, and their impact on teaching/learning experience.

Impact Study

For the study, UPPAF employed key informant interviews (KII) and focus group discussions (FGD) with 140 teachers, school heads, student leaders and parents in the nine (9) schools sampled namely, Parang Cueva Elementary School and San Agustin Kanluran Elementary School (Isla Verde, Batangas); Cayabu Elementary School, Cayabu High School and Tinucan Elementary School (Tanay, Rizal); Doong Island National High School (Bantayan Island, Cebu); Limasawa National High School (Limasawa Island, Leyte); and Lubol Integrated School and Kibang National High School (Surallah, South Cotabato).

The researchers also obtained secondary data on school performance to validate the results of the qualitative data obtained from the KIIs and FGDs.

Results

a. Teaching Innovation

After electrification, teachers became more innovative in the way they taught their subjects. It allowed teachers to make use of slideshows and audio-visual presentations to explain complex topics especially in Science.

"In our Science class, I show a video about our lesson first and follow it up with a lecture. My students retain what they have learned better this way," shared a teacher during one of the FGDs.

An ICT teacher also shared that he is now able to teach with the aid of a computer as opposed to just showing photos of computers and its parts in the past. Students fully appreciate the benefit of technology because they are able to experience it first-hand.

Some teachers also use multimedia tools to keep their students focused on the topic at hand.

"Before, they get bored easily. Today, we use TV as a visual aide and they become more attentive," she said.

Even those teachers with very limited experience with technology learn from their peers about basic word processing and PowerPoint presenting skills.

"Not all teachers are computer literate, so their fellow teachers teach them. Gradually, they develop the skill, too," said another teacher.

b. Improved Student Performance

The benefits of having electricity at school are felt more so by the students.



"I like it better now because pictures are clearer. The videos make it easier for me to understand the lessons," shared one student participant in the vernacular.

Mangyan school children in the mountain village of Sitio Waring, Bulalacao, Oriental Mindoro are now able to learn using modern tools like laptop computers. Electrification makes technology-aided learning possible in remote schools.

Consistent with the K to 12 curriculum's goal of developing a learner-centered educational environment, students report being now able to come up with their own slideshows and present them in class. In contrast, prior to electrification, the preparation of instructional materials and the task of doing "lectures" are the sole domain of teachers; students were simply passive recipients of the information. In the past, education was a one-way stream — something that is not in accord with 21st Century learning.

Although the study did not obtain enough data to accurately determine the correlation between students' grades in the National Achievement Test (NAT) with electrification (if any), the qualitative data obtained from interviews with teachers attest to the increase in students' interest and level of participation in class after the intervention.

The availability of electricity — specifically classroom lighting — has also allowed students to remain in school after class hours to work on projects and review for upcoming examinations.

c. Learning Continuity

Without power, holding classes during the monsoon season and towards summer is usually a tough challenge. Many classrooms are poorly ventilated making it hard especially for students in island communities to focus because the high humidity makes the temperature inside the classroom to soar. It is not unusual for some to hold classes outside instead, in the shade of a tree.

During rainy months, available natural light is usually not enough to make classrooms conducive to learning. Reading notes from the chalkboard and even from books could be straining.

But thanks to electrification, classrooms may now be installed with electric fans and lights.

"Now that we have lights, we can continue holding classes even when it rains," said one FGD participant.

Digitalization of student records, grades, and reports also made documentation work more efficient for school officials, and keeping redundancies of important documents and records is also now possible.

d. Improvement in School Safety

Some of the respondents observed a decrease in the incidence of theft and vandalism in their schools and attribute this change to electrification. Perimeter lighting deters burglars from attempting to break into school buildings, and allows neighboring residents and village officials to easily respond to any emergency situation during the night.

Teachers also feel more secure at night when duty calls them to stay beyond office hours.

e. Partnership/Sponsorship Opportunities

Among the unexpected but very encouraging results of the study is that electrification opened opportunities for more donations to come in, especially during the school maintenance week also known as "Brigada Eskwela."

Because they now have electricity, schools have become eligible to avail of donations like digital learning equipment, electrical tools for technical-vocational training for senior high schools, computers, among others.

HOUSEHOLD ELECTRIFICATION

Overview

The household electrification program was introduced to help energize the homes of low income families in the Meralco franchise. These are mostly informal settlers and relocatees who are unable to obtain access to Meralco's service due to financial, documentary, and other constraints.

There are several steps that one must follow and requirements that need to be fulfilled before one can apply for a regular electricity service from Meralco or any electric company/cooperative operating in the Philippines. These requirements are mostly required by the government to ensure a safe, reliable, and organized way of delivering electric service from the distributor to the customer.

The applicant must prove ownership of the property to be energized, secure a wiring permit from the local government, engage the services of a licensed electrician to properly install electrical wiring and peripheral components in the structure to be energized, apply for a Certificate of Final Electrical Inspection (CFEI) which is issued by the local government to ensure that the electrical installations are in accordance with electrical safety standards, among others.

Fulfilling these requirements is usually easy for most applicants, and in the case of Meralco, applying for an electricity service may be accomplished in a week's time or sooner.

However, for families living below the poverty line, obtaining these documents and covering the cost for household wiring, permits, and service deposit could be very challenging. Depending on where they live, the cost of obtaining permits could push them farther away from their electric dreams.

This is why One Meralco Foundation stepped in with its flagship household electrification advocacy in 2011. The program brings together One Meralco Foundation, Meralco, contractors certified by Meralco, local government units and the beneficiaries themselves (represented by their homeowners' association leaders) to work out solutions that would greatly reduce the cost on the side of the beneficiaries, expedite the application process and, in some cases, waive or offer discounts on certain fees.

Since the program was designed to be a multi-stakeholder partnership, everyone contributes to the electrification of the entire community.

Since then, more than 40,000 families in previously unserved communities have been connected to the grid.

Based on Meralco's data, about 94 percent of them have sustained their electrification — meaning, they are still enjoying the benefits of having electricity in their homes today.

Impact Study

Three (3) communities energized by the program were studied by UPPAF to determine whether the program has accomplished its intended impacts, and find out what other unintended benefits were enjoyed by the beneficiaries as a direct or indirect result of the intervention.



These are Kasiglahan sa Creekside Association (KACSA) in Barangay San Isidro, Rodriguez, Rizal; Sitio Alateris in Barangay Merville, Paranaque City; and Barangay Guisguis-San Roque in Sariaya, Quezon.

