Sustaining Energy

2019 Meralco Annual Report

2019 Reports

Meralco Annual Report
Meralco Sustainability Report
One Meralco Foundation Annual Report

MERALCO

Our Cover

With the backdrop of a sky at dusk, mother and child admire the view of tree-lined residential houses set against a cityscape. Amid this urban growth, Meralco in 2019 embeds sustainability in its business strategy – with a promise of prosperity and of a planet worth admiring for generations to come.

Our Reports

Beginning 2019, Manila Electric Company (Meralco) is providing three annual reports: the first covers the distribution utility and its subsidiaries; the second is its sustainability report; and the third is that of its social development arm, One Meralco Foundation.

Sustaining Energy
2019 Meralco Annual Report

Sustaining Energy:
Sustaining Energy shows Meralco's transition to renewable energy to better support future generations, and executes a digital transformation to upgrade its systems and operations for greater efficiency and a better customer experience.

Sustaining the Future
2019 Meralco Sustainability Report

Sustaining the Future:
Sustaining the Future maps out Meralco's sustainability agenda, in the context of the United Nations Sustainable Development Goals. It details the focus on Power, Planet, People, and Prosperity in alignment with Meralco's business strategy.

Sustaining Communities
2019 One Meralco Foundation Annual Report

Sustaining Communities:
Sustaining Communities presents the accomplishments of One Meralco Foundation on its various community and social development programs on household and school electrification, energy education, environmental sustainability, and responsible citizenship.

Meralco is the largest private sector electric distribution utility in the Philippines. It covers 36 cities and 75 municipalities, with a franchise area of 9,685 square kilometers. This coverage is just 3% of the land area of the Philippines, but accounts for 55% of the country's electricity output. Celebrating 117 years of service in 2020, the Company is committed to its record of providing reliable and affordable energy.

MERALCO

2019
Annual Report

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About this Report

This Annual Report presents the accomplishments of the Manila Electric Company (Meralco) and its subsidiaries for 2019 with special emphasis on sustainability. The sustainability agenda has been incorporated into the Company's core values, operations, workforce, and outreach programs. Focusing on the strategic areas of Power, Planet, People, and Prosperity, the report illustrates Meralco's commitment to achieve corporate objectives while transforming operations, improving customer service, protecting the environment, and empowering people and communities.

Financial and Operational Highlights

PhP 318.3 B
Total Revenues

46,871 GWh
Energy Sales

6.9 M
Customer Accounts

PhP 23.8 B
Core Net Income

PhP 41.0 B
EBITDA

PhP 16.06
Cash Dividends Per Common Share

5.54%
System Loss

PhP 23.3 B
Reported Net Income

FINANCIAL INFORMATION (in Million PhP, Except Per Share Data)	2015	2016	2017	2018	2019
Revenues					
Sale of electricity	249,773	249,206	275,172	295,389	**310,098**
Sale of other services	8,626	7,975	7,384	9,065	**8,217**
TOTAL	**258,399**	**257,181**	**282,556**	**304,454**	**318,315**
Purchased power	192,117	189,853	214,558	232,102	**241,032**
Operating expenses	24,336	24,935	25,567	25,885	**27,195**
Depreciation and amortization	6,910	7,312	7,520	7,827	**8,730**
Interest income, net of interest, and financial charges	(322)	(737)	(658)	(798)	**(1,662)**
Core net income	18,887	19,583	20,213	22,408	**23,832**
Reported net income	19,098	19,176	20,384	23,017	**23,285**
EBITDA	31,124	34,049	34,474	37,165	**40,977**
Core earnings per share	16.76	17.37	17.93	19.88	**21.15**
Reported earnings per share	16.94	17.01	18.09	20.42	**20.66**
Cash dividends declared per common share	15.25	25.08	18.23	13.38	**16.06**
Market price per share at end of year	320.00	265.00	328.60	380.00	**317.00**
Utility plant and others	124,913	128,814	133,874	139,846	**151,441**
Interest-bearing financial liabilities	30,308	40,347	40,256	40,016	**41,253**

OPERATING INFORMATION	2015	2016	2017	2018	2019
Customer Accounts (in Thousands)					
Residential	5,296	5,537	5,812	6,086	**6,339**
Commercial	474	486	500	514	**528**
Industrial	10	10	10	10	**11**
Streetlights	4	5	5	5	**5**
TOTAL	**5,784**	**6,038**	**6,327**	**6,615**	**6,883**
Energy Sales (in GWh)					
Residential	11,121	12,444	13,060	13,555	**14,589**
Commercial	14,654	15,867	16,597	17,463	**18,483**
Industrial	11,216	11,697	12,309	13,156	**13,659**
Streetlights	133	134	136	139	**140**
TOTAL	**37,124**	**40,142**	**42,102**	**44,313**	**46,871**
System Loss (in %)					
Meralco	6.47	6.35	5.91	5.67	**5.54**
Clark Electric	4.01	3.59	2.14	2.77	**2.15**

Sustaining Our Commitment to Excellence

To our fellow shareholders

Meralco's leadership took a bold new path in 2019, advancing the goal of sustainability, and taking the enlightened view of presenting the full picture of doing business. This means Meralco will now report how it contributes to the community and impacts the environment, in the same frame as its financial performance.

This is why our 2019 annual report is "Sustaining Energy." The One Meralco Foundation annual report is "Sustaining Communities," and our very first sustainability report is "Sustaining the Future."

Our strategic ambitions are now cast wider with the four (4) focus areas – Power, Planet, People, Prosperity.

POWER
Providing energy for all, always

PLANET
Integrating environmental stewardship to protect and preserve Mother Earth

PEOPLE
Cultivating a culture of excellence, sustainability, and inclusivity

PROSPERITY
Creating better lives for all

Sustainability to us means concrete actions to:

- Ensure business resiliency amid the new normal
- Reduce emissions
- Promote resource efficiency
- Lead world-class waste management practices
- Power and sustain communities

For the distribution utility, 2019 "Sustaining Energy" means transitioning to renewables, an imperative of our time. We are weaning ourselves out of fossil fuels to renewable energy sources for a future for the generations to come.

"Sustaining Energy" also means transforming our network into a smart grid, which is more reliable and effective in reducing the frequency and duration of outages. A smart grid is at the center of Meralco's digital transformation, providing a better customer experience: consumption information is presented online, customers can get budget alerts, the progress of an outage report may be tracked, and there are notifications on estimated time of restoration.

A smart grid also allows the two-way flow needed to accommodate renewable energy, and facilitates both the Energy Efficiency and Conservation Act and the Retail Competition and Open Access (RCOA).

Many countries are well on their way in their smart grid journeys, and in cooperation with our regulator and policy maker, we hope to get going faster.

"Sustaining Energy" will take Meralco to new paths and we approach with optimism and determination.

page 30, 2019 Meralco Sustainability Report

Financial and Operational Results

2019 was an excellent year, with sales volume and revenues, consolidated core net income (CCNI), and operational results reaching new highs. We achieved these despite Gross Domestic Product (GDP) growth being at an eight-year low of 5.9%, and with higher coal, gas, and fuel prices. On the upside for consumption, inflation at 2.5% and interest rate of 4.0% were low; the peso was stronger towards the end of the year, and the average temperature was warmer by 0.29°C in 2019 versus 2018.

Meralco outperformed previous years' results through continuous improvements and the resilience of its people, cooperating with government and government entities to minimize the impact of 15 red and 51 yellow alert days and Typhoon Tisoy (international name Kammuri). The Company also leveraged on technology investments on network automation and customer-facing applications to still deliver excellent results.

Consolidated energy sales volume, inclusive of Clark Electric Distribution Corporation (Clark Electric), rose to its highest level at 46,871 GWh or 6% more than the 44,313 GWh recorded for 2018. Residential sales was the main driver with an 8% growth, with commercial growth at 6% driven by the rapid expansion of Philippine Offshore Gaming Operators (POGOs), supported by the steady contribution of the Business Process Outsourcing (BPOs) sector.

Meralco's customer base grew by 4%, ending the year with a total of 6.9 million customer accounts. Of note is the over-indexed growth of residential customers in the provinces of Cavite, Quezon, and parts of Batangas that are under Meralco's franchise area. Their combined growth accounted for more than 40% of the total 253,456 new residential accounts in 2019.

Peak demand in the Meralco franchise area went up by about 5%, from 7,399 MW in 2018 to 7,740 MW in 2019.

6% ↑

Energy Sales

46,871 GWh

2019

2018 **44,313** GWh

8% Residential Growth

6% Commercial Growth

5% ↑

Peak Demand

7,740 MW

2019

2018 **7,399** MW

Our CCNI reached PhP23.8 billion, 6% higher than the PhP22.4 billion in 2018. Consolidated Reported Net Income stood at PhP23.3 billion, marginally higher than 2018. Core Earnings Per Share was PhP21.15 in 2019 while Reported Earnings Per Share was PhP20.66.

EBITDA in 2019 rose to 10% to PhP41.0 billion from PhP37.2 billion in 2018. EBITDA margin was at 13% on consolidated revenues.

Capital Expenditures (CAPEX) in 2019 reached PhP20.2 billion, 48% higher than 2018. Aimed at continuously providing the best service, we aggressively implemented projects that enable a more resilient distribution grid capable of meeting increasing consumer demand, and ensuring safety and reliability in the franchise area with disaster hardening imperatives.

For the 12th consecutive year, Meralco managed to outperform the prescribed regulatory system loss cap. In 2019, Meralco's system loss rate dropped to an all-time low of 5.54%, well below the current system loss cap of 7.25%. This consistent performance is due to the Company's continued investments in its distribution system and technologies that reduce system loss, alongside joint efforts with law enforcement and Local Government Units to deter electricity pilferage.

Achieving a system loss rate significantly lower than the current regulatory cap translated to cumulative savings to customers of PhP44.8 billion or an average savings of PhP0.11 per kWh since 2008. It has also enabled Meralco to return PhP9.0 billion worth of pilferage recoveries to customers.

Our 8.37 Customer Satisfaction Index or CSI matches our all-time high in 2017. Our customers are our reason for being, and we measure customer satisfaction by segment from residential, small and medium enterprises, corporate customers, national government, and local government units. We use the feedback to refine our operations to deliver simple, fast, convenient service, and to develop programs and solutions that address our customers' evolving needs.

Our exceptional operating and financial performance are reflected in the continued strength of our balance sheet. Cash and cash equivalents as of year-end was PhP38.3 billion, excluding investments in debt securities, financial assets, and other cash placements.

The total interest-bearing debt is slightly higher at PhP41.3 billion at the end of 2019, of which PhP28.5 billion is due to mature within 2020. The maturities in 2020 include PhP23.4 billion in notes payable.

6% ↑

Consolidated Core Net Income

PhP 23.8 B

2019

2018 **22.4 B**

10% ↑

EBITDA

PhP 41.0 B

2019

2018 **37.2 B**

0.13% ↓

System Loss

5.54%

Customer Cumulative Savings

PhP 44.8 B

Pilferage Recoveries

PhP 9.0 B

Bayad Center
Bigger biller base
Onsite and Online

330 biller merchants
38,000 customer touchpoints

Radius
Expanded points of presence
Increased capacity

Pampanga and Cebu
Singapore and Hong Kong

MGen
San Buenaventura Power Limited
Inauguration
First High Efficiency, Low Emission Power Plant

455 MW net capacity
87% plant availability

Subsidiaries Charging Up

Significant contributions were delivered by CIS Bayad Center, Inc. (Bayad Center), Radius Telecoms, Inc. (Radius), Shin Clark Power Holdings Inc. (Shin Clark), and MERALCO PowerGen Corporation (MGen).

Bayad Center strengthened its biller base to 330 from 290 biller merchants in 2018. With combined onsite and online payment platforms, it ended 2019 with over 38,000 customer touchpoints and 111 million payment transactions. Bayad Center's consolidated revenues in 2019 amounted to PhP1.8 billion, an 8% increase over 2018.

Our telecommunications arm, Radius, continues to be corporate customers' preferred choice for primary and redundancy network services. It has grown its revenues to PhP1.5 billion, 15% higher than 2018, due to increased rentals and interconnections, additional nodes and cross connections, expanded leased lines and IP upstream.
In 2019, Radius also initiated an aggressive network expansion outside of the Meralco franchise area, establishing points of presence in Clark Freeport Zone in Pampanga and Cebu. Radius also increased its capacity in Hong Kong and established a point of presence in Singapore.

Shin Clark Power Holdings, Inc. energized the New Clark City interim substation with a 69 kV line and 13.8 kV overhead and underground lines, 95 days ahead of the November 26, 2019 start of the Southeast Asian Games. Shin Clark is a consortium led by Meralco with top Japanese companies Axia Power Holdings Philippines Corporation (a wholly-owned subsidiary of Marubeni Corporation), KPIC Netherlands BV (a wholly-owned subsidiary of The Kansai Electric Power Company), and Chubu Electric Power Co., Inc. In April 2019, Shin Clark signed a joint venture agreement with the Bases Conversion and Development Authority (BCDA) for the financing, design and engineering, construction, development, operation, and maintenance of the electric power distribution system in New Clark City.

Our generation unit, MGen, inaugurated San Buenaventura Power Limited (SBPL), the country's first High Efficiency, Low Emission (HELE) coal-fired power plant that utilizes the most advanced technologies, reducing emissions of carbon dioxide, nitrogen oxide, sulfur dioxide and particulate matter. Generating about 3,430 GWh, SBPL emits 686,000 tons less greenhouse gas (GHG) versus a typical coal plant in the country. This reduction is equivalent to the annual GHG emission of 50,000 jeepneys.

With a net capacity of 455 MW, it is a timely addition to Luzon's supply chain. It began commercial operations on September 26, 2019, and has since delivered 852 GWh of energy to Meralco at an average plant availability of over 87% as of December 31, 2019. This eased supply within the franchise area as 630 MW of plant capacities went into maintenance shutdown for almost 10 days in the last quarter of 2019.

MGen is also helping in the country's energy transition from fossil fuel to renewable energy (RE). It created a subsidiary, MGen Renewable Energy, Inc. (MGREEN), which targets to generate up to 1,000 MW of capacity from solar, wind, and hydro projects in five (5) to seven (7) years.

Stakeholder Payouts

The exceptional performance for 2019 meant excellent returns to over 42,000 Meralco shareholders. Total cash dividends declared out of our 2019 CCNI amounted to PhP15.859 per share or a payout of 75% of the CCNI. This consisted of the interim regular cash dividend of PhP5.464 per share, a final regular cash dividend of PhP5.108 per share and a special cash dividend of PhP5.287 per share. For 2019, cash dividend yield reckoned on the 2019 year-end share price of PhP317.00 was at 5%. Meralco ended 2019 with a market capitalization of PhP357.3 billion.

Excellent returns to over
42,000
Meralco shareholders

PhP 15.859
Dividends per share

75%
Payout

San Buenaventura Power Limited, the country's first High Efficiency, Low Emission Plant

Towards 100% Electrification

Meralco intensified its electrification efforts under Meralco Electrification Program (MEP), ending 2019 with 99.6% penetration of all households. This program strives to provide power to all homes within the franchise area, especially those in developing communities that are often caught in legal, right-of-way (ROW), and occupancy issues. We work with local government units (LGUs), barangay officials, and private property owners to finally let light in for these communities.

Aligned with embedding sustainability in its operations, Meralco continued to deliver its service to far-flung areas through microgrid solutions, leveraging solar and energy storage technologies. To this end, Phase 1 electrification of Isla Verde, Batangas and Cagbalete Island, Quezon were completed in 2019.

Meralco also piloted the Philippines' first grid-scale distribution-connected Battery Energy Storage System (BESS) through the installation of two (2) 1 MW lithium-based BESS units in San Rafael, Bulacan. This enables us to assess the viability of integrating battery storage technologies into the grid to improve the electric power system.

page 36, 2019 Meralco Sustainability Report

2
1 MW lithium-based Battery Energy Storage System units installed in San Rafael, Bulacan

Remaining Steadfast in Our Commitment to Serve

There were 21 major weather disturbances that affected the Philippines in 2019, 15 of which directly affected Meralco's franchise area. Meralco has been in the forefront of responding to these challenges and extending its assistance to communities affected by these disturbances.

When Typhoon Tisoy hit on December 3, 1,621,296 customers were without power. The prompt response of Meralco reduced this number to just 80,000 within 24 hours and operations were at normal levels within 48 hours.

We also helped other electric cooperatives with their restoration efforts. From December 8 to 22, 45 linemen, engineers and contractors and 13 stake trucks, basket trucks and utility vehicles were deployed to assist Albay Electric Cooperative (ALECO) to correct, replace, and reconnect 400 electric poles and 358 spans of lines. Three (3) pick-up crews were also deployed to Albay Power and Energy Corporation (APEC) to assist in their cluster metering activities.

The Cagbalete microgrid powers households and small businesses

Reaching Out to Light Up Communities

Through One Meralco Foundation Inc. (OMF), Meralco's social development arm, the Company launched One For Trees (OFT) initiative which aims to restore biodiversity through reforestation and watershed protection. In 2019, 23,366 trees were planted, the seeds of the bigger goal of planting three (3) million trees by 2026.

Recognizing that social responsibility extends beyond providing alternative sources of energy and environmental stewardship, Meralco fosters sustainable development through continuous programs that uplift the lives of communities.

Through OMF's Household Electrification Program (HEP), 48,900 low income households were provided access to electricity since its launch in 2011. In 2019, OMF supported the education of communities by energizing 20 off-grid public schools located in far-flung provinces, enabling technology-aided learning for 4,055 students.

page 21, 2019 OMF Annual Report

Sustaining Energy to Power Lives

We express our gratitude to the Meralco Board of Directors for their guidance, vision and governance; our Management Team and our employees for their *malasakit*, without whom we would not have surpassed previous records despite many challenges we face; and above all, our shareholders and our customers who give us their trust.

We will refine and focus our vision and goals for sustainability and make it part of our DNA. We believe that adding "planet" to power, people, and prosperity gives us the four legs to ground us solidly for the future. As we venture into a new decade, we ask for your continued support as we deliver results for all our stakeholders — customer, community, country. And now also, for our children.

Manuel V. Pangilinan
Chairman of the Board

Ray C. Espinosa
President and Chief Executive Officer

Planted
23,366
trees

Energized
48,900
low income households

Enabled technology-aided learning for
4,055
students

Sustaining Energy

Meralco's leadership took a bold new path in 2019, committing to deliver on Power, Planet, People, and Prosperity. Recognizing its role as an enabler, Meralco is determined to power progress sustainably.