Now that he has access to electricity, with the help of One Meralco Foundation, this entrepreneur from the Kasiglahan sa Creekside community in Rizal has increased his income by opening the first computer and Internet shop in the said community.

A total of 273 respondents from the said communities were surveyed to solicit data about their experience before and after their electrification, any change in lifestyle, livelihood, and education.

Results

Researchers found out that multiple factors determine the cost of electrification. Among these is the location of the houses in relation to the nearest electrical facility. Local governments also play a vital role in reducing the cost of extending electrical facilities and waiving the cost of permits and other fees.

a. Ease of Application

Almost all respondents (97 percent) affirmed that the application process, including the preparation of documentary requirements, were relatively easy and that the application fee they paid was affordable (93 percent).

Electrification also impacts the livelihood of beneficiaries. About 20 percent of respondents were able to work from home after work hours. Around 42 percent owned micro-businesses, of which 57 percent were established after their electrification.

b. Affordability of Monthly Fees

Majority (79 percent) of the respondents did have indirect access to electricity (via sub-meter) prior to their enrolment in OMF's program, while 18 percent used alternative energy sources such as kerosene (e.g. gas lamps). A few admitted to subscribing to 'jumper' connections for a fee.

On average, the respondents reported a PhP103.00 decrease in their spending on electricity (or alternatives) after the electrification program. Majority of those who reported that their electrification resulted in savings said they used the money on food and the education of their children, instead.

c. Reliability of Service

Most of the respondents (97 percent) said the reliability of electricity supply has improved after their direct connection to Meralco's distribution facilities. Ninety-nine percent said they were happy with the quality of electricity flowing into their homes after the program.

d. Convenient Payment Schemes

What's even encouraging is that 88 percent of respondents said they were able to pay their monthly electric bills, largely driven by the variety of payment options and ubiquity of payment centers.

e. Overall Safety

The program, according to the study, also had a positive impact on the overall safety of communities. Prior to their electrification, 32 respondents reported frequent electricity-related accidents, as opposed to only two of them reporting the same after. Among the common accidents were short-circuiting and sparks caused by overloading of extension wires.

f. Improvement in Lifestyle

Ninety-two percent admitted to buying new appliances after their electrification. This was supported by data that showed a noticeable increase in the number of appliances the respondents owned after their enrolment in the program.

Apart from an improved lifestyle, 95 percent of respondents also claimed that they are more knowledgeable about current events due to their increase media consumption (TV, radio, and internet).

g. Increased Productivity

Electrification also impacts the livelihood of beneficiaries. About 20 percent of respondents were able to work from home after work hours (95 percent of them said their work required electricity).

Around 42 percent owned micro-businesses, of which 57 percent were established after their electrification.

h. Enhancement in Education of Children

Lastly, the program extends its effects on to the education of school children in benefiting communities. Ninety-nine of respondents agreed that electricity access is vital to education. Among respondents who have children attending school, 206 out of 208 said their children are able to study during the night. Ninety-five percent also said that their children are able to use laptop computers and other electronic gadgets in their studies.

ENERGY EDUCATION

Overview

The energy education program is a follow-up initiative of the school electrification program. It seeks to develop materials on energy and related topics that teachers could use to bring

issues about energy (safe, efficient, and sustainable consumption) closer to the consciousness of the Filipino youth. The program also strives to build the capacity of teachers in teaching energy. This is achieved through training programs and "Energy Camps" developed and implemented by the Coalition for Better Education (CBE).

To kick-off the program, the Foundation assembled a team of 37 select public school teachers from all over the Philippines in its first "Energy Camp" where they pooled their expertise in various subjects to produce the "Energy Ed" kit, a 200-piece flashcard package which may be used by educators in teaching energy topics from Grade 4 to 10.

A total of 2,000 kits were produced out of this initiative: 1,000 for elementary schools and the remaining half for high schools. The contents of the kit were developed and designed to complement the then newly introduced K to 12 curriculum of the Department of Education.

By the end of 2018, more than 1,000 of these kits were distributed to 678 elementary schools, 396 high schools and 27 integrated schools benefiting some 680,000 students nationwide.

Impact Study

OMF's implementing partner for the program, CBE, conducted a mid-term evaluation in 2018 covering 29 areas nationwide. The schools of the first batch of energy campers were among the participants of the study since these were the first beneficiaries of the program.

The study sought to measure the effectiveness of the energy flashcards as a learning tool and how it impacted student learning and teaching styles.

A combination of quantitative and qualitative methods were employed in the study, and data was derived through surveys and focus group discussions with respondents.



Results

Results showed that the flashcards exceptionally meet the standards and minimum requirements of a learning resource material in terms of content, design, and layout. Respondents found the topics to be simple and straightforward, the instructions clear and easy to follow, and the images eye-catching and consistent with the content.

While the kits were often used in Science and English classes, the interdisciplinary characteristic of the cards, however, allowed teachers to integrate them in other subjects.

Teachers also reported that their students became more attentive, participative, and collaborative whenever the flashcards are used in class. The teachers, themselves, became more creative in their instruction and some have devised teaching innovations based on topics and activities in the flashcards.

In several schools, the Energy Ed flashcards were used as a diagnostic tool to determine students' level of reading comprehension. Some also used them for remedial and/or advanced sessions for both students in the mainstream and SPED classes.

The Energy Ed flashcards are ideal alternative learning materials in informal education situations such as during armed conflicts and natural disasters.