The core strategy is to build the network infrastructure and implement programs that enable the Company to provide affordable, reliable, and clean energy via a customer experience that is simple, fast and convenient. It also supports the government's initiatives towards nation-building, while being responsible to its community and its workforce, nurturing inclusive growth with a sustainability mindset.

Planted 23,366 trees in 13 sites through **One for Trees**

Supported the government's **Build, Build, Build (BBB) programs**

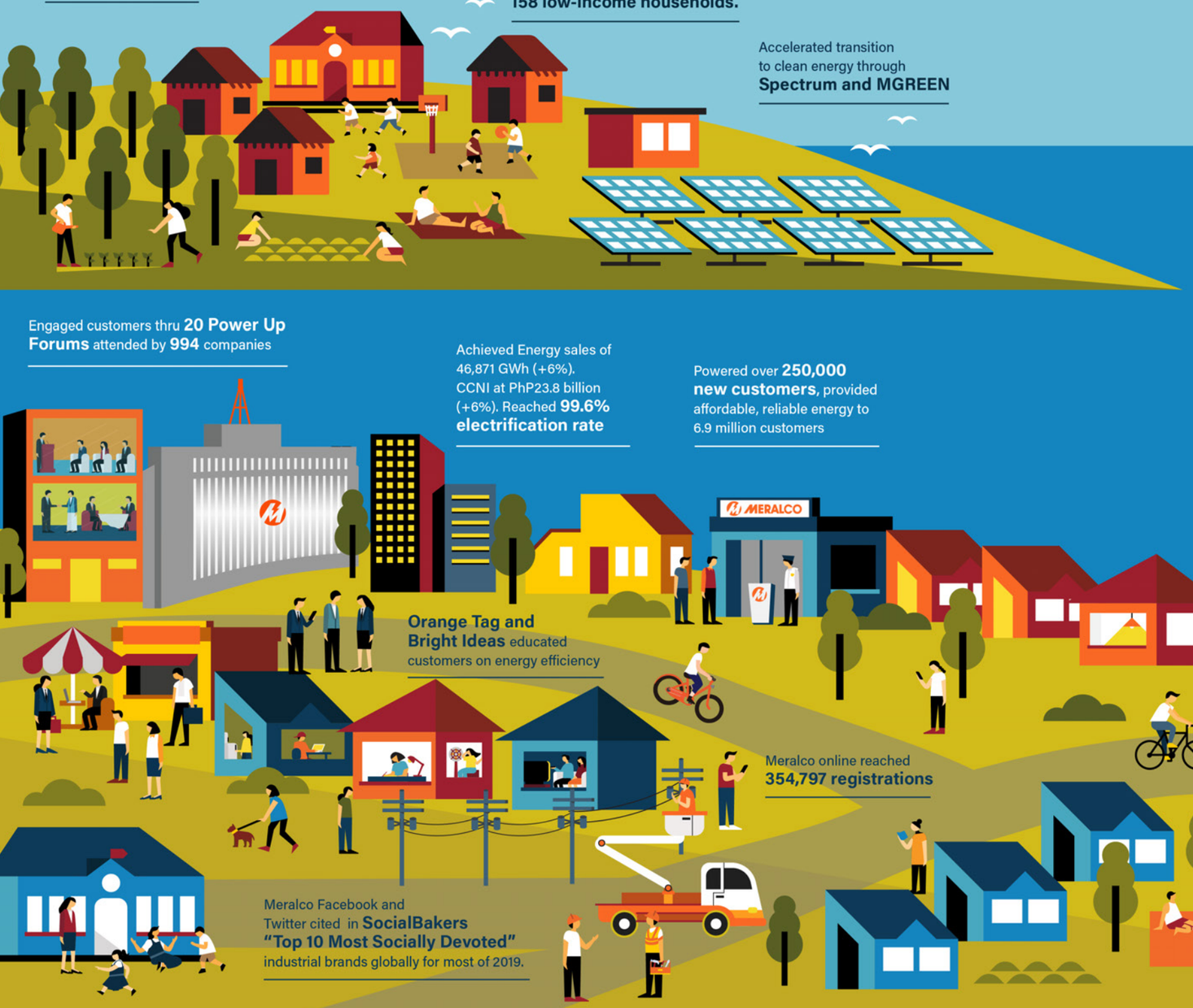
Powered Isla Verde and Cagbalete Island—energizing **158 low-income households.**

Accelerated transition to clean energy through **Spectrum and MGREEN**

Built two (2) new 115kV lines: San Jose-Novaliches and Teresa-Tagbac

Launched Philippines' first High Efficiency, Low Emission power plant—San Buenaventura Power Limited

Embedded **sustainability** as a mindset



Engaged customers thru **20 Power Up Forums** attended by **994** companies

Achieved Energy sales of 46,871 GWh (+6%). CCNI at PhP23.8 billion (+6%). Reached **99.6% electrification rate**

Powered over **250,000 new customers,** provided affordable, reliable energy to 6.9 million customers

Over **100,000 KLOAD** prepaid customers saved an average of **16% on their bill**

Hit **8.37** customer satisfaction index or CSI, matching 2017 all-time high

System loss performance achieved an **all-time low level of 5.54%**

Orange Tag and Bright Ideas educated customers on energy efficiency

Meralco online reached **354,797 registrations**

Meralco subsidiary **eSakay** operated a fleet of zero-emission e-jeeps in Makati and Mandaluyong.

Meralco Facebook and Twitter cited in **SocialBakers "Top 10 Most Socially Devoted"** industrial brands globally for most of 2019.

Sustaining Energy to Power Lives

Energy Sales and Customer Count

Consolidated energy sales, inclusive of Clark Electric Distribution Corporation (Clark Electric) volume, surpassed the previous year's performance by 6%, to record 46,871 GWh over the 44,313 GWh in 2018.

The growth came from all customer sectors, with consolidated residential sales finishing strongest with 8% growth to 14,589 GWh from 13,555 GWh. Commercial sales followed with a 6% growth to 18,483 GWh from 17,463 GWh. The property and hospitality sector, POGOs (Philippine Offshore Gaming Operations) and BPOs (Business Process Outsourcing) were the growth drivers.

Industrial energy sales posted moderate growth at 4% to 13,659 GWh from 13,156 GWh, led by construction and consumer-driven industries such as food and beverage, non-metallic, and rubber and plastics.

In terms of share to total sales, the Commercial segment recorded the highest contribution at 39%, followed by Residential at 31%, and Industrial at 29%. Flat streetlights accounted for the remainder.

Key government's infrastructure projects were started in 2019 and will spur revenues in 2020: mainly the North Luzon Expressway - South Luzon Expressway (NLEx-SLEx) Connector Road, Cavite-Laguna Expressway (CALAX), C5 South Link, Metro Rail Transit 7 (MRT 7), Light Rail Transit 2 (LRT2) East Extension, Light Rail Transit 1 Cavite Extension, and the North Harbor Link Segment 10 (C3-R10 section).

Consolidated customer count reached 6,882,784 or a 4% increase over the previous year for an additional 268,000 new accounts compared to 2018. Residential customers grew the most at 4% to 6,339,291, accounting for 92% of the total. New customers totaled 253,456 households.

The number of commercial customers went up by 3% to 527,988, accounting for 8% of the total. Industrial customer count rose 2% to 10,722, which is less than 1% of the total. The remainder were 4,783 flat streetlights, which also made up less than 1% of the total.

Consolidated Energy Sales 6%↑ 46,871 GWh

8%↑ Residential Sales 14,589 GWh

6%↑ Commercial Sales 18,483 GWh

4%↑ Industrial Sales 13,659 GWh

Consolidated Customer Count 4%↑ 6,882,784 Total Customer Count

4%↑ 6,339,291 Residential Customers

3%↑ 527,988 Commercial Customers

2%↑ 10,722 Industrial Customers

1%↓ 4,783 Flat Streetlights

Operating Performance

Meralco's system reliability performance continues to improve year on year, driven by its dedication to provide its customers with the best value in energy, products and services.

In 2019, the average number of sustained interruptions experienced by a customer in a year, measured by System Average Interruption Frequency Index (SAIFI) was down to 1.77 times, which is a 27% improvement from our performance five years ago, and an all-time best for Meralco. Another measure of Meralco's system reliability performance is the System Average Interruption Duration Index (SAIDI) representing the average duration of power interruptions a customer experiences in a year. The 2019 system SAIDI stood at 188.36 minutes, which is an overall improvement of 16% from our performance five years ago.

Thus, Meralco customers experienced fewer and shorter power interruptions in 2019, with management focused on reducing interruptions to deliver a better customer experience.

In 2019, Meralco attained another record system loss performance, achieving an all-time low level of 5.54%, a 0.13 percentage point improvement over the 5.67% system loss in 2018. The lower system loss rate compared with the 7.25% regulatory system loss cap resulted in total customer savings of about PhP5.2 billion or an average savings of PhP0.11 per kWh. This excellent performance was achieved through a sustained program of deterring electricity pilferage in cooperation with law enforcement and local officials.

The cumulative total savings to Meralco customers now stands at PhP44.8 billion or an average savings of PhP0.11 per kWh since 2008. In addition, another PhP9.0 billion worth of pilferage recoveries were returned to customers.

Total SAIFI Improvement 27%↑

- 2019: 1.77 Times
- 2018: 1.80 Times
- 2017: 1.86 Times
- 2016: 2.18 Times
- 2015: 2.43 Times

Total SAIDI Improvement 16%↑

- 2019: 188.36 Minutes
- 2018: 196.63 Minutes
- 2017: 184.26 Minutes
- 2016: 225.46 Minutes
- 2015: 225.24 Minutes

System Loss Improvement 0.13%↓

- 2019: 5.54%
- 2018: 5.67%
- 2017: 5.91%
- 2016: 6.35%
- 2015: 6.47%

Capital Expenditures

Meralco's Capital Expenditures (CAPEX) are geared to provide the best service to customers. Working with public and private stakeholders, Meralco expands or upgrades its facilities to dovetail development plans while enabling a more resilient distribution network capable of achieving higher levels of performance amid natural challenges like typhoons, floods and other calamities.

CAPEX in 2019 was a banner year, with expenditures reaching PhP20.2 billion, 48% higher than in 2018.

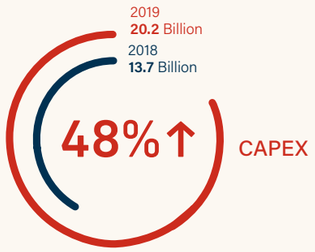
Nine (9) substation-related major Electric Capital Projects (ECPs) were completed in 2019 including the three (3) new Gas Insulated Switchgear (GIS) substations:

- Bridgetowne
- Eton-Centris
- Makati

Completed were: Southwoods substation, Calamba delivery-point substation in Laguna, and four (4) capacity expansion projects for TMC-II, Filinvest, Sta. Rosa II and Tagaytay West substations. The sub-transmission system was further strengthened with the construction of two (2) new 115 kV lines, namely, the San Jose-Novaliches and the Teresa-Tagbac lines. In addition to the above-mentioned substation and sub-transmission projects, the Company replaced the old power transformer bank at Marikina substation as part of its equipment renewal program.

These major capital projects were complemented by 51 other projects, mainly involving the upgrading and flexibility improvement of our primary distribution lines.

At the end of 2019, the total power transformer capacity was 18,576 MVA, while primary circuit length covered 19,137 kilometers within the Meralco franchise area.



18,576 MVA
Total Power Transformer Capacity

19,137 km
Primary Circuit-Length Coverage

A Bridge to Progress: Bridgetowne Gas-Insulated Switchgear Substation

The Bridgetowne Gas Insulated Switchgear (GIS) substation was constructed on a 1,293 sq. m. lot provided by Robinsons Land Corporation (RLC) within its 31-hectare township, Bridgetowne, in Ugong Norte, Quezon City. This facility will secure the energy needs of the development for the next three (3) decades while improving the reliability of power to nearby residential communities in Quezon City, Pasig, Cainta, and Mandaluyong City.

It was inaugurated on November 21, 2019, and is a 115 kV to 34.5 kV facility that has an initial capacity of 83 MVA with provisions to accommodate two (2) more transformer banks. This means that Meralco is able to secure RLC's future energy needs in fulfilling its vision for Bridgetowne, which will feature residential condominiums, office buildings, shopping centers, hotels, parks, a school, a hospital, and a public art installation.

This electrical facility provides an underground distribution system that employs full automation technology and enables the remote-control operation of the facility. Following the International Electrotechnical Commissions 61850 digital communication protocol designed for electrical substations, this state-of-the-art model allows Meralco personnel stationed in the Head Office to monitor, control, isolate and address in real time distribution grid alerts in the vicinity of Bridgetowne.

Inauguration of Bridgetowne Substation

Meralco's timely implementation of relocation works along North Avenue in Quezon City supported the government's MRT-7 project

Boosting Build, Build, Build

The Duterte Government's priority "Build, Build, Build" (BBB) projects were boosted by Meralco's efforts to clear the way for their speedy implementation. Overcoming permit requirements from various private and public entities, Meralco relocated or cleared its electric lines so that BBB is continuous and electricity is up whenever, wherever it is needed.

Collaborating with the various stakeholders from the private sector, project proponents, general contractors, and various government agencies, Meralco was a partner for progress for the country and the communities that directly benefitted from BBB.

Among the notable projects in 2019 were the relocation of 1,401 poles to dovetail the construction of Skyway Stage 3, MRT-7, NLEX-Harbour Link (C3-R10), and CALAX. In addition, a total of 1,114 poles were relocated for the road widening projects of the Department of Public Works and Highways (DPWH).

Meralco's first solar battery microgrid in Isla Verde, Batangas

Meralco Electrification Program (MEP)

This program strives to provide power for all by ensuring all homes within the franchise area are energized. In 2019, Meralco installed 41.4 kilometers of distribution lines on 1,862 poles and 216 distribution transformers with total capacity of 11,125 kVA, which energized a total of 130 sites (3,713 households). With these efforts, Meralco achieved 99.6% penetration of all households in Meralco's franchise area.

Meralco activated its first solar-battery microgrid at Isla Verde, Batangas and a hybrid microgrid in Cagbalete Island, Quezon to provide stable and reliable power to 250 households in these far-flung areas. The Isla Verde microgrid saw the installation of 32 kWp solar photovoltaic (PV) panels and an 18 kW (192 kW) battery energy storage system (BESS), benefiting 29 households.

Meanwhile, 60 kWp solar PV panels and a 30 kW (150 kWh) BESS were deployed in Cagbalete, powering 154 households.

In 2020, Meralco aims to energize 244 sites (21,608 households) which will bring it closer to achieving 100% energization of Meralco's franchise area.

Meralco's BBB support lights the way for Skyway Stage 3

Meralco is a pillar of support for the country's BBB development plan. An example of this dedication was in the Company's efforts for the construction of the Skyway Stage 3, working closely with the project proponent, its contractors, and telecommunication utilities to provide the necessary safe working clearances from the energized electrical facilities.

In its clearing activities, Meralco clocked in 332,742 man-hours from 2015 to 2019 to retire 641 poles and install 1,184 new poles out of 1,241 pre-identified electrical structures.

Meralco carried out detailed and strategic plans anchored on strong teamwork and the "bayanihan" spirit, assembling the contingent of crews that maximized on results while minimizing outage duration for more than 300,000 Meralco customers residing or conducting business in the affected areas.

The 18.93-km, elevated six-lane Metro Manila Skyway Stage 3 is targeted to be completed in December 2020 and will connect the North Luzon Expressway (NLEX) to the South Luzon Expressway (SLEX). It will improve accessibility, connectivity, and mobility in and out of Metro Manila and is the last phase of the Metro Manila Skyway System.

On top of this, Meralco has also been supporting the government for other BBB projects like NLEX-SLEX Connector Road, C3 R10 Road, Cavite-Laguna Expressway (CALAX), Skyway Stage 2 Extension, C5-Southlink, PNR North 1 (N1), MRT-7, Unified Common Station, LRT-1 Cavite Extension, C6-Southeast Metro Manila Expressway (SEMME), Lawton Avenue road widening, rehabilitation of EDSA-Guadalupe and Estrella-Pantaleon bridges, and construction of BGC-Ortigas Link and Binondo-Intramuros bridges.

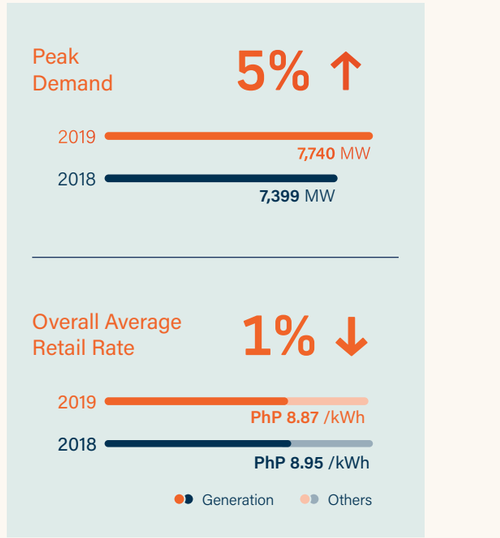
Power Supply and Demand

Electricity consumption sustained an upward trend in 2019, placing the Net System Input (NSI) at a record of 49,251 GWh, surpassing 46,734 GWh in 2018 by 5%.

Correspondingly, Meralco's peak demand grew by 5%, hitting a new high of 7,740 MW compared with 7,399 MW in 2018. The non-coincident demand in Luzon peaked at 11,344 MW, higher than the 10,876 MW level in 2018 by 4%.

To cover the 1,900 MW capacity provided by Power Supply Agreements (PSAs) expiring in December 2019, Meralco underwent a Competitive Selection Process (CSP) from July to September 2019 in accordance with the Department of Energy (DOE) Department Circular No. DC2018-02-0003. The Terms of Reference (TOR) for the 10-year PSA for the supply of 1,200 MW (net) baseload and five-year PSA for the supply of 500 MW (net) mid-merit capacity beginning December 26, 2019 was technology agnostic and pro-consumer with the requirement of 100% guaranteed availability and straight, all-peso energy price over the contract term.

After successful CSPs, the PSAs were awarded to power suppliers using conventional and renewable sources of energy. The resulting prices were significantly lower than the reserve price and existing average generation cost. It is expected that once implemented, the new PSAs will bring down the generation charge and save Meralco consumers around PhP0.40 per kWh or PhP14 billion per year.



Customer Bill

In 2019, the overall average retail rate of electricity went down by 1% to PhP8.87 per kWh, from an PhP8.95 per kWh average rate in 2018.

The generation charge in 2019 averaged PhP5.22 per kWh and remained the single largest component of the customer bill, accounting for 59% of the total. It increased by 2% from its 2018 level primarily due to tight supply conditions in the Luzon grid that led to higher Wholesale Electricity Spot Market (WESM) charges. It will be recalled that the Luzon Grid experienced 51 days of Yellow Alerts and 15 days of Red Alerts in 2019.

The higher generation charges were offset by reductions in other pass-through charges, namely, transmission, system loss, taxes, subsidies, and universal charges.

Meralco's distribution charge has remained unchanged since July 2015.

There has been no change in Meralco's distribution charge since July 2015

Customer Service

Addressing an increasingly multi-dimensional energy customer with high expectations for excellent service experience was the challenge of 2019.

Thus, the Company enhanced the features of its browser and app service, "Meralco Online," and added a bot in its Facebook page, enabling near real-time response. It also maintained a robust live agent and business center experience with improved processes to make transactions with Meralco simple, fast, and convenient. With the Energy Efficiency and Conservation Act of 2019, customers were also hungry for information, and the Company implemented forums and programs.

Meralco ensured it met the challenges on all fronts and across the broad segments of residential, small/medium scale enterprises, and corporate customers.

This resulted in a significant increase in the Customer Satisfaction Index (CSI) score, from 8.25 in 2018 to 8.37 in 2019. The CSI measures the Company's overall performance based on service attributes such as service quality, rates, bill transparency, communication programs, and personnel.

Meralco Online

Since its launch in September 2018, Meralco Online has reached 385,000 active accounts, 354,797 registrations and 707,000 mobile app downloads driven by its integrated marketing campaign covering offline and online channels.

With its hero features already delivering 17,000 filed outage reports and 545,000 payment transactions amounting to PhP1.8 billion in collections, Meralco Online is set to further enhance its online customer experience in 2020 through the integration of new and improved features. Providing daily consumption information online for postpaid customers will be piloted in 2020, as this will empower customers to better control and manage their electricity bills.

Aside from providing a simple, fast and convenient customer experience, Meralco Online's Paperless Billing and Online Payment features enable customers to do away with physical copies of their bill and limit the need to go to the business center to pay, making the simplest of transactions sustainable.

8.37
Customer Satisfaction Index
At par with all-time high

Power Up Forum and Energizing Partnerships Program

The Meralco Power Up Forum has become the venue for businesses to get the latest developments in the energy industry: energy efficiency and conservation law, power supply forecasts, and the latest energy solutions. In 2019, owners and decision makers from 994 companies attended the 20 forums Meralco organized.

In line with the global mandate to adopt sustainability initiatives and reporting as a business practice, Meralco introduced a special forum with a globally renowned speaker to help customers better understand sustainability reporting, and how we can partner in helping achieve the country's sustainability goals through energy initiatives. Notable guests from 19 local government units (LGUs) and 91 companies participated in this event.

The Meralco Power Up Forum also forges and reinforces partnerships with LGUs. In 2019, Meralco hosted 12 barangay forums and 595 information campaigns. Under its Energizing Partnership Program (EPP), Meralco supported the Quezon City LGU's initiative in reducing the processing time for the Certificate of Final Electrical Inspection (CFEI) so that entrepreneurs can get their businesses energized in the soonest possible time.

organized **20** Power Up Forums

attended by **994** Companies

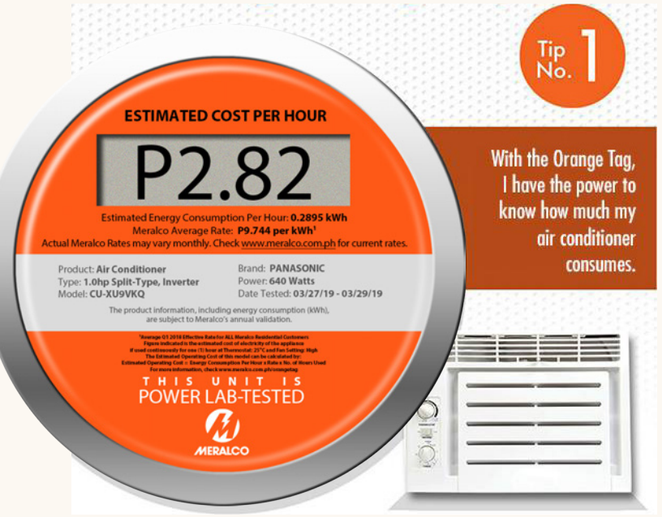
hosted **12** barangay forums

hosted **595** information campaigns

Prepaid Electricity Service (PRES)

Meralco ended 2019 maintaining 101,941 customers on PRES despite challenges in expanding its footprint. PRES customers continue to enjoy the benefit of monitoring and controlling consumption to better manage the household budget as evidenced by the 13% to 16% savings enjoyed by those who shifted from postpaid to PRES.

The service is available within residential areas in 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 until the planned expansion to more areas in 2020.



Bright Ideas and Orange Tag

Bright Ideas and Orange Tag empower customers to make informed decisions on appliance usage and purchase through energy efficiency tips and information on the cost to operate an appliance. Based on Customer Satisfaction Index survey, the relevance score of Bright Ideas increased from 83% in 2018 to 93% in 2019. Similarly, Orange Tag relevance grew from 75% in 2018 to 89% in 2019. These are attributed to the sustained communications for Bright Ideas plus its foray into new channels and social media formats. Appliance store presence grew with 102 Orange tags released for the year covering seven categories.

Meralco will continue its partnership with reputable brands across various appliance categories, offering exclusive promotions to help ease the customers' transition to more efficient technologies and enable adoption of new gadgets and appliances to improve quality of life as they move into the era of sustainability.

Social Media

Meralco maintains a strong social media presence, with dedicated accounts on Facebook, Twitter, LinkedIn, Instagram, and YouTube. The Meralco Facebook (810,000 fans) and Twitter (2.2 million followers) accounts provide customers with real-time access to Meralco for account-related inquiries and general service information.

In 2019, Meralco's Facebook posts had a cumulative reach of 61 million followers, with an average engagement rate that is 57% above the average in the Philippines.

With the increasing number of digitally savvy customers that interact with Meralco, phone calls to Meralco's Call Center continue to decrease, and our social media agents resolved 684,000 cases for the year. SocialBakers, a global social media analytics company that monitors social media performance, recognized Meralco in its "Top 10 Most Socially Devoted" industrial brands globally for most of 2019.

Meralco uses social media to make proactive announcements on service interruptions, offer energy efficiency tips, share partnership stories with LGUs, small/medium businesses, and corporate customers, and provide update on energy solutions and programs. With these efforts, positive sentiment was at a five (5) year high at 18% versus the 11% of the preceding four (4) years. Monitoring social media channels also enables Meralco to keep abreast of trends and ensure the relevance of service offerings with the dynamic customer landscape.

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Customer Excellence Awards

The Stevie International Business Awards gave Meralco's customer communications programs four (4) golds and three (3) bronzes in 2019, the Company's highest-ever haul of golds. Cited for their excellence with gold trophies were:

- the Meralco Luminaries which highlights the Company's partnerships with local government units, small and medium enterprises, and corporate business;
- the recently launched Meralco Online portal;
- the Meralco Technology and Innovation Summit which showcased the Company's plans for the future; and
- Typhoon Watch which hand-holds customers on precautions before, during, and after a typhoon.

The prestigious Stevie International Business Awards is an annual awards program that honors and generates public recognition of the achievements and positive contributions of organizations and working professionals worldwide and is one of the world's most coveted prizes. Meralco was among the top winners from the Philippines. In the Asia Pacific Stevie Awards held in Tokyo, Japan, "Traci," Meralco's chatbot for recruitment also won a gold. In addition, Meralco won four (4) silvers and three (3) bronzes.

Stevie International and Philippine Quill awardees at a celebratory event at Grand Hyatt.

In the Philippine Quill Awards 2019, Meralco won much coveted "top awards," besting all other entries in their categories. Meralco won Top Award for Communications Research with One Meralco Foundation's Household Electrification Program and Top Award for Communication Skills for Typhoon Watch. Meralco also won Excellence citations for Meralco Advisory and its unified annual reports for Meralco and One Meralco Foundation.

After winning "Company of the Year" four (4) times, Meralco settled for 2nd runner up in 2019, still the winningest company in the history of the Philippine Quill.

Meralco President and CEO Ray C. Espinosa with Meralco's haul of Stevies and Quill trophies.

Workplace Excellence

Engaging and Empowering Our Workforce

The culture of *malasakit* makes it imperative for us to provide good customer experience as we provide service to power homes and communities. Meralco ensured it met the challenges on all fronts and across the broad segments.

We engage our employees and drive productivity by rewarding for performance, providing competitive remuneration, and offering holistic development – mind, body and spirit.

In 2019, Meralco employed a 5,755-strong workforce, primarily composed of linemen, technicians, engineers, and professional talents. We provide equal opportunities for women in the workplace who are well represented in all levels of the organization from top management, technical-professionals, engineering positions as well as in our linemen and front liners. #Excellence was the engagement theme and call to action for 2019 to motivate and encourage all employees to provide excellent service to customers.

Talent Management and Succession Planning Programs

Talent Management and Succession Planning Programs are top priorities in the HR agenda by ensuring that the right leaders and talents are in place to drive our business plans. Progressive talent management assessment tools and methodologies were used to identify, assess, and develop leaders for critical positions. Over 80 leaders were involved, covering 386 employees in talent review sessions paving the way for customized programs such as coaching, on-the-job exposure and classroom learning interventions to develop them for higher roles.

We engage our employees and drive productivity by rewarding for performance, providing competitive remuneration and offering holistic development – mind, body and spirit.

Employee Development

Employee Development is a key engagement driver for Meralco as we dedicated 243,667 training hours for 2019 or an average of 42 training hours annually per employee. The Meralco Cadet Engineering Program (MCEP) allowed 75 bright new engineering graduates in the country to undergo a four-month guided immersion in various operational units with real-world assignments to hone their technical expertise and leadership competency. We on-boarded our biggest batch of linemen in 2019 who underwent the extensive Meralcof Lineman Training Curriculum to support CAPEX initiatives and the government's Build, Build, Build projects.

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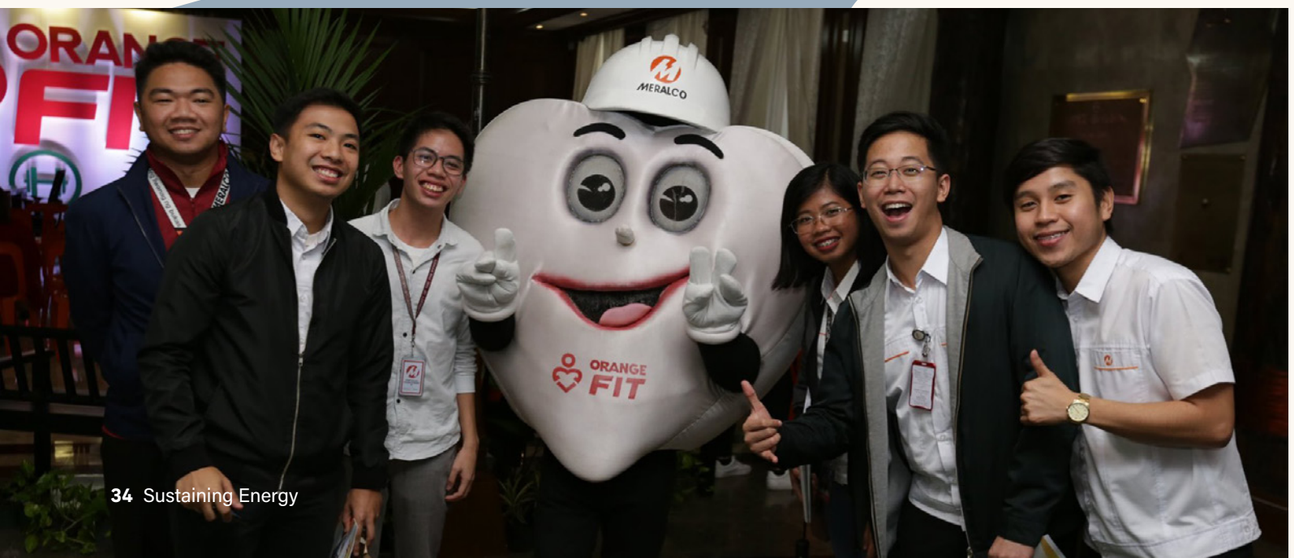
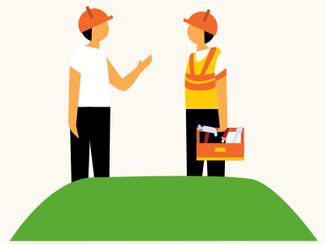
Employee Engagement and Wellness

Employee Engagement and Wellness is a holistic approach through our ORANGE FIT program that targets physical, mental and spiritual well-being. To develop physical wellness, the ORANGE FIT campaign has institutionalized sports clubs, after-work health programs (Zumba, Yoga, Cross-fit), employee sports events (sports fests, inter-office sports competition), the orange lane (to encourage walking in the Meralco Center), health reminders, and the use of the sports and health facilities.

Emotional and mental wellness are also elements of the ORANGE FIT campaign with the provision of in-house counselors and medical experts as well as access to the Zen Room made available to all employees through our Corporate Wellness Center. Spirituality is also of major importance as we ensure that different beliefs and religions have a place and venue for worship. More than 3,400 Meralco Employees actively participate in the different ORANGE FIT initiatives.



Safety, Disaster Resiliency, and Environment Programs



Safety, Disaster Resiliency, and Environment Programs help drive the sustainability of our organization and ensure a safe workplace. Meralco's "TARGET ZERO: Zero Incident, Zero Harm" was launched in 2019 and immediately improved safety performance by significantly decreasing incident frequency and severity. This was supported by award-winning safety programs such as safety alerts, an improved Incident Report Management System and Daily Safety Huddles (DASH). Meralco also successfully transitioned to the new Occupational Health and Safety (OHS) ISO Management System (45001:2018).

As part of Meralco's vision to be resilient in times of disaster, we partnered with various local government units and agencies through programs such as the Makati Shakeout Simulation Exercise, the Metro Manila Shake Drill, the hosting of the 4th Quarter Nationwide Simultaneous Earthquake Drill, and the training of 17 Meralco Rescue Team Members and 31 Incident Response Team Members through Technical Education and Skills Development Authority (TESDA).

On the environment front, Meralco ensures compliance to all applicable laws and regulations and has also successfully passed the ISO Environmental Management System (14001: 2015) external audit in 2019, with validity up to 2022.

Thus, #Excellence is not only a social hashtag, but the life in Meralco.

Meralco's "TARGET ZERO: Zero Incident, Zero Harm" was launched in 2019 and immediately improved safety performance by significantly decreasing incident frequency and severity.

Sustaining the Future

Sustaining the Future

2019 marks the year sustainability is placed at the heart of One Meralco. With sustainable development elevated to the top of its agenda, the Company believes it can more meaningfully empower its customers, communities, and the country today, and for generations to come.

Promoting the UN Sustainability Goals

In its first Sustainability Report, 'Sustaining the Future', you will find that Meralco's efforts are clearly aligned with the world's sustainability objectives— United Nations Sustainable Development Goals (SDGs).

As a leader in the Philippine energy industry, Meralco is distinctively positioned to contribute to the attainment of UN SDG 7: Affordable and Clean Energy. The Company's ability to do good, however, goes beyond energy. With its influence and scope, it promotes and supports other goals such as SDG 1 – No Poverty, SDG 8 – Decent Work and Economic Growth, and SDG 11 – Sustainable Cities.

It is against this backdrop that Meralco has crafted its sustainability agenda, driven by four (4) important focus areas: Power, Planet, People, and Prosperity.

Power: Providing Energy for All, Always

As the Philippines' leading energy distributor, Meralco's mission is to provide affordable, accessible, reliable, and clean energy in support of nation-building and sustainable growth.

One Meralco works to help ensure energy security and energy affordability. For instance, Meralco PowerGen Corporation (MGen) contributes towards meeting the country's rising energy demands by being a source of competitively-priced power. This effort is embodied in MGen's first major project—the 455 MW new baseload capacity San Buenaventura Power Plant in Mauban, Quezon which was built to help address the growing energy needs of the Luzon Grid.

As a distribution utility, Meralco secures supply based on its "least cost" mandate, also in support of energy affordability. The mechanisms that help in fulfilling this mandate include the Competitive Selection Process, as well as prudent energy sourcing practices in general.

To deliver "Energy for All, Always", Meralco is committed to providing electricity service 24x7x365 to all its customers. In 2019, Meralco achieved 99.6% electrification in its franchise area, supporting increased consumption of existing customers and energizing new ones. Yet, a few areas still remain that have no access to electricity because of their remoteness or their current lack of infrastructure. However, Meralco aims to achieve 100% electrification within its service area, to brighten the path of the most unserved and underserved of communities.

In 2019, Meralco went to great lengths to reach and energize the communities in Isla Verde, Batangas and Cagbalete Island in Mauban, Quezon with innovative microgrid solutions to help bring about sustainable development in these islands.

To provide reliable and high quality power, Meralco leverages technological advances to keep the lights on for its more than 6.9 million customers.

Amid the growth of intermittent distributed energy resources such as solar and wind, and the emergence of "prosumers", Meralco continues to modernize its grid technologies, collectively known as Smart Grid.

Finally, a global transition to cleaner sources of energy is needed to secure a healthy planet today and tomorrow. As a pledge to sustainability, MGen Renewable Energy, Inc. (MGREEN) was established in 2019 to serve as the platform for MGen's strategic push in the renewable energy (RE) space. MGREEN plans to invest in up to 1,000 MW of RE projects over the next five (5) to seven (7) years to help ensure the availability of clean and green power supply in the coming years.

Planet: Protecting and Preserving Mother Earth

Meralco takes its responsibility of being a steward of the environment very seriously. As such, the Company closely monitors and manages its greenhouse gas emissions, energy consumption, solid waste, and impacts on biodiversity. It has therefore launched sustainable-practice programs, such as an initiative to plant three (3) million trees by 2025 and most recently, a ban on single-use plastics (SUPs).

Beginning October 2019, SUPs were banned in all Company premises. Today, One Meralco is free from SUPs—including plastic shopping bags, cutlery, cups, and water bottles. The ban was also communicated to Meralco's supply chain partners, further broadening Meralco's influence on sustainable habits in its larger business ecosystem.

In addition, through its subsidiaries, MSpectrum, Inc. and eSakay, Inc. (eSakay), Meralco deploys innovative solutions to address the nation's various environmental challenges.

Through eSakay, for instance, an estimated 1.53 million individuals boarded electric vehicles in 2019. Many of these were commuters served by eSakay's Makati-Mandaluyong electric jeep operations, where 15 zero-emission vehicles were deployed in support of the government's Public Utility Vehicle Modernization Program. eSakay also professionalized the ranks of its drivers, providing income security to these front liners,

People: Cultivating a Culture of Sustainability

One Meralco sees its people as its most valuable resource and seeks to cultivate a culture of sustainability and stewardship within its ranks.