Download the full impact assessment reports at www.onemeralcofoundation.org

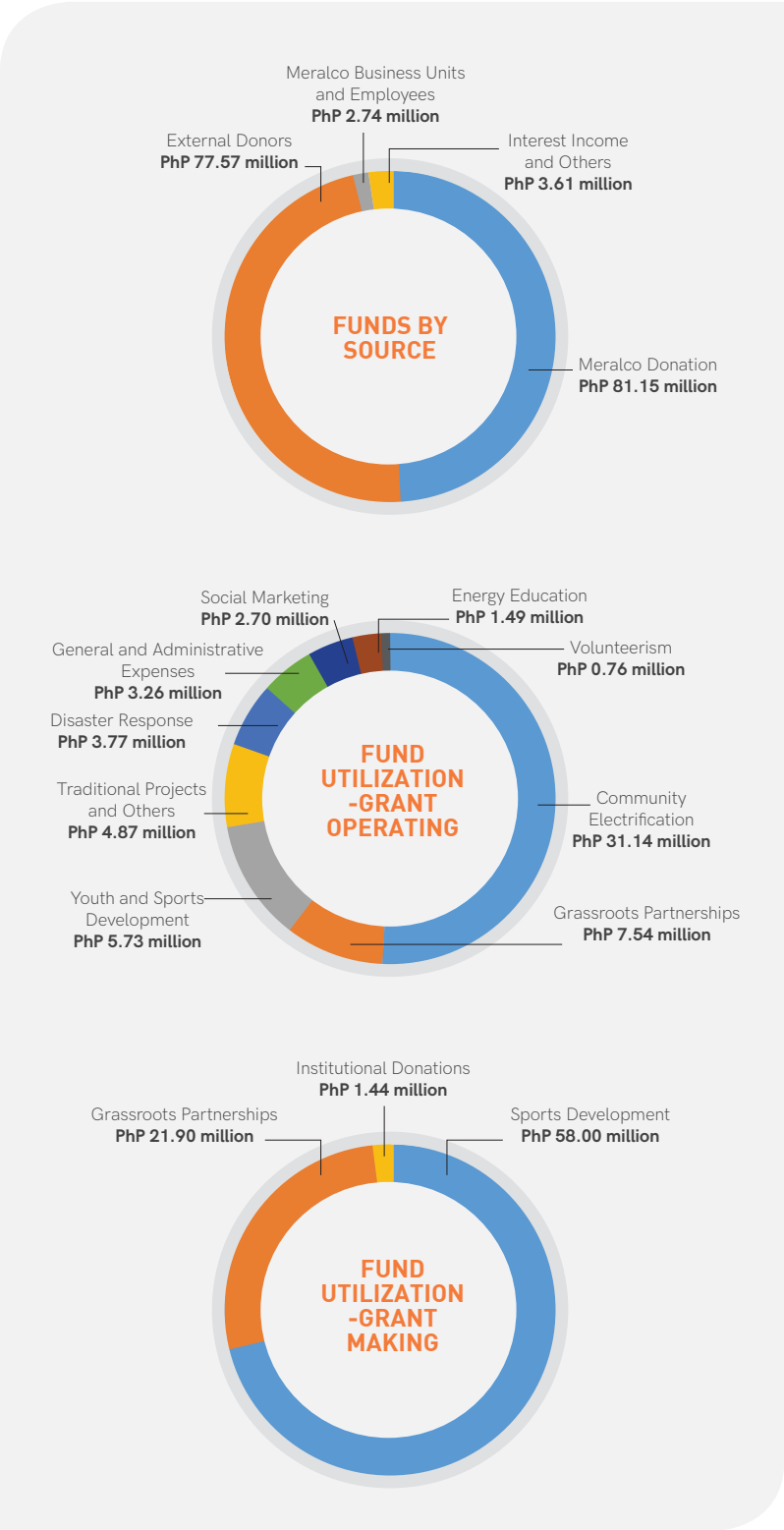
2018 Financial Review

Over the years, we ensured that the Foundation's operations are managed responsibly and meet the highest standards of governance and transparency.

We maintained our commitment to results-oriented management.

Below are the highlights of the Foundation's financial performance for the year ended December 31, 2018:

- Donations from organizations outside of Meralco account for 48 percent of the total funds received.
- PhP2.74 million was raised from Meralco employees through the Foundation's fundraising campaigns such as the "Power Pack" back-to-school campaign in June, and the "Kita Kita Ngayong Pasko" campaign in December.
- 98 percent of OMF's total expenses were spent on the implementation of social development programs, 56 percent of which (PhP 32.63 million) were spent on its core advocacy, community electrification.
- General and administrative expenses were maintained at a low 2 percent of both the total donations received and total expenses incurred. This is lower than the 30- and 20-percent caps set by the Philippine Council for NGO Certification (PCNC), and the Department of Social Welfare and Development (DSWD).



Recognition from the Community

We at One Meralco Foundation are both humbled and inspired by the following recognitions we have received from reputable award-giving organizations in the country and abroad. These further fuel our desire to continue championing causes that uplift the lives of the communities we serve.

- | | |
|---|--|
| Award of Excellence
"Energy Education Program"
IABC Philippines - Philippine Quill Awards | Silver Anvil
"Laging Handa: The One Meralco Back-to-School"
PRSP Anvil Awards |
| Award of Excellence
"Laging Handa: The One Meralco Back-to-School Program"
IABC Philippines - Philippine Quill Awards | Silver Anvil
"Relocates and Informal Settlers' Electrification Program"
PRSP Anvil Awards |
| Award of Excellence
"School Electrification"
IABC Philippines - Philippine Quill Awards | Silver Anvil
"MVP Academic Achievement Awards"
PRSP Anvil Awards |
| Award of Excellence
"One Meralco Foundation and Project Liwanag: Empowering the Indigenous"
IABC Philippines - Philippine Quill Awards | Silver Award
"Meralco Electrification of Remote Island Schools"
International Business Awards (Stevie Awards) |
| Gold Anvil
"Football for Peace"
PRSP Anvil Awards | Silver Award
"Meralco and Project Liwanag: Empowering Aeta Communities"
International Business Awards (Stevie Awards) |
| Gold Anvil
"MVP Academic Achievement Awards"
PRSP Anvil Awards | Silver Award
"Meralco Energy Education Program"
International Business Awards (Stevie Awards) |
| Silver Anvil
"School Electrification Program"
PRSP Anvil Awards | Bronze Award
"Meralco Household Electrification Program"
International Business Awards (Stevie Awards) |



Board of Trustees



Vice Chairman
OSCAR S. REYES
President and Chief Executive Officer, Meralco



Chairman
MANUEL V. PANGILINAN
Chairman, Meralco



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JEFFREY O. TARAYAO
*Chief Corporate Social Responsibility Officer,
Meralco*



Trustee
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Communications, Meralco*



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Trustee
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*President, Clark Electric Distribution
Corporation*



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Executive Director, Caritas Manila



Independent Trustee
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*Professor Emeritus,
Virata School of Business
University of the Philippines*

One Meralco Foundation Team



JEFFREY O. TARAYAO
President



ATTY. MARIA ZARAH R. VILLANUEVA-CASTRO
Corporate Secretary



ANNA MARIE C. LERMA
Treasurer



RAINIER R. MANGUIAT
Program Manager,
School Electrification

RAYMOND A. BUENAVENTURA
Administrative Assistant

NICOLO M. PLANA
Program Manager,
Social Media

MARY ANN E. ORBETA
Finance Manager

NEIL CELESTE T. RARA
Program Manager,
Social Marketing and Communications

GRACE G. NOCHE
Program Manager, Governance and
Foundation Operations

MICHAEL J. DEL ROSARIO
Program Manager,
Household Electrification

RHEA F. ILIGAN
Administrative Officer

JEFFREY O. TARAYAO
President

RONALD B. APOLONIO
Project Assistant

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

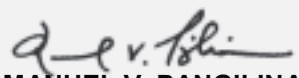
The management of One Meralco Foundation, Inc. (the "Foundation") (a non-stock, non-profit organization) is responsible for the preparation and fair presentation of the financial statements for the years ended December 31, 2018 and 2017, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Foundation'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 Foundation or to cease operations, or has no realistic alternative but to do so.