Meralco advocates to reduce inequalities and ensures inclusiveness at all levels of its organization. According to the 2019 Global Energy Talent Index Report, women account for only 9% of the workforce in the global power generation and distribution sector. In One Meralco, women make up more than triple that average, at 32%. In addition, in 2019, the number of women holding managerial positions climbed by 17% over 2018, indicative of the move towards gender parity, especially in leadership roles.

Meralco has also invested in its people's skills and capabilities. In 2019, One Meralco employees received a total of 275,084 training hours—a 33 percent increase versus 2018's 206,423 hours.

Finally, to heighten employee engagement, Meralco has established the Orange Fit program—an overall wellness program that targets physical, mental and spiritual well-being.

Prosperity: Creating Better Lives for All

The goal of Prosperity is the foundation upon which Power, Planet and People are rooted. Progress on these other fronts would not be as meaningful and impactful if it did not lead to helping people live their best possible lives.

Beyond creating value through the provision of jobs and through contributions to the economy through taxes, what gives greatest meaning to the Company's efforts is the value it delivers to its customers and communities—truly providing them power to prosper.

With customers as Meralco's reason for being, the Company invests and innovates to provide them with real power—the power to better understand consumption patterns, to launch energy efficiency measures, and most recently, the choice to engage Meralco on their own terms via Meralco Online.

Meralco Online has served 354,797 customers via web and mobile apps. In 2019, Meralco Online fielded 106,018 service applications, supported 545,000 payment transactions, and received over 19,000 paperless billing subscriptions, giving ease to customers while lowering the collective carbon footprint.

Meralco also takes its mission of bettering the lives of its larger community to heart, launching and growing initiatives with a focus on the youth and the marginalized.

Meralco, through the One Meralco Foundation (OMF), brings electricity and learning technology to public schools through its school electrification program, energizing 20 island and mountain schools in Rizal, Leyte, and Tawi-tawi, leveraging solar photovoltaic technology. In addition, OMF equipped 1,180 public schools and 772,631 students with Energy Ed Kits—a learning package with 200 flashcards which help shape the consumption habits of the youth.

One Meralco's Journey has Begun

In many respects, 2019 has given One Meralco a good baseline from which its sustainability efforts can further progress and blossom. What has been achieved so far is very encouraging, but much is left to be done as One Meralco bands together, as a family, to help build and sustain the future of a healing planet, a vibrant nation, and prosperous communities.

Sustaining Communities

Sustaining Communities

In 2019, Meralco's corporate social responsibility arm, One Meralco Foundation (OMF), helped 40,457 families work towards sustainable growth through electrification and other advocacy programs that fostered their productivity and improved their quality of life.

electrification of
8,091
homes of low-income families in the Meralco franchise area.

Energy for All

OMF (the Foundation) paved the way for the electrification of 8,091 homes of low-income families in the Meralco franchise area through its Household Electrification Program. This advocacy provides assistance to urban and rural communities that are unable to attain electrification due to financial and technical constraints.

While access to electricity is the main goal, it takes more than just Meralco to make the program sustainable. This is why the Foundation takes a multi-stakeholder approach – Meralco business centers and network sectors, local governments and the beneficiaries themselves - to address this need. As Meralco seeks innovative and sustainable ways to bring electricity to island communities such as Isla Verde, Batangas and Cagbalete Island, Quezon, OMF complements these efforts by making access to electrification viable and affordable for the residents.

In smaller, far-flung communities, the Foundation delivers power in unconventional ways. In Sitio Macantog, Tanay, Rizal, for example, OMF donated solar lighting kits to illuminate the homes of 29 families belonging to the Dumagat indigenous peoples' group who have settled in this remote, upland region of the province. The community is a three-hour hike from the last energized village.

Aside from households, a fishermen's shelter on Mavulis Island – the northern-most island of the Philippines — was energized by OMF in May. In a joint project with the Armed Forces of the Philippines, OMF installed a 3-kilowatt solar PV system to power the shelter, which is equipped with military communication devices and a cold storage where fishermen could temporarily store their catch while on the island. The structure also allows the Philippine military to maintain presence in the area deterring poaching activities by foreign fishing vessels.

More of this story in,

2019 OMF Annual Report

2019 Meralco Sustainability Report

Energizing Education

To improve the learning experience of students in remote communities, OMF brings electricity and learning technology to off-grid public schools through its school electrification program which energized 20 in 2019. These are found in the provinces of Rizal, Occidental Mindoro, Oriental Mindoro, Leyte, Negros Oriental, Western Samar, Sarangani, and Tawi-tawi. To date, the school electrification program has benefited 245 schools nationwide since its inception in 2012.

The Foundation also engaged foreign companies to be part of its mission by launching a fundraising campaign during the 2019 CEO Conference of the Association of Electricity Supply Industry of East Asia and the Western Pacific (AESIEAP). Eleven AESIEAP member companies funded the electrification of 11 out of the 20 energized schools this year.

As part of its continued support to energized schools, 221 teachers and school personnel attended trainings on the troubleshooting and maintenance of solar photovoltaic systems. The Foundation also connected them to a network of solar PV technicians in their localities who are qualified to address various technical issues.

To further improve understanding on energy issues, over 700,000 students in 1,180 public schools around the country are now using OMF's "Energy Ed" kits, a K to 12 learning package made up of 200 flashcards focused on electricity and energy topics. It addresses the need for more localized learning materials primarily on energy while inculcating 21st century skills.

In support of the Department of Education's Brigada Eskwela (schools maintenance week), 139 public schools within the Meralco franchise area were inspected for electrical safety by Meralco engineers. OMF also partnered with the Department of Environment and Natural Resources (DENR) to recognize academic institutions that implemented programs promoting electrical safety and energy efficiency.

Environmental Stewardship

OMF launched an environmental program aligned with Meralco's sustainability initiative.

Dubbed "One for Trees," it seeks to help rehabilitate endangered biodiversity in Philippine forests and protect watersheds through reforestation. The program's initial goal is to plant at least three (3) million trees in conservation sites across the country within the next six (6) years, and nurture them with the help of local farmers, peoples' organizations, and other non-profit organizations.

Close to 2,000 employee-volunteers planted an initial 23,366 trees in 13 sites during the last two (2) quarters of the year despite the short rainy season experienced in 2019.

In December, OMF launched the “Puno ng Liwanag Ang Pasko” campaign which raised PhP2.13million from Meralco employees and customers to fund the planting and nurturing of at least 11,000 trees, which will be planted in 2020.

OMF launched a campaign to plant 3 million trees within the next 6 years

More of this story in,

2019 Meralco Sustainability Report

2019 OMF Annual Report

Responding to Community Needs

OMF implemented 238 community relations projects with local government units, peoples’ organizations, homeowners’ associations, among others. These include the donation of refurbished computers, decommissioned wooden poles, sports equipment, and educational materials. By engaging Meralco's frontliners such as our Business Centers, our employees become aware of the issues in the local communities where they operate and are able to respond strategically to these needs.

OMF also provided aid to 7,729 families severely affected by calamities such as fires, floods, typhoons, and earthquakes through relief operations and power restoration. It responded to communities affected by three strong earthquakes this year: Pampanga (April), Batanes (August), and in Cotobato (October).

Apart from distributing food packs, OMF supported a team of 45 Meralco linemen and staff who volunteered to help a local electric company in Albay rehabilitate electric distribution facilities damaged by Typhoon Tisoy. With the help of Meralco's volunteers who worked long hours for 14 days, power was finally restored in 7,962 households before Christmas day.

Employees of Meralco and its subsidiaries also participated in the mission of the Foundation. Over 3,000 volunteers participated in various volunteering activities throughout the year and in partnership with the Meralco Employees Fund for Charity, they have donated to the Foundation’s various causes.

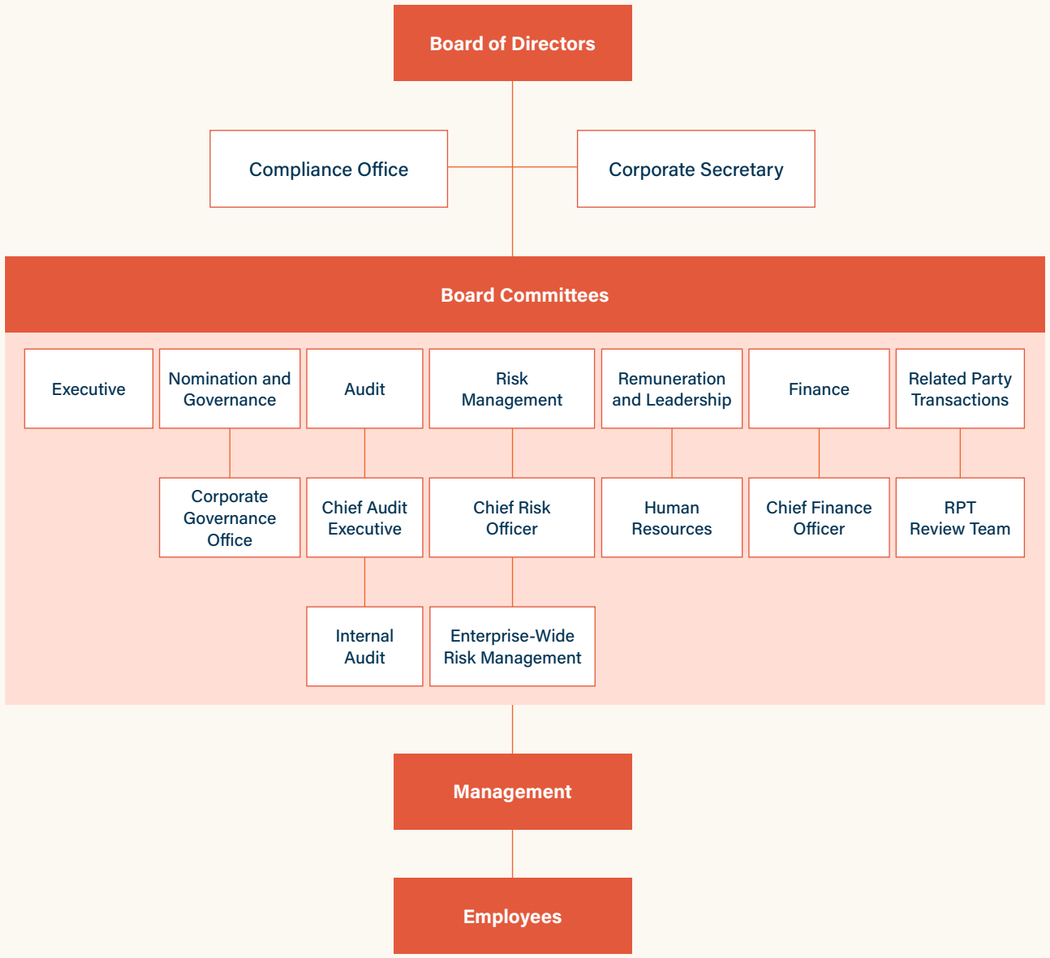
OMF capitalizes on its strength as the corporate Foundation of the Philippines' largest electric company to bring electricity and energy solutions to remote and poor communities in the Meralco franchise area and beyond. Electrification, however, is just a means to a greater end. This is why the Foundation also invests in programs that not only empower communities but sustain them, so that they can contribute to a stronger economy and serve as fellow stewards of our only planet.

Fostering Sustainability through Good Corporate Governance

Fostering Sustainability through Good Corporate Governance

Meralco ("the Company") recognizes corporate governance as an integral part of its sustainability framework. Through good corporate governance, the Company achieves its long-term strategic goals and objectives while ensuring that it fully commits to its social, organizational, and environmental responsibilities.

Guided by the principles of Fairness, Accountability, Integrity, Transparency, and Honesty (FAITH), the Company's governance structure plays a critical role in championing sustainability across the enterprise through policies and practices that enhance board and corporate performance, sustain operational growth, encourage stakeholder engagement, ensure disclosure and transparency, address risks, establish effective controls and protect shareholder rights.



The Company faithfully and consistently 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.

In line with this, the Company maintains its firm commitment to develop policies and programs in accordance with best corporate governance practices aligned with the recommendations under the SEC's 2017 Code of Corporate Governance for Publicly-Listed Companies, the Integrated Annual Corporate Governance Scorecard, and the ASEAN Corporate Governance Scorecard.

Governance Policies and Practices	Details
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.
Lead Independent Director	To reinforce board independence, the Board of Directors (Board) appointed Independent Director, Ret. Chief Justice Artemio V. Panganiban, as Lead Independent Director.
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.
Board Charter	The Board Charter sets its purposes, authority, duties, responsibilities, structure, and procedures.
Guidelines on Board Meetings through Teleconferencing and Videoconferencing	The Board Charter includes the provision for guidelines on Board meetings through teleconferencing and videoconferencing.
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 de minimis transactions and those that are recurring or infrequently occurring and the required approval by non-related party shareholders on certain RPTs. The Policy likewise provides guidelines on the review, approval, and reporting of material RPTs which amount to ten percent (10%) of the Company's total assets in accordance with SEC Rules on Material Related Party Transactions for Publicly-Listed Companies.
Acceptance of Directorship in another Company	Directors are required to notify the Company's Board before accepting a directorship in another company.
Board Assessment Supported by External Facilitator	Good Governance Advocates and Practitioners of the Philippines (GGAPP) was engaged by Meralco as an external facilitator to assess the effectiveness of board evaluation process. GGAPP is an association of good governance advocates and practitioners from various publicly listed companies, the public sector, and other organizations who have come together to promote and assist in the development of good governance in the country.
Sustainability Reporting	The Company has a clear and focused policy on the disclosure of non-financial information, with emphasis on the management of economic, environmental, social, and governance (EESG) issues of its business, which underpin sustainability and adopts a globally recognized standard/framework in reporting sustainability and non-financial issues.
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.

As a testament to its commitment towards good corporate governance and responsible management practices, Meralco was awarded with Four Golden Arrows at the ASEAN Corporate Governance Scorecard (ACGS) Recognition Ceremony of 2019 held on June 11, 2019 at the Conrad Manila, Pasay City.

A. Board Governance

The Board of Directors is responsible for defining and updating the Company's vision, mission, overall strategic directions, corporate objectives, long-term goals, and core values. It oversees and monitors the implementation of the Company's business objectives and strategy, and ensures that obligations to shareholders and to all stakeholders are understood and fulfilled.

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 objectives.

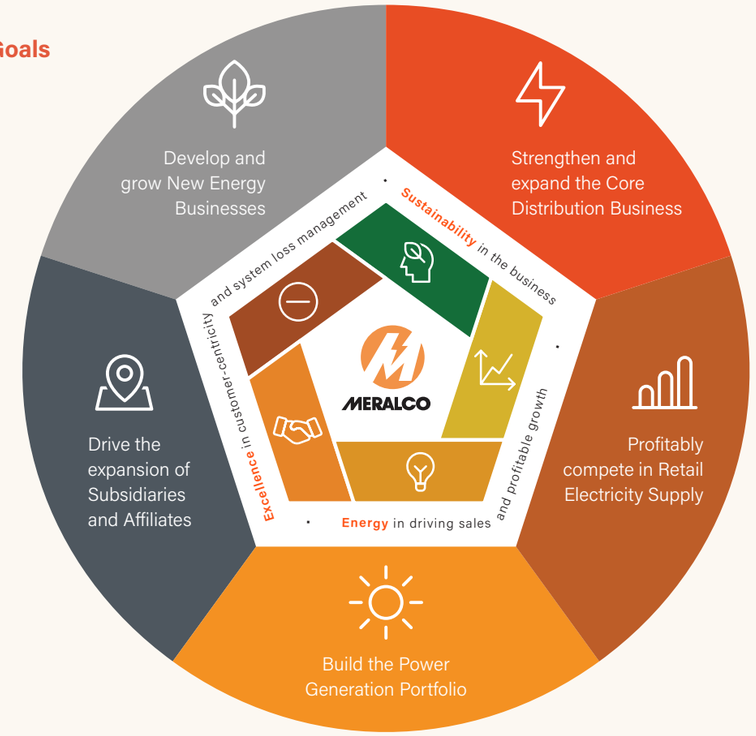
The Board promulgated the Company's Revised Manual of Corporate Governance (MCG) which mandates the Board to formulate and to annually review the Company's vision and mission statement, strategic objectives, key policies, and the mechanism for performance assessment of the Board and Management, principally the President and Chief Executive Officer (CEO).

The Board, in its regular meeting held on January 28, 2019 as part of the Board's assessment of the Company's performance in the past year, reviewed and confirmed the vision, mission, and corporate strategic objectives of the Company. In the same meeting, the Board also reviewed the Company's material controls (including operational, financial and compliance controls) and risk management systems and confirmed the Company's full compliance with the code of corporate governance.

Notably, the MCG 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 in keeping with the Company's strategic direction. The MCG was revised on April 24, 2017 to align with the recommendations under SEC Memorandum Circular No. 19, Series of 2016, otherwise known as the "Code of Corporate Governance for Publicly Listed Companies (PLCs)."

One Meralco's Strategy and Goals



Vision

To be a world-class company and the service provider of choice

Mission

To provide our customers the best value in energy , products and services

Corporate Values

- Integrity and Transparency
- Malasakit
- Makabayan
- Performance
- Accountability
- Customer Service
- Teamwork

A.1 Composition

In accordance with the provisions of the Securities Regulation Code (SRC), the Company ensures that it has a diverse Board consisting of eleven (11) directors, majority of whom are non-executive directors while two (2) are Independent Directors (ID), namely, Ret. Chief Justice Artemio V. Panganiban and Mr. Pedro E. Roxas.

The Nomination and Governance Committee (Nom&Gov) reviews the nomination, selection, and composition of the Board pursuant to the Nomination and Election Policy. Additionally, it affirms that its members have a proper mix of qualifications, background, experience, independence, and skills needed to effectually perform its responsibilities in accordance with the Board Diversity Policy. The Policy promotes diversity to encourage critical discussion and foster a balanced decision in the attainment of the Company's strategic objectives and sustainable development. The Policy likewise provides for measurable objectives for implementing its board diversity and for reporting on progress in achieving its objectives.

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

A.2 Independent Directors

On April 1, 2019, the Nom&Gov assessed the profiles of the directors and found that the independent, non-executive directors are indeed independent of the Company, its related corporations, its management or substantial shareholders that could interfere, or be reasonably perceived to interfere, with the exercise of the director's independent business judgment. The Nom&Gov had reviewed the multiple board representations held presently by the directors and assessed that they are reasonable and do not hinder in any way the performance of their duties to the Company.

The Board designated Ret. Chief Justice Panganiban as a lead independent director to perform the following functions:

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

A.3 Chairman of the Board

The Chairman of the Board, Mr. Manuel V. Pangilinan, serves to represent the interests of all shareholders and stakeholders, and to oversee the performance of the Board and its directors. He champions exemplary ethical governance principles with the Board and to the Company.

Together with President and CEO, Atty. Ray C. Espinosa, the Corporate Secretary, Atty. Simeon Ken R. Ferrer and the Compliance Officer, Atty. William S. Pamintuan, the Chairman sets clear agenda before each Board meeting. He provides opportunities for all directors to actively participate, addresses governance-related issues that non-executive, independent directors may raise, and ensures that the Board exercises strong oversight over the Company and its Management such that the prospect of any corporate risk or threat is adequately and effectively addressed. His roles and responsibilities are specified in the MCG, which is accessible at the Company's website.

A.4 Meetings and Major Accomplishments

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

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

2019 ASM and Board Meeting Attendance			
Director	**Designation**	**Annual Stockholders' Meeting**	**Board and Organizational Meetings**
Manuel V. Pangilinan	Chairman	Present	13/13
Lance Y. Gokongwei	Director	Present	13/13
Ray C. Espinosa[1]	Director	Present	13/13
James L. Go	Director	Present	13/13
John L. Gokongwei Jr.[2]	Director	Present	11/11
Jose Ma. K. Lim	Director	Present	12/13
Elpidio L. Ibañez	Director	Present	13/13
Anabelle L. Chua	Director	Present	13/13
Artemio V. Panganiban[3]	Lead Independent Director	Present	13/13
Pedro E. Roxas	Independent Director	Present	11/13
Oscar S. Reyes[4]	Director	Present	6/6
Victorico P. Vargas[5]	Director	-	7/7
Frederick D. Go[2]	Director	-	2/2

[1] President and CEO (as of May 28, 2019)
[2] On the passing of Mr. John L. Gokongwei, Jr., Mr. Frederick D. Go was appointed as replacement
[3] Lead Independent Director
[4] End of term as director in May 28, 2019
[5] Elected during 2019 ASM

In 2019, the Board's major accomplishments include the following:

Major Projects/Policy Decisions

- Evaluation of compliance with the SEC Revised Code of Corporate Governance for PLCs
- Approval of the 2018 Integrated Annual Corporate Governance Report (I-ACGR)
- Review and approval of the Revised RPT Policy, Revised Nomination and Governance Committee Charter, and Revised Audit Committee Charter
- Conduct of the 2019 ASM, including appointment of inspectors and canvassers for the ASM ballots
- Screening of nominees to the Board
- Approval of 2020 schedule of Board meetings
- Review and approval of the election of replacement director
- Review and approval of the appointment of the Deputy CEO, President and CEO, Chief Sustainability Officer (CSO), and Chief Information Security Officer (CISO)
- Review and approval of the Board committee composition
- Evaluation of compliance to Energy Regulatory Commission (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, Interim Power Supply Agreements (IPSAs) and Power Supply Agreements (PSAs), technical services agreements, pole relocation projects, and other local and international business initiatives
- Approval of Audited Financial Statements (AFS)
- Evaluation of incumbent external auditor and nomination of external auditor for 2019
- Approval of report of external auditor covering the Company's AFS
- 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 2020 budget and the 2020-2024 business plan
- Approval of budget realignment for certain services
- Monitoring of Investment Committee report
- Review and approval of corporate strategic objectives
- Monitoring of the implementation of corporate strategies
- Review of forecast of subsidiaries' projects

Major Investment Funding

- Infusion of equity to subsidiaries, affiliates and joint ventures.
- Renewal of credit lines, credit facilities, and bonds

In 2019, the Company's non-executive directors met nine (9) times without the presence of an executive director. The agenda in these meetings were the Management's reports, corporate governance directions, reports of the internal and external auditor, and the performance assessment of the President and CEO.

A.5 Corporate Secretary and Compliance Officer

All Board members have direct and independent access to the Corporate Secretary, the Compliance Officer and Management.

The Corporate Secretary, Atty. Simeon Ken R. Ferrer, under the direction of the Chairman, is responsible for ensuring that good information flows within the Board and Board Committees and between Management and non-executive directors. He also facilitates the orientation and assists with the professional development of directors as required by regulators. He met all the qualifications and skills required for his position.

The Board is likewise assisted by Company's Compliance Officer and Senior Vice President, Atty. William S. Pamintuan, who has the duties to monitor, review, evaluate and ensure the compliance by the corporation, its officers and directors with the relevant laws, rules and regulations and all governance issuances of regulatory agencies and report violations thereof to the Board and recommend the imposition of appropriate disciplinary action.

The qualifications, duties and responsibilities of the Corporate Secretary and Compliance Officer are stated in the MCG and Board Charter. In accordance with the MCG, they regularly attend trainings on corporate governance.

A.6 Board Committees

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

2019 Board Committee Meeting Attendance							
	FinCom	AuditCom	RMC	RPTCom	Nom&Gov	RLDC	ExCom
Manuel V. Pangilinan[1]	n/a	n/a	n/a	n/a	n/a	6/6	2/2
Lance Y. Gokongwei[2]	1/1	5/7	1/2	2/2	4/5	6/6	2/2
Ray C. Espinosa[3]	5/5	n/a	n/a	n/a	n/a	n/a	n/a
James L. Go	12/12	7/7	2/2	2/2	5/5	n/a	2/2
John L. Gokongwei Jr.[2]	10/10	n/a	n/a	n/a	n/a	n/a	n/a
Jose Ma. K. Lim[4]	n/a	6/7	2/2	0/2	3/5	4/4	1/2
Elpidio L. Ibañez	12/12	n/a	n/a	n/a	n/a	n/a	n/a
Anabelle L. Chua[5]	12/12	7/7	2/2	2/2	5/5	n/a	n/a
Artemio V. Panganiban[6]	n/a	7/7	2/2	2/2	n/a	n/a	2/2
Pedro E. Roxas[7]	10/12	5/7	2/2	2/2	5/5	5/6	n/a
Oscar S. Reyes	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Victorico P. Vargas[8]	7/7	n/a	n/a	n/a	n/a	2/2	n/a

[1] Chairman, ExCom and RLDC
[2] On the passing of Mr. John Gokongwei, Jr., Mr. Lance Y. Gokongwei was appointed as member of the FinCom to replace him
[3] Chairman, FinCom (until May 28, 2019 ASM/Organizational Meeting); President and CEO (as of May 28, 2019)
[4] Chairman, RMC
[5] Chairman, FinCom (starting May 28, 2019 ASM/Organizational Meeting)
[6] Chairman, AuditCom, Lead Independent Director
[7] Chairman, Nom&Gov; Chairman RPTCom; Independent Director
[8] Elected during 2019 ASM

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

A. Executive Committee (ExCom)

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

B. Remuneration and Leadership Development Committee (RLDC)

is composed of four (4) directors, one (1) of whom is an independent director. The duties and responsibilities of the 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 six (6) meetings in 2019 and accomplished the following:

- Approval of candidates for rank conferment to President and CEO, Deputy CEO, Senior Vice President, First Vice President, Vice President, and President and CEO of Clark Electric Distribution Corporation
- Review of performance evaluation plan results
- Review of merit increase programs
- Review of annual incentive plan
- Review and endorsement of the 2019-2021 collective bargaining agreement negotiations with the rank and file union
- Presentation and review of proposed succession planning programs

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

Details of 2019 Board Remuneration (in PhP)			
	Remuneration for Board Meetings Attended in 2019	Remuneration for Committee Meetings Attended in 2019	TOTAL
Executive Director			
Ray C. Espinosa	1,680,000	120,000	**1,800,000**
Oscar S. Reyes	700,000	-	**700,000**
Non-executive Director			
Manuel V. Pangilinan	1,680,000	168,000	**1,848,000**
Lance Y. Gokongwei	1,680,000	432,000	**2,112,000**
James L. Go	1,680,000	648,000	**2,328,000**
John L. Gokongwei, Jr.	1,400,000	240,000	**1,640,000**
Jose Ma. K. Lim	1,540,000	312,000	**1,852,000**
Elpidio L. Ibañez	1,680,000	288,000	**1,968,000**
Anabelle L. Chua	1,680,000	624,000	**2,304,000**
Victorico P. Vargas	980,000	216,000	**1,196,000**
Frederick D. Go	280,000	-	**280,000**
Independent Director			
Pedro E. Roxas	1,680,000	288,000	**1,968,000**
Artemio V. Panganiban	1,400,000	648,000	**2,048,000**
Total Independent Directors	3,080,000	936,000	**4,016,000**
GRAND TOTAL	**18,060,000**	**3,984,000**	**22,044,000**

For the President and Management, the framework takes into account all aspects of executive remuneration including salaries, allowances, bonuses, and benefits in kind. The framework is benchmarked against pay and employment conditions within the industry and it links rewards to corporate and individual performance.

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

Remuneration of Key Management and Employees

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

The top five (5) key officers of the Company have received an aggregate remuneration of PhP308 million. For more information on the aggregate total remuneration paid to all key officers, please refer to the discussion entitled Compensation of Key Management Personnel in the Notes to Consolidated Financial Statements.

Advisers/Consultants to Remuneration and Leadership Development Committee

Meralco engaged a human resources consultancy firm to assist in the areas of employee engagement, and compensation and benefits management.

C. Nomination and Governance Committee (Nom&Gov)

The Nom&Gov is composed of 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 new directors aligned with the Company's strategic directions. It reviews and recommends to the Board the appointment of members to the Board Committees. The process involves identifying, reviewing, and recommending potential candidates to the Board for consideration.

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

These candidates are sourced from the business network of Board members and from professional search firms such as the Institute of Corporate Directors (ICD), or from shareholders. The Company's Corporate Secretary, Atty. Simeon Ken R. Ferrer, is an ICD Fellow. These candidates should be skilled in core competencies such as strategic planning, business expertise, and industry knowledge.

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

The Company sends out a formal letter setting the responsibilities of the duly elected director. The new director will then attend an onboarding program facilitated by the Corporate Governance Office (CGO).

The Nom&Gov held five (5) meetings in 2019 and performed the following:

- Reviewed the results of Board, Board Committees, and President and CEO performance assessment
- Assessed Meralco's public ownership report
- Screened the nominees to the Board
- Reviewed the Board committee composition
- Assessed Meralco's Revised ASEAN Corporate Governance Scorecard (ACGS)
- Reviewed and endorsed Meralco's Integrated Annual Corporate Governance Report (I-ACGR) for 2018
- Reviewed and approved the Revised Related Party Transactions Policy
- Discussed the implementation of electronic voting in absentia for the 2020 ASM
- Reviewed the engagement of an external facilitator to assess Board effectiveness
- Facilitated the annual CG enhancement and continuing education programs
- Conducted the onboarding orientation for the new director, Mr. Victorico P. Vargas

D. Audit Committee (AuditCom)

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

The AuditCom had seven (7) meetings in 2019 with the following accomplishments:

Internal Control

- Obtained management's assurance on the adequacy and effectiveness of the Company's internal control system and noted Management's Control Policy
- Evaluated the effectiveness of the internal control system of the Company
- Prepared a briefing for Sustainability reporting

Financial Reporting

- Reviewed the unaudited Consolidated Quarterly Financial Statements and the Audited Consolidated Annual Financial Statements of the Company
- Endorsed for Board approval the Audited Consolidated Financial Statements of the Company

Audit Process

- Assessed the independence, performance, and effectiveness of the External Auditor, SGV & Co. CPAs (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 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 Securities Regulation Code 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 her quarterly reports to the Committee.
- 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
- Updated the Internal Audit Charter

Compliance

- Reviewed and assessed Management's processes of monitoring compliance with laws and regulations through Internal Audit.
- Reviewed and assessed subsidiaries' and associate companies' 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 regulators concerned with environment and safety, labor, and others.

E. Risk Management Committee (RMC)

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

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

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

F. Finance Committee (FinCom)

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

In its 12 meetings in 2019, 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 interim and 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 the annual budget and medium-term business plan and forecast
- Review of Meralco's directors and officers' insurance policy
- Review additional capital calls, surety bonds, capital infusions for subsidiaries
- Review of special payment agreements
- Review of equity calls
- Review of investments
- Review and endorsement of the renewal of Wholesale Electricity Spot Market surety bond for the retail electricity supply transactions

G. Related Party Transactions Committee (RPTCom)

The RPTCom consists of six (6) directors, two (2) of whom are independent directors. It assists the Board in reviewing material/significant RPTs to determine whether they are in the best interest of the Company and shareholders, and ensure that all RPTs of the Company are conducted in fair and at arms' length terms. The following activities were accomplished by the RPTCom in 2019:

- Reviewed and endorsed the Revised RPT Policy and Guidelines
- Reviewed and endorsed material and significant RPTs for the Board's approval.

A.7 Orientation and Continuing Education Programs

The Board of Directors ensures that the Company complies with all relevant laws, regulations, and endeavor to adopt best business practices. Towards this end, the Board keeps abreast with the latest developments in the corporate governance regulatory landscape and implements a policy on orientation and continuing training for all directors and key officers, including an annual CG training with SEC-Accredited providers, in accordance with the Board Charter and the MCG.

The Company has a policy that encourages directors to attend annual continuing training programs. In fulfillment of such policy and the requirements of the Company's MCG, the ERC Resolution No. 1, Series of 2004, and the SEC Memo Circular No. 20, Series of 2013, the Directors, together with the Senior Management, attended the 14th Annual Corporate Governance Enhancement Session (ACGES) on September 26, 2019, entitled "5G Technology Strategy and Governance: Market Trends and New Business Applications, Risks and Challenges; and Cyber Security: Protecting Critical Business Infrastructure." The ACGES covers four (4) hours of governance training and was accredited by the SEC.

2019 Attendance to Corporate Governance Training and Continuing Education Programs

Director	Program	Resource Person/ Name of Training Institution
Manuel V. Pangilinan **Ray C. Espinosa** **Anabelle L. Chua** **Elpidio L. Ibañez** **Victorico P. Vargas** **Ret. Chief Justice Artemio V. Panganiban**	MVP Group 14th Annual Corporate Governance Enhancement Session: 5G Technology Strategy and Governance: Market Trends and New Business Applications, Risks and Challenges; and Cyber Security: Protecting Critical Business Infrastructure	**Ms. Claudia Hyunah Park** VP of Product Planning Group Networks Business Division, Samsung Electronics Co., Ltd. **Mr. Byungsik Kim** VP of Next Generation Technology, KT Network Group **Mr. Rob Partridge** Head of Commercial Development for Offensive Security and Head of Outreach, BT **Mr. Craig A. Gonzales** Head of Ethical Hacking Operations, BT
Lance Y. Gokongwei	Corporate Governance Training on "The Future of Work"	**Mr. Ranjay Gulati** Harvard Business School
Jose Ma. K. Lim	Distinguished Corporate Governance Speaker Series: Integrating Sustainability and Innovation in Corporate Strategy	**Mr. Matthew McKinnon** AROHA **Ms. Sara Ahmed** Institute for Energy Economics and Financial Analysis
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.	
Pedro E. Roxas	MVP Group 14th Annual Corporate Governance Enhancement Session: 5G Technology Strategy and Governance: Market Trends and New Business Applications, Risks and Challenges; and Cyber Security: Protecting Critical Business Infrastructure	**Ms. Claudia Hyunah Park** VP of Product Planning Group Networks Business Division, Samsung Electronics Co., Ltd. **Mr. Byungsik Kim** VP of Next Generation Technology, KT Network Group **Mr. Rob Partridge** Head of Commercial Development for Offensive Security and Head of Outreach, BT **Mr. Craig A. Gonzales** Head of Ethical Hacking Operations, BT
	Distinguished Corporate Governance Speaker Series	**Ms. Deborah Latimer** Deloitte Australia **Professor Michael Hilb, PhD** DBP Holding

A.8 Board, Committee and CEO Performance Assessment

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

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

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

2. **General Board Committee Performance Assessment** – each director assessed the overall performance of the following committees, based on the provisions of the Board Committee Charters.

3. **Board Committee Self-Assessment** – each committee member assessed his committee's performance vis-à-vis the respective charters and SEC's Guidelines for the Assessment of the Performance of Audit Committee of Companies Listed on the Exchange.

4. **President and CEO Performance Assessment** – each director assessed the President & CEO's leadership, working relations with the Board, communication and working relations with Management.

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.

Performance Indicators	
Financial	**Non-Financial**
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.	• Customer Satisfaction Index (CSI) • Customers served and Sales per employee ratios • S-Factor Indicators – 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

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

B. Rights of Shareholders

The Company recognizes the rights of all shareholders as provided in the Corporation Code of the Philippines, other pertinent laws, rules, and regulations, the Company's Articles of Incorporation, Amended By-Laws and 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 cash and unrestricted retained earnings in accordance with the guidelines of the SEC.

Following are the cash dividends declared by the Board on common shares for 2019:

Declaration Date	Record Date	Payable Date	Rate per Share
February 26, 2019	March 22, 2019	April 15, 2019	PhP 10.594
July 29, 2019	August 20, 2019	September 20, 2019	PhP 5.464

B.2 Right to Participate in Decisions

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

- Changes or amendments to the Company's Articles of Incorporation or By-laws
- Authorization for issuance of additional shares
- Authorization of extraordinary transactions, including the transfer of all or substantially all assets that in effect result in the sale of the Company
- Approval of remuneration or increase in remuneration of directors
- Voting by proxy

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 28, 2019. The Definitive Information Statement (DIS) was distributed to the shareholders starting April 12, 2019, 46 days prior to the ASM date of May 28, 2019. 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 2019 ASM was held on Tuesday, May 28, 2019, 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 28, 2019 for submission of proposed agenda and nomination of qualified candidates on or before March 8, 2019. The agenda and nominees were approved by the Board during its meeting on January 28, 2019 and April 1, 2019, respectively.

Voting Procedures

A three (3)-hour registration period was allotted before the start of the ASM. The Corporate Secretary reported a quorum with the attendance of shareholders who own or hold a total of 975,485,636 shares or approximately 86.55% 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. CGO likewise introduced Stockholders Electronic Registration and Voting Express (SERVE), a digital facility to expedite the registration and voting by stockholders present during the ASM.

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

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

The Chairman of the Board, Chairman of the AuditCom, Chairman of the RLDC, Chairman of the Nom&Gov, Chairman of the Finance Committee, the Board, President and CEO, Deputy CEO, Chief Finance Officer (CFO), 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.