The Board of Trustees is responsible for overseeing the Foundation's financial reporting process.

The Board of Trustees reviews and approves the financial statements, and submits the same to the members.

R.G. Manabat & Co., the independent auditors appointed by the members, has audited the financial statements of the Foundation in accordance with Philippine Standards on Auditing, and in its report to the members, has expressed its opinion on the fairness of presentation upon completion of such audit.


MANUEL V. PANGILINAN
Chairman of the Board


JEFFREY O. TARAYAO
President


ANNA MARIE C. LERMA
Treasurer

Signed this 20th day of March, 2019

REPORT OF INDEPENDENT AUDITORS



R.G. Manabat & Co.
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Philippines 1226

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The Board of Trustees
One Meralco Foundation, Inc.
G/F Lopez Building, Meralco Center
Ortigas Avenue, Brgy. Ugong
Pasig City

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of One Meralco Foundation, Inc. (the "Foundation"), which comprise the statements of assets, liabilities and fund balances as at December 31, 2018 and 2017, and the statements of revenues and expenses, statements of changes in fund balances and statements of cash flows for the years then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the One Meralco Foundation, Inc. as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with the Philippine Financial Reporting Standard for Small and Medium-sized Entities (PFRS for SMEs).

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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Foundation 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 financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

In preparing the financial statements, management is responsible for assessing the Foundation'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 Foundation or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

Report on the Supplementary Information Required Under Revenue Regulations No. 15-2010 of the Bureau of Internal Revenue

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 16 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the financial statements. Such information is the responsibility of management. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

R.G. MANABAT & CO.



ENRICO E. BALUYUT

Partner

CPA License No. 065537

SEC Accreditation No. 1177-AR-2, Group A, valid until July 9, 2021

Tax Identification No. 131-029-752

BIR Accreditation No. 08-001987-26-2017

Issued September 4, 2017; valid until September 3, 2020

PTR No. MKT 7333609

Issued January 3, 2019 at Makati City

March 20, 2019

Makati City, Metro Manila

ONE MERALCO FOUNDATION, INC.
(A Non-stock, Non-profit Organization)

STATEMENTS OF ASSETS, LIABILITIES AND FUND BALANCES

		December 31	
	Note	2018	2017
ASSETS			
Current Assets			
Cash and cash equivalents	4, 5	P242,258,863	P218,300,592
Advances to program officers	6	228,452	218,481
Other current assets	4, 7	3,898,278	7,219,258
Total Current Assets		246,385,593	225,738,331
Noncurrent Assets			
Held-to-maturity investments	4, 8, 15	16,000,000	16,000,000
Property and equipment - net	9	727,161	365,759
Total Noncurrent Assets		16,727,161	16,365,759
		P263,112,754	P242,104,090
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable and accrued expenses	4, 10	P8,794,378	P10,262,121
Fund Balances	14	254,318,376	231,841,969
		P263,112,754	P242,104,090

See Notes to the Financial Statements.

ONE MERALCO FOUNDATION, INC.
(A Non-stock, Non-profit Organization)

STATEMENTS OF REVENUES AND EXPENSES

		Years Ended December 31	
	Note	2018	2017
REVENUES			
Donations and contributions	11, 15	P161,442,191	P202,116,465
Interest income	5, 8	3,540,150	2,378,345
Foreign exchange gain – net		92,509	6,865
		165,074,850	204,501,675
EXPENSES			
Program costs	12	139,336,956	179,932,506
General and administrative expenses	13	3,261,487	2,507,998
		142,598,443	182,440,504
EXCESS OF REVENUES OVER EXPENSES		P22,476,407	P22,061,171

See Notes to the Financial Statements.

ONE MERALCO FOUNDATION, INC.
(A Non-stock, Non-profit Organization)

STATEMENTS OF CHANGES IN FUND BALANCES FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	Note	Restricted Fund	General Fund	Corpus Fund	Total
Balance at January 1, 2017		P3,595,254	P72,223,786	P133,961,758	P209,780,798
Excess of revenues over expenses (expenses over revenues)		(1,988,844)	22,180,081	1,869,934	22,061,171
Balance at December 31, 2017		1,606,410	94,403,867	135,831,692	231,841,969
Reclassification of funds		-	(8,806,060)	8,806,060	-
Excess of revenues over expenses		1,941,134	18,045,596	2,489,677	22,476,407
Balance at December 31, 2018	14	P3,547,544	P103,643,403	P147,127,429	P254,318,376

See Notes to the Financial Statements.

STATEMENTS OF CASH FLOWS

		Years Ended December 31	
	Note	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Excess of revenues over expenses		P22,476,407	P22,061,171
Adjustments for:			
In-Kind donations to beneficiaries		3,688,114	6,511,385
Depreciation	9, 12	524,631	695,236
Unrealized foreign exchange gain		(92,509)	(6,865)
In-Kind donations received from donors		(1,096,826)	(6,499,385)
Interest income	5, 8	(3,540,150)	(2,378,345)
Excess of revenues over expenses before changes in working fund		21,959,667	20,383,197
Changes in operating assets and liabilities			
Decrease (increase) in:			
Advances to program officers		(9,971)	685,805
Other current assets		21,470	(171,080)
Increase (decrease) in accounts payable and accrued expenses		(1,467,743)	510,277
Net cash generated from operations		20,503,423	21,408,199
Interest received	5, 7, 8	3,362,339	2,211,774
Net cash provided by operating activities		23,865,762	23,619,973
CASH FLOWS FROM AN INVESTING ACTIVITY			
Additions to property and equipment	9	-	(42,840)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		92,509	6,865
NET INCREASE IN CASH AND CASH EQUIVALENTS		23,958,271	23,583,998
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	5	218,300,592	194,716,594
CASH AND CASH EQUIVALENTS AT END OF YEAR	5	P242,258,863	P218,300,592

See Notes to the Financial Statements.

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

One Meralco Foundation, Inc. (the "Foundation") was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on May 8, 2002 as a non-stock, non-profit organization. It is the corporate social responsibility (CSR) arm of Manila Electric Company (Meralco). The thrusts of the Foundation are: (i) community electrification; (ii) energy education; (iii) grassroots partnerships; (iv) youth and sports advocacy; (v) emergency preparedness and disaster response.

The Foundation is a registered donee institution duly qualified by the Philippine Council for NGO Certification (PCNC). The certification is valid for five (5) years up to March 30, 2022.

As a non-stock, non-profit organization, the Foundation is exempt from payment of income tax on income received by it pursuant to Section 30(G) of the Tax Code of 1997.

The registered office address of the Foundation is Lopez Building, Meralco Center, Ortigas Avenue, Brgy. Ugong, Pasig City.

2. Basis of Preparation

Statement of Compliance

The financial statements have been prepared in accordance with the Philippine Financial Reporting Standard for Small and Medium-sized Entities (PFRS for SMEs).

The financial statements of the Foundation were approved and authorized for issuance by its Board of Trustees (BOT) on March 20, 2019.

Basis of Measurement

The financial statements of the Foundation have been prepared using the historical cost basis of accounting.

Functional and Presentation Currency

The financial statements are presented in Philippine peso, which is the Foundation's functional and reporting currency. All financial information presented in Philippine peso has been rounded-off to the nearest peso, except when otherwise indicated.

Use of Judgments and Estimates

The preparation of the Foundation's financial statements in conformity with PFRS for SMEs requires management to make judgments, estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The estimates and assumptions used in preparing the financial statements are based on management's evaluation of relevant facts and circumstances as at the date of the financial statements. Actual results could differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in a period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is as follows:

Judgments

In the process of applying the Foundation's accounting policies, management has made the following judgments, apart from those involving estimations, which has the most significant effect on the financial statements.

Classification of Held-to-Maturity (HTM) Investments

The Foundation follows the guidance in Philippine Accounting Standard (PAS) 39, *Financial Instruments: Recognition and Measurement*, on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as HTM investments. This classification requires significant judgment. In making such judgment, the Foundation evaluates its intention and ability to hold such investments to maturity. If the Foundation fails to keep these investments to maturity other than for the specific circumstances, for example, selling more than an insignificant amount close to maturity, the entire portfolio shall be reclassified as available-for-sale (AFS) financial asset and would therefore be measured at fair value and not at amortized cost.

As at December 31, 2018 and 2017, the Foundation classified its investments in fixed notes amounting to P16,000,000 as HTM investments (see note 8).

Estimates

The key assumption concerning the future and other key source of estimation and uncertainty as at reporting date that has a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year is discussed below.

Estimating Impairment Loss on HTM Investments

The Foundation assesses at each reporting date whether there is any objective evidence that the HTM investments are impaired as a result of one or more loss events that has an impact on the estimated future cash flows of the investments. Determining the future cash flows requires the Foundation to make estimates and assumptions that can materially affect the financial statements. As at December 31, 2018 and 2017, the Foundation's HTM investments amounted to P16,000,000 (see Note 8). No impairment loss was recognized on the Foundation's HTM investments for the years ended December 31, 2018 and 2017.

3. Summary of Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements unless otherwise indicated.

Financial Instruments

The Foundation adopted the recognition and measurement provisions of PAS 39, *Financial Instruments: Recognition and Measurement* and the disclosure requirements of Sections 11 and 12 of the PFRS for SMEs to account for all its financial instruments.

Date of Recognition. The Foundation recognizes a financial asset or a financial liability in the statement of assets, liabilities and fund balances when it becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition is done using trade date accounting.

Initial and Subsequent Recognition of Financial Instruments. Financial instruments are recognized initially at the fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for those designated at fair value through profit or loss (FVPL), includes transaction costs.

Subsequent to initial recognition, the Foundation classifies its financial instruments in the following categories: financial assets and liabilities at FVPL, HTM investments, AFS financial assets, loans and receivables and other financial liabilities. The classification depends on the purpose for which the financial instruments are acquired and whether they are quoted in an active market. Management determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

As at December 31, 2018 and 2017, the Foundation has no financial assets and liabilities classified as "at FVPL" and AFS financial assets.

Loans and Receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments and maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as AFS financial assets or financial assets at FVPL. Subsequent to initial measurement, loans and receivables are carried at amortized cost using the effective interest method, less any impairment in value. Any interest earned on loans and receivables is recognized in the "Interest income" account in the statement of revenues and expenses on an accrual basis.

The Foundation's cash and cash equivalents and interest receivable are included in this category.

HTM Investments. HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Foundation's management has the positive intention and ability to hold to maturity. Where the Foundation sells other than an insignificant amount of HTM investments, the entire category would be tainted and classified as AFS investments. After initial measurement, these investments are measured at amortized cost using the effective interest method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in the statement of revenues and expenses when the HTM investments are derecognized or impaired, as well as through the amortization process.

The Foundation's investments in fixed rate bonds as at December 31, 2018 and 2017 are included under this category.

Other Financial Liabilities. This category pertains to financial liabilities that are not designated or classified as "at FVPL". After initial measurement, other financial liabilities are carried at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any premium or discount and any directly attributable transaction costs that are considered an integral part of the effective interest rate of the liability.

Included in this category are the Foundation's accounts payable and accrued expenses, excluding statutory liabilities.

Impairment of Financial Assets

The Foundation assesses at each reporting date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

A financial asset or a group of financial assets is considered to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

For assets carried at amortized cost such as loans and receivables and HTM investments, the Foundation first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If no objective evidence of impairment has been identified for a particular financial asset that was individually assessed, the Foundation includes the asset as part of a group of financial assets pooled according to their credit risk characteristics and collectively assesses the group for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in the collective impairment assessment.

Evidence of impairment for specific impairment purposes may include indications that the borrower or a group of borrowers is experiencing financial difficulty, default or delinquency in principal or interest payments, or may enter into bankruptcy or other form of financial reorganization intended to alleviate the financial condition of the borrower. For collective impairment purposes, evidence of impairment may include observable data on existing economic conditions, indicating that there is a measurable decrease in the estimated future cash flows of the related assets.