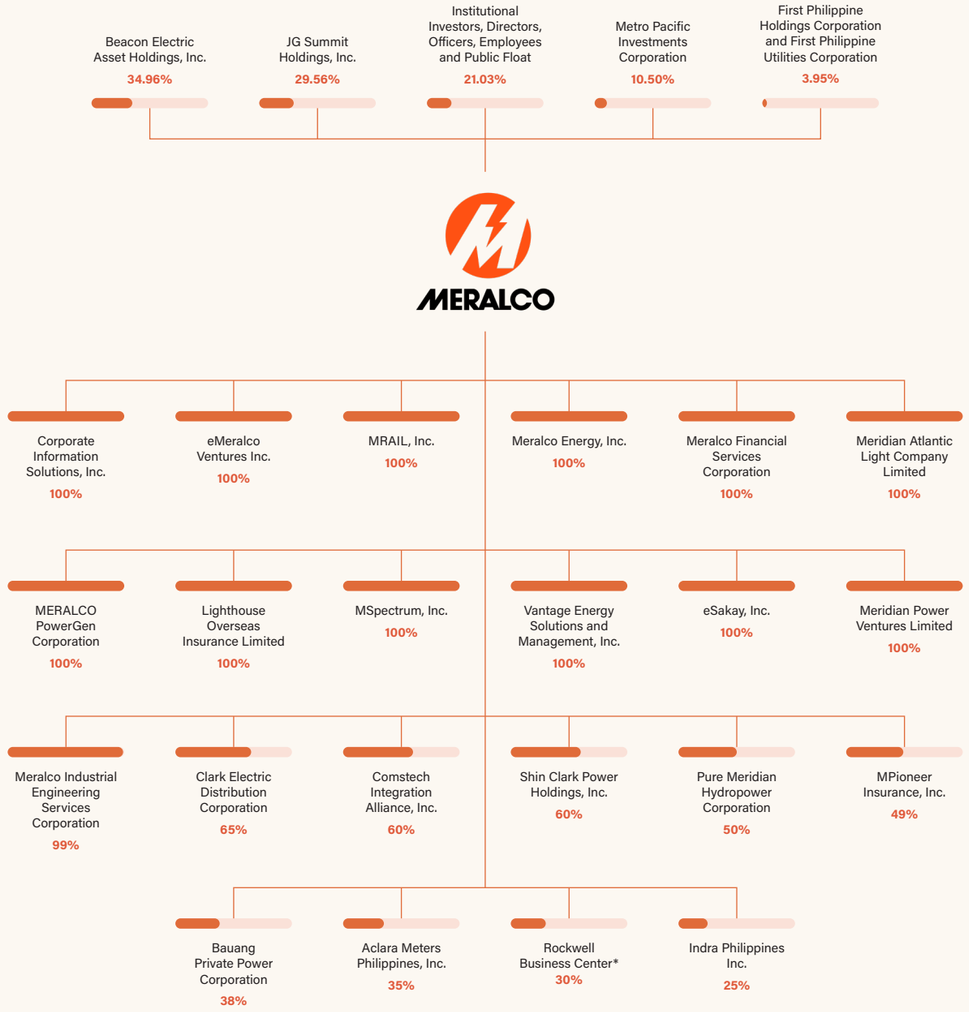
The Company posted the resolutions approved during the ASM on its website the following day so that non-attending shareholders may be immediately informed.

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.



*Unincorporated Joint Venture

The complete list of the Public Ownership Report of Meralco as of December 31, 2019 was disclosed to the SEC, PSE, and PDEx on January 10, 2020, 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 Meralco. Details of holding companies, subsidiaries, and other related companies are disclosed in the map showing relationships among the Companies within Meralco.

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:

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

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

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

The Insider Trading Policy prohibits directors, officers, and employees from benefiting from information that is not generally available to the investing public through observance of a blackout period 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 Policy defines the threshold for disclosure and approval of RPTs and categorizes such transactions according to those that are considered material, significant and *de minimis* or transactions that need not be reported or announced, those that need to be disclosed, and those that need prior shareholder approval. The Policy also prescribes additional requirements for RPTs which constitute ten percent (10%) of the Company's assets.

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

In 2019, 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 Full Business Interest Disclosure (FBID) Forms 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:

- Timely, fair, and accurate disclosure of material information
- 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
- RPTs are disclosed in Note 22 of the Consolidated Financial Statements
- Disinterested shareholders decide on all RPTs which require shareholders' approval

D. Role of Stakeholders

D.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 standardizes policies and work processes related to customers in all business centers and publishes information on the services and rates affecting the customers and implements various programs to delight the customers, among others. Details of Meralco programs for its customers are found in page 26 of this Report.

Suppliers/Contractors

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

Creditors

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

Environment and Community

As an advocate of sustainable development, the Company is committed to operate profitably within the bounds of its social and environmental responsibility.

More comprehensive reports on the Company's Sustainability and Corporate Social Responsibility (CSR) efforts are found in separate publications; specifically Meralco's Sustainability Report and One Meralco Foundation's 2019 Annual Report.

Employees

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

D.2 Performance-Enhancing Mechanisms for Employees

Employee Development Programs

Training programs and other developmental interventions 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 were delivered using the strategic framework of 70-20-10: 70% on-the-job learning, 20% from coaching and feedback and 10% formal training. In 2019, the average man-hours spent for training was 42 hours per person.

Compensation Philosophy/Principles

The Company's performance management process measures employee performance on the basis of: 1) actual versus 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 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.

The Talent Management and Succession Planning Programs of the Company are discussed in Page 32 of this Report.

Code of Business Conduct and Ethics

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

The Company, through the CGO, monitors the implementation of, and compliance to, the Code of Ethics. All directors, Senior Management, and employees are required to 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 Anti- Bribery and Corruption Policy prohibits corporate gift giving to private and public entities that constitutes bribery or corruption. Specific instances of said corrupt practices are given to better guide directors, officers and employees.

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).

Consistent with this, 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.

Furthermore, 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.

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

D.3 Effective Redress for Violation of Stakeholders' Rights and Means of Communication of Illegal or Unethical Practices By Employees

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

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

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

In 2019, the Company received certain reports of alleged violations and illegal/unethical behavior. These reports were investigated and accordingly resolved based on the evidence provided and in accordance with the procedures defined in the whistleblowing policy.

Corporate Governance Office

Manila Electric Company (Meralco)
8th Floor, Lopez Building
Ortigas Avenue, Barangay Ugong
Pasig City, Philippines 1605

TEL (+632) 1622 2798
MOBILE (+63) 9088661670
EMAIL cgo.staff@meralco.com.ph

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, 2019.

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	118,364,807	10.50%
TOTAL	**845,613,439**	**75.02%**

E.2 Enterprise Risk Management

The Board ensures that the Company has in place a sound enterprise risk management (ERM) framework. Through its RMC, the Board oversees the ERM framework, identifies and assesses top risks, and reviews the effectiveness of risk mitigation strategies and treatment plans developed by Management as the Company continues to transform its risk management from compliance-driven to value-creation by further integration of risk management into the culture of the Company. The following are the key enterprise risks of the Company: Regulatory and Compliance Risks, Strategic and Corporate Risks, Financial Risks, and Operational Risks.

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 and strictly monitors its business activities and operations to ensure sustainable development and safeguard the quality of life of society, communities, and the environment in the areas where it operates. The Company's policies and practices on the management of economic, environmental, social, and governance (EESG) issues underpinning sustainability are discussed in a separate publication, the Meralco Sustainability Report, which was prepared in accordance with the Global Reporting Initiative (GRI) Standards: Core Option.

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

SHAREHOLDINGS OF DIRECTORS AND KEY OFFICERS AS AT DECEMBER 31, 2019								
Name	**Jan 1, 2019**	**Buy**	**Sell**	**Dec 31, 2019**	**Direct Holdings**	**Indirect Holdings**	**Total Shares**	**% to Total Shares**
Directors								
1. Manuel V. Pangilinan	40,000	-	-	40,000	40,000	-	40,000	0.00%
2. Oscar S. Reyes[1]	268	-	-	-	-	-	-	0.00%
3. Anabelle L. Chua	10,060	5,000	4,000	11,060	11,060	-	11,060	0.00%
4. Ray C. Espinosa	41,000	5,000	-	46,000	46,000	-	46,000	0.00%
5. James L. Go	5,110	5,000	-	10,110	10,110	-	10,110	0.00%
6. John L. Gokongwei, Jr.[2]	20,810	5,000	-	-	-	-	-	-
7. Frederick D. Go[2]	-	-	-	30	30	-	30	0.00%
8. Victorico P. Vargas[3]	-	-	-	1,000	1,000	-	1,000	0.00%
9. Lance Y. Gokongwei	10	5,000	-	5,010	5,010	-	5,010	0.00%
10. Jose Ma. K. Lim	40,010	5,000	-	45,010	45,010	-	45,010	0.00%
11. Elpidio L. Ibañez	10,263	5,000	-	15,263	15,263	-	15,263	0.00%
12. Artemio V. Panganiban	1	-	-	1	1	-	1	0.00%
13. Pedro E. Roxas	1,000	-	-	1,000	1,000	-	1,000	0.00%
Officers								
14. Simeon Ken R. Ferrer	767	-	-	767	767	-	767	0.00%
15. Roberto R. Almazora	93,082	-	-	93,082	93,082	-	93,082	0.01%
16. Ronnie L. Aperocho	14	-	-	14	14	-	14	0.00%
17. William S. Pamintuan	-	-	-	-	-	-	-	-
18. Alfredo S. Panlilio[4]	668	-	-	-	-	-	-	-
19. Rogelio L. Singson	-	-	-	-	-	-	-	-
20. Angelito D. Bermudo[5]	-	-	-	-	-	-	-	-
21. Betty C. Siy-Yap	-	-	-	-	-	-	-	-
22. Maria Luisa V. Alvendia[6]	-	-	-	-	-	-	-	-
23. Edgardo V. Carasig	-	-	-	-	-	-	-	-
24. Ferdinand O. Geluz	12,877	-	-	12,877	12,877	-	12,877	-
25. Victor Emmanuel S. Genuino	-	-	-	-	-	-	-	-

continuation

Name	**Jan 1, 2019**	**Buy**	**Sell**	**Dec 31, 2019**	**Direct Holdings**	**Indirect Holdings**	**Total Shares**	**% to Total Shares**
26. Melanie T. Oteyza	-	-	-	-	-	-	-	-
27. Jose Ronald V. Valles	-	-	-	-	-	-	-	-
28. Antonio M. Abuel, Jr.	10,427	-	-	10,427	10,427	-	10,427	-
29. Ireneo B. Acuña	18,355	-	-	18,355	18,355	-	18,355	-
30. Ferdinand C. Alejandro	8,952	-	-	8,952	8,952	-	8,952	0.00%
31. Patrick Dave B. Bacani	-	-	-	-	-	-	-	-
32. Roque D. Bacani[7]	-	-	-	-	-	-	-	-
33. Bennette D. Bachoco	-	-	-	-	-	-	-	-
34. Joseph Allan C. Baltazar	-	-	-	-	-	-	-	-
35. Benjamin U. Cusi	24,050	-	-	24,050	24,050	-	24,050	0.00%
36. Jenevi L. Dela Paz[7]	-	-	-	-	-	-	-	-
37. Ma. Cecilia M. Domingo[8]	5	940	-	945	945	-	945	0.00%
38. Lawrence S. Fernandez	4,500	-	-	4,500	4,500	-	4,500	0.00%
39. Bernard H. Castro[9]	463	-	-	-	-	-	-	-
40. Jose Mari P. Melendres	-	-	-	-	-	-	-	-
41. Maria Carmela T. Migriño[10]	-	-	-	-	-	-	-	-
42. Charina P. Padua	31,609	6,000	-	37,609	37,609	-	37,609	0.00%
43. Nixon G. Hao[11]	2,791	-	-	-	-	-	-	-
44. Raymond B. Ravelo	-	-	-	-	-	-	-	-
45. Jose S. Reyes, Jr.	8,727	-	-	8,727	8,727	-	8,727	0.00%
46. Froilan J. Savet	8,435	-	-	8,435	8,435	-	8,435	0.00%
47. Jose Rainier A. Reyes[12]	-	-	-	-	-	-	-	-
48. Jose Antonio T. Valdez	-	-	-	-	-	-	-	-
49. Manuel Lorenzo L. Tuason	22,180	-	-	22,180	22,180	-	22,180	0.00%
50. Liza Rose G. Serrano-Diangson[9]	34,393	-	-	-	-	-	-	-
51. Maria Zarah R. Villanueva-Castro[8]	-	-	-	-	-	-		-
52. Ma. Cynthia C. Soluren	11,575	-	-	11,575	11,575	-	11,575	0.00%
TOTAL	**462,402**	**41,940**	**4,000**	**436,979**	**436,979**	**-**	**436,979**	**0.04%**

[1] End of term as director in May 2019
[2] On the passing of Mr. John L. Gokongwei, Jr., Mr. Frederick D. Go was appointed as replacement
[3] Elected on May 28, 2019
[4] Resigned effective June 30, 2019
[5] Retired effective June 30, 2019
[6] Appointed First Vice President effective June 1, 2019
[7] Appointed Vice President effective June 1, 2019
[8] Appointed Vice President effective January 1, 2019
[9] Retired effective July 31, 2019
[10] Appointed Vice President effective November 1, 2019
[11] Retired effective May 28, 2019
[12] Resigned effective May 31, 2019

E.6 Audit

Internal Audit

Meralco Internal Audit adopts a risk-based audit approach in formulating the annual audit plan and strategy that align to the key strategies and risks across the Company's business and are reassessed quarterly to consider business changes and emerging risks. This plan is developed in coordination with the relevant business units and subsidiaries and reviewed and approved by the AuditCom. The assurance and control advisory reviews are aimed at assisting the Board through the AuditCom in promoting sound enterprise risk management, robust internal controls, and good corporate governance. Design and operating effectiveness of controls that govern the key business processes, systems and risk areas at the Distribution Utility and subsidiaries are evaluated particularly on financial reporting, operations, information technology systems reviews, cybersecurity, data privacy, sustainability, revenue assurance, legal and regulatory compliance, and subsidiary oversight.

Meralco communicates the results of audit engagements covering various units of the Company and its subsidiaries, including specific areas of concerns identified by Management to the AuditCom. The findings and any improvement opportunities are reviewed by AuditCom which then are reported to the Board for guidance and oversight. Significant concerns, which have been reported by Meralco Internal Audit and the implementation of responsive remedial measures by Management, are monitored by AuditCom and the Board. The AuditCom Report to the Board included the review of Meralco Group's system of internal controls (financial, operational, and compliance controls) and risk management systems which are found to be in place and functioning.

Meralco's Internal Audit is headed by the Chief Audit Executive and First 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.

All internal auditors are members of the Institute of Internal Auditors (IIA) and adopts the International Standards for the Professional Practice of Internal Auditing laid down in the International Professional Practices Framework. The internal auditors are comprised of highly certified professionals – Certified Public Accountants, Certified Internal Auditors, Certified Information Systems Auditors, Chartered Management Accountant, Registered Electrical Engineers, and others with Certification in Control Self-Assessment and Certification in Risk Management Assurance.

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 28, 2019.

CONSOLIDATED EXTERNAL AUDITOR'S FEES* (in million PhP)		
	2018	**2019**
Financial Statements Audit	8.0	**9.3**
Audit of financial statements in accordance with the requirements of the Business Separation and Unbundling Plan of the ERC	0.5	**0.7**
TOTAL	**8.5**	**10.0**

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

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/meralco-shareholding-structure
Group Corporate Structure	http://www.meralco.com.ph/about-us/organizational-structure
Downloadable Annual Report	http://www.meralco.com.ph/investor-relations/annual-reports
Notice of ASM	http://www.meralco.com.ph/company-disclosures/notice-of-annual or-special-stockholders-meetings
Minutes of ASM	http://www.meralco.com.ph/company-disclosures/minutes-of-all-general-or-special-stockholders-meetings
Company's By-Laws and Articles of Incorporation	http://www.meralco.com.ph/about-us/articles-of-incorporation-and-by-laws

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

The Company's 2019 Audited Financial Statements were released on February 28, 2020, 59 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 also be accessed on 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.

Remembering

John Gokongwei Jr.

You inspired us with your mission to tenaciously persevere in creating value for society; to inspire, enliven, and uplift lives for Filipinos.

We will continue to bear light and bring life to our customers.
We will keep the lights on.

Our heartfelt thanks, Mr. John.

Board of Directors

Manuel V. Pangilinan, 73

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

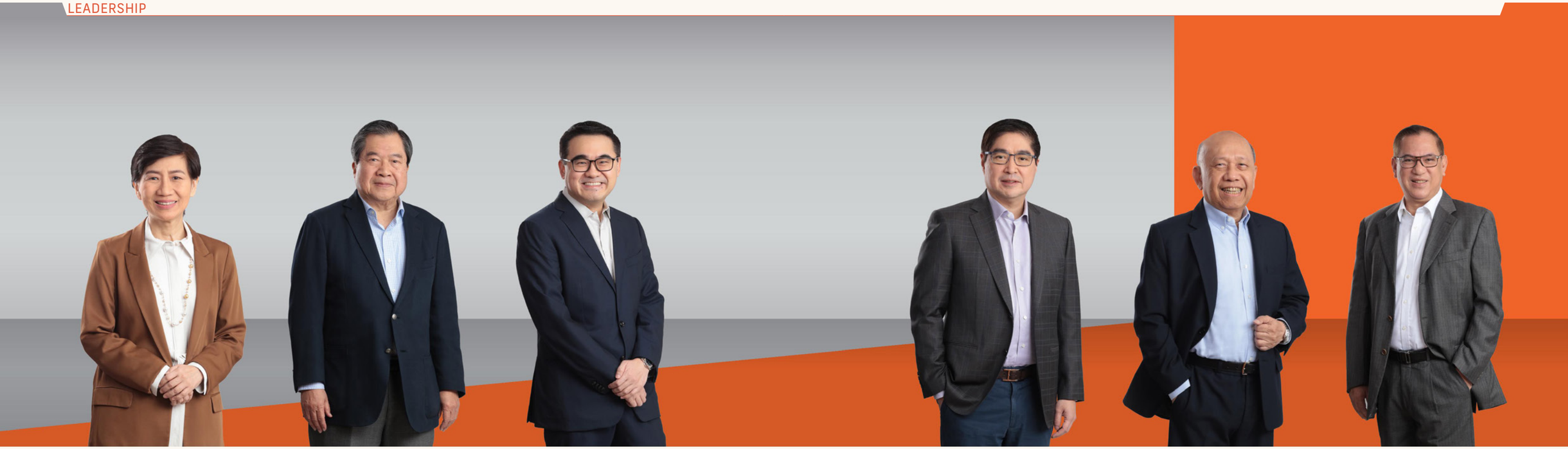
Mr. Pangilinan is the Chairman, President and CEO of PLDT Incorporated, and the Chairman of Smart Communications, Inc. He is also Chairman of listed companies including Metro Pacific Investments Corporation* and Philex Mining Corporation*, and of non-listed companies including Beacon Electric Asset Holdings 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.