If there is objective evidence of impairment, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). Time value is generally not considered when the effect of discounting the cash flows is immaterial. For collective impairment purposes, impairment loss is computed based on their respective default and historical loss experience.

The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The impairment loss for the period shall be recognized in statement of revenues and expenses. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the statement of revenues and expenses, to the extent that the carrying amount of the asset had the impairment not previously been recognized.

Derecognition of Financial Instruments

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

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

When the Foundation has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Foundation's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Foundation could be required to repay.

Financial Liabilities. A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired. When an existing financial liability is replaced by another from the same lender or substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as derecognition of the carrying amount of the original liability and the recognition of a new liability at fair value, and any resulting difference in the respective carrying amounts is recognized in the statement of revenues and expenses.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of assets, liabilities and fund balances if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented at gross amounts in the statement of assets, liabilities and fund balances.

Project Supplies and Materials

Project supplies and materials under "Other current assets" account are initially recognized at the cost incurred by the donor. Project supplies and materials are recognized as expense when utilized in projects and programs.

Prepaid Insurance

Prepaid insurance under “Other current assets” account is carried at cost and is subsequently amortized over the terms of the contract to which the payment applies.

Property and Equipment

Property and equipment are stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any impairment in value. The initial cost of property and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into operations, such as repairs and maintenance and overhaul costs, are normally charged to operations in the period the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of property and equipment. When assets are sold or retired, their costs and accumulated depreciation and impairment losses, if any, are eliminated from the accounts and any gain or loss resulting from their disposal is included in the statement of revenues and expenses.

The useful life of each of the property and equipment is estimated based on the period over which the asset is expected to be available for use.

Depreciation is computed on a straight-line method over the estimated useful lives of the assets as follows:

	Number of Years
Transportation equipment	5
Computer and office equipment	3 - 5
Emergency equipment	5

The assets’ residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, if there is an indication of significant change since the last reporting date. Depreciation starts when an item of property and equipment is available for use.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the statement of revenues and expenses in the year the item is derecognized.

Impairment of Non-financial Assets

The Foundation assesses as at reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Foundation makes an estimate of the asset’s recoverable amount. An asset’s recoverable amount is calculated as the higher of the asset’s or cash-generating unit’s fair value less costs to sell and its value in use. A cash-generating unit is the smallest identifiable asset group that generates cash flows and largely independent from other assets of the Foundation. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. Impairment losses are recognized in the statement of revenues and expenses in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is an indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. 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 that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of revenues and expenses unless the asset is carried at revalued amount, in which case the reversal is treated as revaluation increase. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset’s revised carrying amount, less any residual value, on a systematic basis over its remaining estimated useful life.

Revenue Recognition

Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the Foundation and the amount of the revenue can be measured reliably. The Foundation measures revenue at the fair value of the consideration received.

Donations and Contributions and Fund Raising Activities

Donations and contributions are recognized upon receipt, except for those received in relation to the Foundation’s fund raising activities, which are recognized upon the occurrence of the event and the right to receive the asset is established.

Donations and contributions received can either be cash or in kind. Donations and contributions received in kind are valued at either the fair value of asset received or at the acquisition cost of the donee, whichever is available. Fair value is usually determined based on the current market price of the donations received in kind. All donations and contributions received are considered as available for general use unless otherwise restricted by donors for use in specific projects.

Interest Income

Interest income is recognized as it accrues, using the effective interest method. The effective interest rate is the rate that discounts estimated future cash receipts through the expected life of the financial instrument. Interest income is recognized net of applicable taxes.

Costs and Expense Recognition

Expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decreases in the fund balance. Program costs and general and administrative expenses are recognized in the statement of revenues and expenses upon utilization of the service or when incurred.

Program Costs

Program costs refer to the donations to charitable institutions and costs incurred in the projects carried out by the Foundation and are generally recognized when the services are rendered or the expenses are incurred.

General and Administrative Expenses

General and administrative expenses represent costs incurred related to the direction and general administration of day-to-day operations of the Foundation and are generally recognized when the services are rendered or the expenses are incurred.

Provisions and Contingencies

A provision is recognized if, as a result of a past event, the Foundation has a present legal or constructive obligation that can be estimated reliably, and it is probable that a transfer of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance cost. The Foundation does not recognize a provision for future operating losses.

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

Events After the Reporting Date

Post year-end events up to the date of approval of the financial statements by the BOT that provide additional information about the Foundation's financial position at reporting date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to financial statements when material.

4. Categories of Financial Assets and Financial Liabilities

	Note	2018	2017
Financial assets that are measured at amortized cost			
Cash and cash equivalents	5	P242,258,863	P218,300,592
Accrued interest receivable	7	630,514	452,703
HTM investments	8	16,000,000	16,000,000
		P258,889,377	P234,753,295
Financial liability measured at amortized cost			
Accounts payable and accrued expenses*	10	P8,072,134	P9,649,885

Excluding statutory liabilities of P722,244 and P612,236 as of December 31, 2018 and 2017, respectively.

The Foundation's non-derivative financial assets consist of cash and cash equivalents, accrued interest receivable under "Other current assets" account and HTM investments. Non-derivative financial liabilities include accounts payable and accrued expenses, excluding statutory payables.

5. Cash and Cash Equivalents

This account consists of the following:

	2018	2017
Petty cash fund	P40,000	P40,000
Cash in banks	32,997,555	35,393,453
Short-term investments	209,221,308	182,867,139
	P242,258,863	P218,300,592

Cash in banks pertains to deposits held at call with banks, which earn interest at the respective bank deposit rates. Short-term investments are made for varying maturity periods of up to three (3) months, depending on the immediate cash requirements of the Foundation, and earn interest ranging from 1.25% to 3.00% in 2018 and 2017.

Total interest income earned on cash and cash equivalents amounted to P2,962,350 and P1,800,545 in 2018 and 2017, respectively.

The Foundation's cash and cash equivalents include cash donations which are restricted for projects as specified by the donor. Total donor-restricted funds included in cash and cash equivalents amounted to P8,254,715 and P6,806,460 as at December 31, 2018 and 2017, respectively.