Ray C. Espinosa, 63

Director (since May 26, 2009)
President and CEO (since May 28, 2019)

Atty. Ray 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 Cignal TV Inc. He is the Chairman of the Philstar Daily, Inc. and BusinessWorld Publishing Corporation, Chairman of the Audit Committee of Lepanto and Chairman of the Risk Management Committee of Maybank Philippines. He is a Senior Advisor to the President and CEO of PLDT Inc. He is also a trustee of the Beneficial Trust Fund of PLDT. Mr. Espinosa joined First Pacific in June 2013 as Associate Director. 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.

*Publicly Listed Companies



Anabelle L. Chua, 59

Director (since May 31, 2016)

Ms. Chua is Chief Finance Officer, Senior Vice President, and Chief Risk 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 Beacon Asset Holdings, Inc., PLDT Communications and Energy Ventures, Inc., Smart Communications, Inc., Digital Telecommunications Philippines, Inc., ePLDT, Inc., Philippine Telecommunications Investment Corporation, Voyager Innovations, Inc., PayMaya, Mediaquest Holdings, Inc., Cignal TV, Inc., TV5 Network, Inc., and PhilStar Daily, Inc. She is also 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*.

James L. Go, 80

Director (since December 16, 2013)

Mr. Go is the Chairman of JG Summit Holdings, Inc.* and Cebu Air, Inc.*, and Chairman and Chief Executive Officer 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. He is a member of the Board of Directors of JG Summit Holdings, Inc.*, Oriental Petroleum and Minerals Corporation*, Robinsons Retail Holdings, Inc.*, Cebu Air, Inc.*, PLDT Inc.*, United Industrial Corporation Limited*, Marina Center Holdings, Inc., Hotel Marina City Private Limited, and 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.

Frederick D. Go, 50

Director (since November 25, 2019)

Mr. Go is the President and Chief Executive Officer of Robinsons Land Corporation. He is the Chairman and President of Altus Property Ventures, Inc. and the President of Robinson's Recreation Corporation. He is the Group General Manager of Shanghai Ding Feng Real Estate Development Company Limited, Xiamen Pacific Estate Investment Company Limited, Chengdu Ding Feng Real Estate Development Company Limited and Taicang Ding Feng Real Estate Development Company Limited. Mr. Go is the Chairman of Luzon International Premier Airport Development Corporation and is the Vice Chairman of the Board of Directors of Robinsons Bank Corporation and of the Philippine Retailers Association. He also serves as a director of Cebu Air, Inc., JG Summit Petrochemical Corporation, JG Summit Olefins Corporation, and Cebu Light Industrial Park. Mr. Go received a Bachelor of Science degree in Management Engineering from the Ateneo de Manila University.

*Publicly Listed Companies

Lance Y. Gokongwei, 53

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 Chairman and Trustee 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, 69

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 Maria K. Lim, 67

Director (since May 29, 2012)

Mr. Lim is the President and CEO of Metro Pacific Investments Corporation* (MPIC). He 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; Cavitex Infrastructure Corporation; Easytrip Services Corporation; Cebu Cordova Link Expressway Corporation; AIFTollroads Holdings, Thailand; Maynilad Water Services Inc.; MetroPac Water Investments Corporation; Cagayan de Oro Bulk Water Inc.; Metro Iloilo Bulk Water Supply Corporation; 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; Nusantara, Jakarta Indonesia; Ecosystem Technologies International; 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, 83

Independent Director (since May 27, 2008)

Mr. Panganiban is a retired 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 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.*, Asian Terminals, Inc.*, Metro Pacific Tollways Corporation, Asian Hospital, Inc. and TeaM Energy Corporation. He is also a Non-executive director of Jollibee Foods 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 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. 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.

Oscar S. Reyes, 73

Director (July 1, 2010 to May 28, 2019)

President and CEO (May 29, 2012 to May 28, 2019)

Mr. Reyes is a member of the Advisory Board of PLDT, Inc. and Basic Energy Corporation, and the Advisory Council of the Bank of the Philippine Islands. He is the Chairman of Pepsi Cola Products Phils. Inc. He is a member of the Board of Directors of Manila Water Company, Inc., PXP Energy Corporation, Cosco Capital Inc., D.M. Wenceslao and Associates, Inc., PLDT Communications and Energy Ventures, Inc., Sun Life Financial Phils., Inc., Sun Life Prosperity Funds, Philippine Dealing System Holdings Corp., Philippine Dealing and Exchange Corp., Philippine Depository and Trust Corp., Philippine Securities Settlement Corp., Team Energy Corporation, among other firms. He is a member of the Board of Trustees of Pilipinas Shell Foundation, Inc. and El Nido Foundation, Inc. He served as Country Chairman of the Shell Companies in the Philippines and concurrently President of Pilipinas Shell Petroleum Corporation and Managing Director of Shell Philippines Exploration B.V. He completed his Bachelor of Arts degree in Economics at the Ateneo de Manila University in 1965 and did post-graduate studies at the Ateneo Graduate School of Business, Waterloo Lutheran University, and the Harvard Business School.

*Publicly Listed Companies

Pedro E. Roxas, 63

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, and Chairman of Club Punta Fuego Inc., 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.

Victorico P. Vargas, 68

Director (since May 28, 2019)

Mr. Vargas is currently an associate director of the First Pacific Company, Hong Kong, and heads the Business Transformation Office of the PLDT Group. Prior to this, he was the President and Chief Executive Officer of Maynilad Water Services, Inc. He is a director of Smart Communications, Inc., PLDT Subic Telecom, Inc., and PLDT Clark Telecom, Inc., President and member of the Board of Trustees of the First Pacific Leadership Academy, trustee of the MVP Sports Foundation, PLDT-Smart Foundation , Inc., and Ideaspace Foundation; and President of the PhilPop Music Fest Foundation. Mr. Vargas is the immediate past President of the Philippine Olympic Committee and is currently a member of the Board of Directors of the said organization. Mr. Vargas is currently the President of the Association of Boxing Alliances in the Philippines and was elected member to the Executive Committee of the Asian Boxing Confederation in 2015. He is Chairman of the Philippine Basketball Association for seasons 2017-present. He is also a former Vice Chairman of the Samahang Basketbol ng Pilipinas. Mr. Vargas was educated at Ateneo de Manila and University of Santo Tomas, Bachelor of Science degree in Psychology. He was awarded diplomate by the People Management Association of the Philippines (PMAP). Mr. Vargas carries with him over 40 years of seasoned experience and excellent track record in human resources, organization development and business transformation, all earned from distinguished corporate leaders in the business community such as Pepsi Cola Bottling, Colgate Palmolive Phil., Citibank, NA (both in Manila and in Southeast Asia).

Corporate Officers

Ronnie L. Aperocho, 51

Senior Vice President
Head, Networks

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

Roque D. Bacani, 44

Vice President
Head, Information, Communication, Technology & Transformation (since June 1, 2019)

Mr. Bacani is concurrently the acting Chief Information Officer of CIS Bayad Center Inc. He has over 20 years of experience in the field of information technology and telecommunications, gaining extensive knowledge in enterprise data management and has successfully led the delivery of organization-wide data strategy, data analytics platform and operating models. He held key leadership positions in different technology disciplines from strategy formulation, digital transformation, cloud migration, large-scale project management, multi-vendor systems integration, end-to-end software development, enterprise service delivery and technology operations. Prior to joining Meralco, he held concurrent roles as Vice President and Head of Group IT Corporate Technology and Head of Data Management Office of Smart Communications Inc. and PLDT Inc. He was also a former Chief Technology Officer of Talas Data Intelligence Inc., a PLDT Group Big Data startup company and wholly owned subsidiary. He holds a Bachelor of Science degree in Industrial Engineering from Polytechnic University of the Philippines.

Edgardo V. Carasig, 54

First Vice President
Head, Human Resources and Corporate Services

Mr. Carasig is currently the Chairman of the Board of Customer Frontline Solutions. He is also a member of the Board of Directors of Meralco Industrial Engineering Services Corporation, 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, 55

First Vice President
Head, Supply Chain & Logistics Management

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

Victor S. Genuino, 48

First Vice President
Head, Customer Retail Services and Corporate Communications (since July 1, 2019)*

Mr. Genuino is the President, CEO and Member of the Board of Directors of Meralco Energy, Inc. and MSpectrum, Inc. He is also a Board Member of Miescor Logistics Inc., Miescor Builders Inc., Customer Frontline Solutions, Inc., Radius Telecoms Inc., Clark Electric Distribution Corporation, Corporate Information Solutions, Inc., CIS Bayad Center, Inc., e-Meralco Ventures, Inc., Paragon Vertical Corporation, Mrail, ESakay, Inc., Pure Meridian Hydropower Corporation, Aurora Managed Power Services, Inc., Comstech Integration Alliance, Inc., Meralco Power Foundation, Inc., Aclara Meters Philippines, Inc., and Asian Eye Institute, Inc. He is also a Board Adviser of the Semiconductor and Electronics Industries in the Philippines Foundation, Inc. Prior to Meralco, he held various operational, sales and marketing roles in the Asia Pacific region for PLDT Global Corp., Siemens, and Philips Electronics. Mr. Genuino holds a Bachelor of Arts in Interdisciplinary Studies from the Ateneo de Manila University and a Masters in Business Administration from the J.L. Kellogg School of Management, Northwestern University and the Hong Kong University of Science and Technology.

* succeeded Mr. Alfredo S. Panlilio, Senior Vice President Head, Customer Retail Services and Corporate Communications, who served until June 30, 2019

William S. Pamintuan, 58

Senior Vice President
Chief Legal Counsel
Assistant Corporate Secretary
Compliance Officer and Head, Legal and Corporate Governance Office
Data Protection Officer

Atty. Pamintuan is the Corporate Secretary of MERALCO PowerGen Corporation, Atimonan One Energy, Inc., Calamba Aero Power Corporation, Kalilayan Power, Inc., MPG Mauban LP Corporation, MPG Asia Ltd., Redondo Peninsula Energy, Inc., St. Raphael Power Generation Corporation, First Pacific Leadership Academy, Inc., MRAIL, Inc., Meralco Industrial Engineering Services Corporation, MGen Renewable Energy, Inc., and Nortesol III, Inc. 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, Lighthouse Overseas Insurance Limited, E-Meralco Ventures, Inc., Paragon Vertical Corporation, and Meralco Energy, Inc. He is a trustee of Meralco Pension Fund and Meralco Power Foundation, Inc. He is a former Trustee of Shareholders' Association of the Philippines, Inc. He is a Vice Chair of MAP Energy Committee. He served as Officer-in- Charge and

Acting President of Meralco Energy, Inc. He was a former Corporate Secretary and Senior Vice President of Digital Telecommunications Phils., Inc. and Digitel Mobile Phils., Inc., and General Manager of Digitel Crossing, Inc. He is the incumbent Assistant Corporate Secretary of Cebu Pacific, Inc. He is also a member of the board of directors of the University of the Philippines Alumni Association (UPAA) and Board Governor of the UP Vanguard, Inc. He is a member of the Management Association of the Philippines (MAP), Integrated Bar of the Philippines (IBP) and Philippine Bar Association (PBA). Atty. Pamintuan holds a Bachelor of Arts degree in Political Science and a Bachelor of Laws degree from the University of the Philippines.

Raymond B. Ravelo, 42

Vice President
Chief Sustainability Officer

Mr. Ravelo is concurrently the President and CEO of eSakay, Inc. He is also a Director on the Boards of eSakay, Inc., MSpectrum, Inc., MGen Renewable Energy, Inc., and Powersource First Bulacan Solar, Inc. He previously served as Meralco's Head of Strategy and Business Development from 2011 to 2019 as well as President and CEO and a member of the Board of Directors of Radius Telecoms, Inc. from 2011 to 2016. Prior to joining Meralco, he was part of McKinsey & Company's Washington DC office where he led strategy development efforts and operations performance transformations for top companies in North America, Latin America, Europe, Southeast Asia, and across a wide range of industries. Mr. Ravelo holds a Bachelor of Science degree, *magna cum laude*, in Management Engineering from the Ateneo de Manila University. He earned his Masters in Business Administration at The Wharton School of the University of Pennsylvania where he was a Joseph Wharton Fellow and an Omnicom Communication Fellow. Mr. Ravelo is also a former Trustee of the Wharton-Penn Alumni Association, Inc.

Jose Ronald V. Valles, 49

First Vice President and Head, Regulatory Management Office

Atty. Valles is a Director of Clark Electric Distribution Corporation. He 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.

Rogelio L. Singson, 71

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., Atimonan Land Ventures Development Corporation, MPG Mauban LP Corporation and MGEN Renewable Energy, Inc. He is the Chairman of Kalilayan Power, Inc., PowerSource First Bulacan Solar, Inc., and Nortesol III, Inc. He serves as Director of Calamba Aero Power Corporation, MPG Holdings Phils., Inc., Redondo Peninsula Energy, Inc., Shin Clark Power Holdings, 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. Mr. Singson is a covenanted member of Ang Ligaya ng Panginoon Community.

Betty C. Siy-Yap, 58

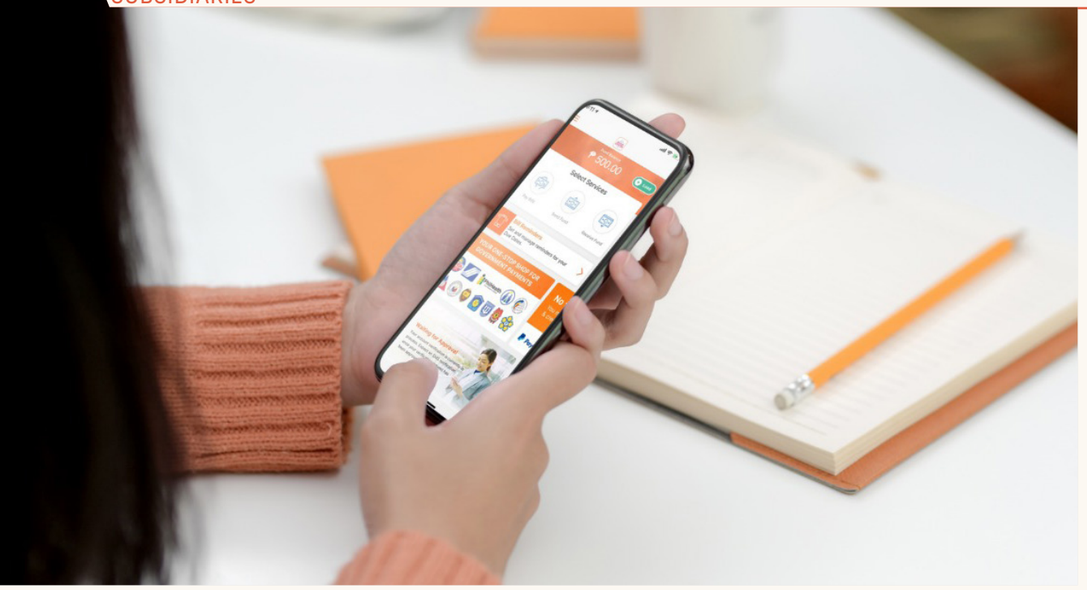
Senior Vice President
Chief Finance Officer
Chief Risk Officer

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., MPioneer Insurance Inc., Indra Philippines, Inc., Atimonan One Energy Inc., MERALCO PowerGen Corporation, among others. 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 is also the President of Lighthouse Overseas Insurance Limited. She was recently appointed as a member of the Board of Trustees of Immaculate Conception Academy. She was a member of the Market Governance Board of the Philippine Dealing Exchange Corp., Vice Chairman and member of the Board of Accountancy of the Professional Regulation Commission. She was a Partner of SyCip Gorres Velayo & Co. (a Member Firm of Ernst & Young Global) from 1995 to 2009. Ms. Siy-Yap holds a Bachelor of Science in Business Administration and Accountancy degree from the University of the Philippines and a Master's in Business Administration from J.L. Kellogg School of Management at Northwestern University/The Hong Kong University of Science and Technology.

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, where he heads the Corporate Services Department. 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.



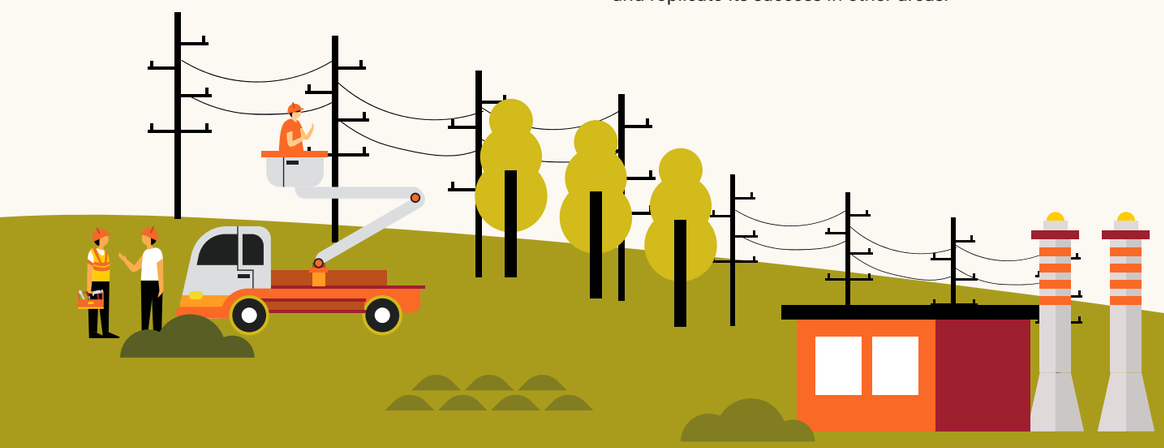
Clark Electric Distribution Corporation (Clark Electric)

Clark Electric Distribution Corporation (Clark Electric) is a private distribution utility with a franchise granted by Clark Development Corporation (CDC) in 1997 to distribute power exclusively within the Clark Special Economic Zone (CSEZ) covering the Clark Freeport Zone (CFZ) and sub-zones. Clark Electric continues to work around the clock to improve its system reliability and flexibility to ensure continuous and quality electricity supply for its customers, and to help CSEZ become a powerhouse hub for industry, export business, aviation, and higher learning, and Central Luzon's leisure, entertainment and gaming center.