6. Advances to Program Officers

These advances relate to the following projects:

	2018	2017
Sponsorships and Special Projects	P102,054	P94,372
Community Electrification Program	88,246	84,109
Youth and Sports Advocacy Projects	26,232	40,000
Emergency Preparedness and Disaster Response	8,920	-
Grassroots Partnership	3,000	-
	P228,452	P218,481

Advances are provided to program officers to settle project costs incurred during implementation (see Note 12). Such advances are liquidated within 60 days after the project is completed. The Foundation's uncompleted projects as at December 31, 2018 and 2017 are expected to be completed within the subsequent year.

7. Other Current Assets

	2018	2017
Project supplies and materials	P3,052,729	P6,522,960
Accrued interest receivable	630,514	452,703
Prepaid insurance	72,103	68,003
Others	142,932	175,592
	P3,898,278	P7,219,258

Project supplies and materials consist of books and footballs, among others, from various donors to be used in the Foundation's projects and programs.

8. HTM Investments

This account consists of the following:

	Note	2018	2017
Investments in bonds issued by:			
Meralco	15	P6,000,000	P6,000,000
Manila North Tollways Corporation (MNTC)		5,000,000	5,000,000
Ayala Land, Inc. (ALI)		5,000,000	5,000,000
		P16,000,000	P16,000,000

Investments in Meralco and MNTC bonds represent peso denominated 7-year fixed rate notes maturing on December 12, 2020 and March 31, 2021, respectively. The ALI bond is a 10-year fixed rate note maturing on October 25, 2025. Interest income earned amounted to P577,800 in 2018 and 2017.

9. Property and Equipment

The movements for each class of property and equipment are as follows:

	Transportation Equipment	Computer and Office Equipment	Emergency Equipment	Total
Gross Carrying Amount				
As at January 1, 2017	P2,218,000	P652,042	P1,347,385	P 4,217,427
Acquisitions	-	42,840	-	42,840
As at December 31, 2017	2,218,000	694,882	1,347,385	4,260,267
Donation	886,033	-	-	886,033
As at December 31, 2018	3,104,033	694,882	1,347,385	5,146,300
Accumulated Depreciation				
As at January 1, 2017	1,739,833	407,290	1,052,149	3,199,272
Depreciation for the year	302,000	129,264	263,972	695,236
As at December 31, 2017	2,041,833	536,554	1,316,121	3,894,508
Depreciation for the year	403,354	90,013	31,264	524,631
As at December 31, 2018	2,445,187	626,567	1,347,385	4,419,139
Carrying Amount as at December 31, 2017	P176,167	P158,328	P31,264	P365,759
Carrying Amount as at December 31, 2018	P658,846	P68,315	P-	P727,161

Depreciation expense is included under program costs (see Note 12).

As at December 31, 2018 and 2017, the aggregate acquisition cost of the fully depreciated property and equipment that are still being utilized by the Foundation amounted to P3,990,226 and P1,311,842, respectively.

In 2018, the Foundation received one unit of transportation equipment amounting to P886,033 from Meralco.

As at December 31, 2018 and 2017, the Foundation assessed that there were no indications of impairment on its property and equipment.

10. Accounts Payable and Accrued Expenses

	Note	2018	2017
Accounts payable		P7,911,949	P9,552,676
Withholding taxes payable		722,244	612,236
Accrued expenses		160,185	60,895
Due to Meralco	15	-	36,314
		P8,794,378	P10,262,121

Accounts payable are noninterest-bearing and are payable to suppliers within 15 to 60 days from the invoice date.

11. Revenues

Donations and contributions received either in cash or in kind are considered available for general use unless otherwise restricted by the donor to be used for specific projects. Restricted and unrestricted donations and contributions received are as follows:

	Note	2018	2017
Restricted			
Youth and Sports Advocacy Projects	P64,100,000		P79,910,500
Community Electrification Program	32,661,400		50,572,398
Grassroots Partnerships	6,694,971		25,521,975
Emergency Preparedness and Disaster Response	4,707,175		11,672,242
Educational Development	3,671,580		5,626,000
Makabayan Volunteerism Program	1,091,750		1,570,000
Sponsorship and Others	47,960,832		26,722,087
	160,887,708		201,595,202
Unrestricted	554,483		521,263
	15 P161,442,191		P202,116,465

12. Program Costs

Program costs consist of:

	Note	2018	2017
Donations and charitable contributions	P80,581,572		P102,527,554
Project costs	54,262,264		73,946,557
Events and marketing expenses	1,930,750		1,493,920
Salaries, wages and employee benefits	1,047,198		1,081,956
Professional fees	601,170		88,889
Depreciation	9 524,631		695,236
Transportation and travel	260,037		36,472
Office meetings and supplies	52,646		16,019
Insurance	44,557		17,372
Communications	25,686		24,348
Entertainment, amusement and representation	6,445		4,183
	P139,336,956		P179,932,506

Donations and charitable contributions were made by the Foundation to various charitable institutions under the following programs:

	2018	2017
Youth and Sports Advocacy Projects	P58,200,000	P73,000,000
Sponsorships and Special Projects	22,164,544	9,940,880
Grassroots Partnership	217,028	13,919,559
Emergency Preparedness & Disaster Response	-	5,667,115
	P80,581,572	P102,527,554

Project costs comprise direct expenses related to the following programs:

	2018	2017
Community Electrification Program	P30,525,385	P40,874,957
Grassroots Partnership	8,143,653	14,058,310
Youth and Sports Advocacy Projects	5,712,562	6,459,037
Sponsorships and Special Projects	3,984,272	3,328,543
Emergency Preparedness and Disaster Response	3,512,833	4,382,736
Energy Education Program	1,485,789	4,341,158
Makabayan Volunteerism Program	897,770	501,816
	P54,262,264	P73,946,557

The following are the programs undertaken by the Foundation:

Community Electrification Program

The program develops feasible electrification alternatives through workable socialized schemes for various types of community beneficiaries, like schools and households, in partnership with the Department of Education, Local Government Units (LGUs), NGOs, and other community institutions.

Grassroots Partnership

The program promotes responsible stewardship among residents that spurs growth and development in communities.

Youth and Sports Advocacy Projects

The program promotes the development of sports among youth in various communities not only to enhance their fitness, well-being and health, but also to develop leadership, character and discipline that will ultimately make them productive citizens of the country.

Emergency Preparedness and Disaster Response

The program provides support and assistance by lending the Foundation's experience and resources in emergency and disaster preparedness to other utility companies and communities to further improve response to major emergency situations, natural calamities and disasters.

Energy Education Program

The program aims to build an energy awareness society by providing learning and teaching materials on energy to students and teachers.

Sponsorships and Special Projects

This consists of Meralco's "Maliwanag Ang Pasko" event, Aksyon Semana Santa, National Teachers Month Celebration and participation in various corporate social responsibility and public communication events.

Makabayan Volunteerism Program

The program provides opportunities for employees of Meralco and its subsidiaries and affiliates to do their share in nation-building by volunteering for community projects. Through a structured volunteer program, volunteers now have unlimited options and opportunities where they can participate and share their time, talent and contribute to uplifting the lives of residents in communities.

The excess of revenues over expenses for the year 2018 will be used for on-going projects that are to be continued in 2019 as follows: Community Electrification Program (P7,575,000), Energy Education Program (P2,100,000), Youth Development (P250,000), Social Marketing (P500,000).

13. General and Administrative Expenses

The details of general and administrative expenses incurred in 2018 and 2017 are as follows:

	2018	2017
Salaries, wages and employee benefits	P1,273,715	P1,164,505
Entertainment, amusement and representation	624,526	279,751
Dues and fees	530,199	247,200
Professional fees	331,866	342,343
Transportation and travel	248,558	191,243
Office supplies and courier charges	93,036	164,171
Repairs and maintenance	83,885	77,476
Seminars and trainings	29,057	15,680
Taxes, permits and licenses	24,309	10,048
Bank charges	-	3,250
Others	22,336	12,331
	P3,261,487	P2,507,998

14. Fund Balances

Restricted Fund

Restricted Fund represents the accumulated excess of revenues over expenses pertaining to donations and contributions received for specific projects, net of related expenses.

General Fund

General Fund represents the accumulated excess of revenues over expenses pertaining to donations and contributions received for general use, net of related expenses.

Corpus Fund

Corpus Fund was set aside from the General Fund to serve as seed money to ensure the sustainability of the Foundation.

The BOT approved the creation of a Corpus Fund. The principal amount shall be disbursed only when BOT authorizes so. The interest earned from the placement of the funds, which amounted to P2,484,911 and P1,246,343 in 2018 and 2017, respectively, may be used for the projects of the Foundation and for any operational expenses.

Corpus fund as at December 31, 2018 and 2017 consists of the following:

	Note	2018	2017
Cash in banks	5	P2,699,515	P3,964,553
Short-term investments	5	128,427,914	115,867,139
HTM investments	8	16,000,000	16,000,000
		P147,127,429	P135,831,692

15. Related Party Transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. This includes relationship that exists between and/or among entities, which are under common control with the reporting enterprise, or between and/or among the reporting enterprises and their key management personnel or trustees.

Significant transactions and outstanding balance of the Foundation with Meralco as at December 31, 2018 and 2017 are as follows:

Transaction	Year	Note	Amount of Transaction	Due to Meralco
Donations and contributions	2018		P79,748,093	P-
	2017	11	191,722,519	-
Theater rentals	2018		263,580	-
	2017	10	428,736	36,314
TOTAL	2018		P80,011,673	P-
TOTAL	2017		P192,151,255	P36,314

The Foundation's program officers are employees of Meralco who volunteered and provided their services without compensation.

Theater rentals are payable on demand and non-interest bearing.

16. Supplementary Information Required by the Bureau of Internal Revenue (BIR)

In addition to the disclosures mandated under PFRS for SMEs, and such other standards and/or conventions as may be adopted, companies are required by the BIR to provide in the notes to the financial statements, certain supplementary information for the taxable year based on Revenue Regulations No. 15-2010. The amounts relating to such information may not necessarily be the same with those amounts disclosed in the financial statements which were prepared in accordance with PFRS for SMEs. The following are the tax information / disclosures required for the taxable year ended December 31, 2018:

A. Withholding Taxes

Withholding tax - expanded	P668,476
Tax on compensation and benefits	120,427
	P788,903

B. All Other Taxes (Local and National)

***Other taxes paid during the year recognized under
“Taxes, permits and licenses” account under
General and Administrative Expenses***

Local	
Business permits	P10,170
Community tax certificate	510
National	
LTO Licenses	13,129
BIR annual registration fee	500
	P24,309

Information on the amount of value added tax, custom duties and tariff fees paid or accrued and the amount of excise taxes is not applicable since there are no transactions that the Foundation entered into that resulted in the payment or accrual of such taxes.

As at December 31, 2018, the Foundation has no pending tax cases nor tax assessment notices from the BIR.

2018 DONORS

MANILA ELECTRIC COMPANY

Meralco Officers and Employees
Meralco Various Departments
Meralco Employees Fund for Charity, Inc.

MERALCO SUBSIDIARIES AND ASSOCIATES

Clark Electric Distribution Corporation
Meralco Employees Savings and Loans Association, Inc.
MIESCOR Builders, Inc.
MIESCOR Logistics, Inc.
MPower

PARTNER DONORS

Ashlar Industrial Corporation
Atlanta Industries, Inc.
Cofta Mouldings Corporation
Davies Paints Philippines, Inc.
Dina & Kristine Fashion Creation
Electroline Corporation
EMD Technologies Philippines, Inc.
Eurotiles Industrial Corporation
First Philec, Inc.
HGST Philippines, Inc.
MGCC Foundation
MTT Electrical Contractor and General Services
Netlogic Solutions Asia, Inc.
NSS Electrical Services, Inc.
Peace Be With You Construction
Phelps Dodge Philippines Energy Products Corporation
Philippine Business for Social Progress
Philippine Vending Corporation
Pioneer Highlands South Condominium Corporation
PLDT, Inc.
PPI Pazifik Power Inc.
Rohm Electronics Philippines, Inc.
Saffron Philippines, Inc.
Styrotech Corporation
Swedish Match Philippines, Inc.
Therma Luzon, Inc.
Universal Steel Smelting Co., Inc.

ABOUT ONE MERALCO FOUNDATION

One Meralco Foundation is the social development arm of the Manila Electric Company (MERALCO). It is a donee institution accredited by the Philippine Council for NGO Certification (PCNC), a registered social welfare and development agency under the Department of Social Welfare and Development (DSWD), and a member of the Philippine Business for Social Progress, Philippine Business for the Environment, League of Corporate Foundations, and the Association of Foundations.

For more information on One Meralco Foundation's programs and activities, visit www.onemeralcofoundation.org, or follow its page on Facebook at www.facebook.com/onemeralcofoundation.

ABOUT THE PAPER

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