Comstech Integration Alliance, Inc. (Comstech)

Comstech is a 60%-owned subsidiary of MERALCO. In 2014, Comstech was awarded a 20-year Investment and Management Contract with the Pampanga II Electric Cooperative (PELCO II) and since then the electric cooperative attained consistent system loss and collection efficiency improvements, lower retail rates, substantial reduction in liabilities, improved electric service reliability, and double-digit annual energy sales growth. PELCO II serves the city of Mabalacat and municipalities of Porac, Bacolor, Guagua, Sta. Rita, Sasmuan, and Lubao in the province of Pampanga.

Going forward, with the unprecedented increase in investments and demands in the PELCO II service area and the changing nature of customer and regulatory requirements, Comstech aims to integrate more sustainable solutions to its offerings and replicate its success in other areas.



Corporate Information Solution, Inc. (CIS)

CIS, a wholly-owned subsidiary of Meralco, owns 95% of CIS Bayad Center, Inc. (Bayad Center). With its over 30,000 payment touchpoints all over the country, Bayad Center is the biggest and widest multi-channel payment platform to date. It is now bringing its sustainable practices and digital facilities to further push their mission of "pay anytime, anywhere" with the launch of its fintech business - the new and improved Bayad Center Online, the Bayad Center super app, and powering bills payment feature of leading financial apps in the country, making payments easy and available at the comfort of every Filipino families' homes. Bayad Center also offers remittance, prepaid loading, airline ticketing, loan payout, ATM cash withdrawal, insurance and medical reimbursements services, further providing access to the rest of the financially underserved. It has evolved from an on-site to online business, redefining the payment experience, and constantly innovating in response to the rapidly changing lifestyle of the Filipino family.

Complementing the effort to bring sustainability and digitalization at the forefront of its business is Bayad Center's Sapat Dapat Comprehensive School Program, advocating for financial literacy among public school students by embedding the value of budgeting and savings, and enabling them to develop critical savviness in finance, savings and investment.

Through its subsidiary, Bayad Center also pioneered outsourced tellering and customer services with Customer Frontline Solutions, providing services to over 600 clients' sites nationwide.

eSakay, Inc. (eSakay)

eSakay is a wholly-owned subsidiary of Meralco. Incorporated in 2018, eSakay is an end-to-end electric vehicle (EV) and charging infrastructure solutions provider, modernizing and electrifying transport systems for private and public sector institutions throughout the country. eSakay propagates sustainable and green mobility solutions – from the supply of EVs and charging stations to the provision of managed services (i.e. EV operatorship, fleet management, and charging services). In January 2019, eSakay launched its first electric Public Utility Vehicle (ePUV) project with its Makati-Manadaluyong eJeep route, servicing commuters in the 2 cities through 15 zero-emission, zero-noise, and 100% electric jeeps. This is in full support of the Department of Transportation's Public Utility Vehicle Modernization Program (PUVMP).

eSakay also supports multiple private sector clients by supplying and providing operatorship services across EV types – from eVans and eShuttles to eMotorcycles and eScooters. Key initiatives such as these are all part of eSakay's thrust to help build 'greener' roads and 'bluer' skies for customers, communities, and the country.

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 MPioneer 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)

Meralco Energy Inc. (MSERV) is a wholly-owned subsidiary of the Parent Company. MSERV is a one-stop shop for energy services and solutions with particular focus on electro-mechanical engineering, procurement and construction (EPC) services, energy efficiency services, and urban services. Its electro-mechanical EPC services deliver value-engineered, reliable and timely completed end-user facilities ranging from substations, powerhouses, and low-voltage facilities. MSERV also provides energy efficiency services that help clients reduce cost and manage energy consumption through detailed energy audits and the installation of various smart solutions.

MSERV has also expanded its offerings to beyond energy through offering urban services. MSERV Urban Services aim to improve quality of life and convenience through the introduction of new solutions such as building automation, safety and security systems, and wastewater treatment solutions. It helps customers achieve not only operational efficiency and savings but also contribute to environmental sustainability and enable a better quality of life. MSERV is a AAA PCAB- licensed company and a DOE-accredited energy service company (ESCO).

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 wholly owned by Meralco, having two subsidiaries namely Miescor Builders Inc. (MBI) and Miescor Logistics, Inc (MLI). Together, the group offers a wide array of services in the field of engineering, procurement, construction, operation, maintenance, distribution services, testing and commissioning, buildings and facilities management, renovation, vehicle leasing, and fleet management. Miescor also provides consulting, engineering, and integration services to major telecommunication providers.

The Philippine Contractor Accreditation Board (PCAB) has granted Miescor a "AAAA" category license, the highest category, for general engineering, building, electrical and mechanical works, and telecommunication facilities. Furthermore, MBI holds a PCAB license category "AA" for electrical works, general engineering and building, civil and mechanical works. MLI also holds "AA" license category for general building. With the concerted efforts of MBI, MLI and MIESCOR's Distribution Utility Services, the group contributed more than 17 Million manhours to Meralco in 2019.

Miescor's mission in contributing to the nation's sustainable growth and development is evident through the several critical projects specifically the Mindanao Substation Upgrading Projects (MSUP) and the Mindanao Transmission Backbone Project (MTBP) of the National Grid Corporation of the Philippines (NGCP). The said projects will ensure stable and reliable power in Mindanao through the upgrading of key substations and transmission lines from 138 kV to 230 kV, and through the installation of capacitor banks in multiple NGCP substations in the island.

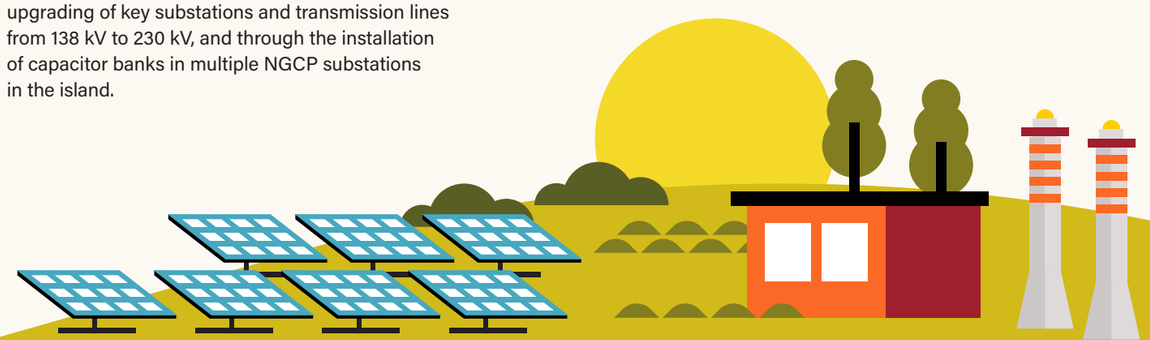
MERALCO PowerGen Corporation (MGen)

MERALCO PowerGen Corporation (MGen) enables Meralco to contribute towards meeting the country's rising energy demands by being a source of competitively-priced power. MGen aims to have a diversified power generation portfolio that will provide sufficient, reliable, and cost-competitive supply by pioneering High Efficiency, Low Emission (HELE) coal technology and renewable energy.

Committed to bringing additional supply to support the country's growth momentum and to delivering clean and cost- competitive power supply, MGen expanded into the sustainable energy sector through MGen Renewable Energy, Inc. (MGREEN), a wholly-owned subsidiary of MGen. MGREEN is developing, constructing, and will operate green energy projects which primarily include utility-scale solar, wind and run-of-river hydro power, with a target of up to 1,000 MW installed capacity.

MRail, Inc. (MRail)

MRail is a company that provides maintenance and asset renewal services to the railway ecosystem in the Philippines. MRail has contracts with Sumitomo, Light Rail Transit Authority (LRTA) and Light Rail Manila Corporation (LRMC), and was the contractor for the restoration and rehabilitation of 3 Diesel Mechanical Unit Locomotives of PNR in 2015. MRail bridges the gap between asset ownership and operating efficiency and asset reliability. It provides technical advisory and project management services in rail construction, maintenance, asset restoration, and rehabilitation and renewal. It has expertise and established experience particularly in the rolling stock, power supply, overhead catenary, and tracks systems. MRail has undertaken various railway projects, including the LRT-2 Rolling Stock Aircon Replacement, LRT-1 Extension Project, and MRT-3 Power Supply during the Sumitomo regime, among others. MRail is an accredited service provider of the government with a Category B PCAB license and is ISO 9001:2015 certified.



MSpectrum, Inc. (Spectrum)

MSpectrum, Inc. (Spectrum) was established in 2016 as part of Meralco's thrust to enter into the renewable energy (RE) space. It was given a mandate to help fulfill Meralco's commitment to economic and environmental sustainability. Since then, Spectrum has taken market leadership in the industry by completing several solar projects, with a total installed capacity of 17 MW nationwide. Spectrum's mission is to provide clean, affordable, sustainable, and safe energy solutions to its customers. It operates mainly in the business of providing optimally engineered rooftop and ground-mounted solar PV systems for commercial and industrial businesses. In the near term, Spectrum will rely heavily on three new verticals, aside from its core Commercial and Industrial rooftop business:

1. Spectrum Home, targeted primarily to residential customers,
2. Operations and Maintenance (O&M) services for existing RE installations, and
3. Microgrid hybrid solutions for off-grid customers.

Looking ahead, Spectrum will sustain its industry leadership by exploring new RE technologies such as wind and battery energy storage systems.

Shin Clark Power Holdings, Inc. (Shin Clark)

Shin Clark is a consortium where Meralco holds a 60% stake, with Japanese firms Axia Power Holdings Philippines Corporation (a wholly-owned subsidiary of Marubeni Corporation), KPIC Netherlands BV (a wholly-owned subsidiary of the Kansai Electric Power, Inc.), and Chubu Electric Power Co., Inc., collectively holding the remaining 40%. The consortium manages the financing, development, operation, and maintenance of the electric power distribution system in the 9,450-hectare New Clark City (NCC) located within the Clark Special Economic Zone in the towns of Capas and Bamban, Tarlac, through a Joint Venture Agreement with the Bases Conversion and Development Authority (BCDA).

NCC is designed to be the first smart, sustainable, and disaster-resilient metropolis aimed to decongest Metro Manila and be a showcase to the world of Filipino culture and identity. Shin Clark will provide reliable power to around 1 million people at NCC and enable them to enjoy the benefits of affordable energy. Shin Clark completed the interim substation with an underground distribution system three months ahead of schedule and successfully provided the energy needs of the NCC sports complex in the recently concluded South East Asian Games held last November 26 to December 12, 2019.

Radius Telecoms, Inc. (Radius)

Radius Telecoms, Inc. operates one of the largest end-to-end fiber optic networks in the country. Radius caters to telco providers and enterprises across several industries, including banking, manufacturing, business process outsourcing, and retail. In 2019, Radius initiated an aggressive network expansion outside of the Meralco franchise area, establishing points of presence in Clark, Pampanga, and Cebu, with further expansion into Iloilo and Bacolod programmed in 2020. This expansion is coupled with the network upgrade, increasing its core network capacity from 10GB to 100GB. Overseas, Radius increased its capacity in Hong Kong and established a Point-of Presence in Singapore.

On the commercial front, Radius did a brand re-launch and is embarking on a major business expansion, focusing on digital innovation to enable service offerings beyond its physical network footprint. It launched new managed services for cloud-related services, Software-Defined Wide Area Network (SD-WAN) and will be launching its Managed IT services within 2020. In partnership with CignalTV, the largest pay TV operator in the country, Radius will also launch a bundled IPTV and broadband internet service for the consumer segment within the 1st quarter of 2020.

Vantage Energy Solutions and Management, Inc. (Vantage Energy)

Vantage Energy Solutions and Management Inc. (Vantage Energy) is Meralco's first affiliate Retail Electricity Supplier (RES), catering to eligible contestable customers nationwide in areas where Retail Competition and Open Access (RCOA) is in effect. Its mission is to provide not just stable and reliable electricity but to also deliver the same level of service quality similar to that of its mother company.

Since the start of its commercial operations on February 26, 2017, Vantage Energy has significantly grown its portfolio and now serves customers with a combined demand of close to 200 MW from all over Luzon and Visayas. Vantage Energy aims not just to be among the emerging market leaders in the competitive retail electricity market, but also the market leader in delivering unparalleled excellent service to its customers.

Report of Audit Committee

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:

- Timely, fair, and accurate disclosure of material information 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 seven (7) meetings for 2019. 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 2019 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 2019 Annual Financial Statements and discussed areas of audit emphasis including tax matters.

These actions were undertaken with the understanding that:

- Management has the primary responsibility for the financial statements and the reporting process.
- The independent External Auditor, 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, 2019 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 2019 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 2019, 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 (ISPPIA) 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 2019 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 & controls 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.
- Reviewed and monitored compliance and adherence by the Company with all applicable laws and regulations pursuant to which the Company conducts its operations and business activities. This include reviewing the state of legal compliance with respect to labor laws and regulations and reportorial requirements to regulatory agencies.

Others

- Reviewed and confirmed that the revisions made on the Audit Committee (AuditCom) and Internal Audit (IA) Charters last July 29, 2019 and October 24, 2019, respectively, were sufficient to accomplish the AuditCom and IA objectives. The Audit Committee Charter is in compliance with the Securities and Exchange Commission Memo Circular No. 04 (2012).
- 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. The assessment showed full compliance with the requirements set forth in the Audit Charter and governance best practices.
- Briefings were given to the Committee on the performance of overseas investments and subsidiaries for 2019 and provide an update about the developments in their strategic directions and overall results.
- Evaluated that adequate plan is available on the acquisition of cyber insurance for the Company's digital assets.
- Reviewed and approved the Audit Committee calendar for 2020.

February 19, 2020

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 December 31, 2019 and 2018, and for each of the three (3) years in the period ended December 31, 2019, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

MANUEL V. PANGILINAN
Chairman of the Board

RAY C. ESPINOSA
President and Chief Executive Officer

BETTY C. SIY-YAP
Chief Finance Officer

Independent Auditor's Report

SGV
Building a better working world

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and the 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, 2019 and 2018, 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, 2019, 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, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2019 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. This matter is significant to our audit because the revenue recognized depends on (a) the complete capture of electric consumption based on the meter readings over the franchise area taken on various dates; (b) the propriety of rates computed and applied across customer classes; and (c) the reliability of the IT systems involved in processing the billing transactions.

Notes 2, 22, 23, 29 and 31 provide the relevant disclosures related to the rate-making regulations and regulatory policies of the Energy Regulatory Commission (ERC).

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Audit response

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

Retirement and other long-term post-employment benefits

The Group has defined retirement and other long-term post-employment benefits plans covering all regular employees. The valuation of the retirement benefits obligation involves a significant management judgment in the use of assumptions. The valuation also requires the assistance of an external actuary whose calculations depend on certain assumptions, such as discount rates and future salary increases, which could have a material impact on the results. Thus, we considered this as a key audit matter.

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

Audit response

We involved our internal specialist in the review of the scope, bases, methodology and results of the work by the external actuary, whose professional qualifications, capabilities and objectivity were also taken into consideration. We evaluated the key assumptions used by comparing the employee demographics and attrition rates against the Group's human resource data, and the discount rate and mortality rate against external data. We inquired from management about the basis of salary increase rate and compared it against the Group's historical data and future plans. Moreover, we reviewed the required disclosures in the consolidated financial statements.

Provisions and contingencies

The Group is involved in certain proceedings and claims for which the Group has recognized provisions for probable costs and/or expenses, which may be incurred, and/or has disclosed relevant information about such contingencies. This matter is significant to our audit because the determination of whether any provision should be recognized and the estimation of the potential liability resulting from these assessments require significant judgment by management. The inherent uncertainty over the outcome of these matters is brought about by the differences in the interpretation and implementation of the relevant laws and regulations.

Notes 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 financial statements and involved our internal specialist when necessary. We discussed with management the status of the claims and/or assessments and obtained correspondences with the relevant authorities and opinions from the internal and external legal counsels. We evaluated the position of the Group by considering the relevant laws, rulings and jurisprudence. We also reviewed the disclosures on provisions and contingencies in the Group's financial statements.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2019 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, 2019 are expected to be made available to us after the date of this auditor's report.

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

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

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

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

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

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

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

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

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

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

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

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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. 8125311, January 7, 2020, Makati City

February 24, 2020

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MANILA ELECTRIC COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		December 31	
	Note	**2019**	2018
			(Amounts in millions)
ASSETS			
Noncurrent Assets			
Utility plant and others	*7 and 10*	**₱151,441**	₱139,846
Investments in associates and interests in joint ventures	*8 and 22*	**14,965**	11,313
Investment properties	*9*	**1,502**	1,502
Deferred tax assets - net	*27*	**23,440**	18,800
Financial and other noncurrent assets	*2, 10, 14, 25, 26 and 29*	**47,982**	49,446
Total Noncurrent Assets		**239,330**	220,907
Current Assets			
Cash and cash equivalents	*11, 24 and 26*	**38,262**	36,471
Trade and other receivables	*12, 23 and 26*	**32,608**	31,343
Inventories	*13*	**4,558**	3,812
Financial and other current assets	*10, 14, 22 and 26*	**42,261**	43,718
Total Current Assets		**117,689**	115,344
Total Assets		**₱357,019**	₱336,251
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)**	(116)
Employee stock purchase plan	*15*	**1,049**	1,049
Unrealized fair value gains (losses) on fair value through other comprehensive income ("*FVOCI*") financial assets	*10*	**227**	(295)
Remeasurement adjustments on retirement and other post-employment liabilities	*25*	**(193)**	3,535
Share in remeasurement adjustments on associates' retirement liabilities	*8*	**(12)**	(10)
Cumulative translation adjustments of associates	*8*	**762**	551
Cumulative translation adjustments of subsidiaries		**32**	33
Treasury shares	*15*	**(11)**	(11)
Retained earnings	*15*	**67,108**	61,922
Equity Attributable to Equity Holders of the Parent		**84,230**	82,042
Non-controlling Interests		**1,011**	845
Total Equity		**₱85,241**	₱82,887
Noncurrent Liabilities			
Interest-bearing long-term financial liabilities - net of current portion	*16, 24 and 26*	**₱12,745**	₱24,745
Customers' deposits - net of current portion	*17, 21 and 26*	**28,247**	27,024
Long-term employee benefits	*25*	**8,882**	1,980
Provisions	*18, 21 and 28*	**17,356**	17,442
Refundable service extension costs - net of current portion	*21 and 26*	**6,932**	6,170
Deferred tax liabilities - net	*27*	**84**	67
Other noncurrent liabilities	*2, 5, 7, 23 and 28*	**69,971**	60,419
Total Noncurrent Liabilities		**144,217**	137,847
Current Liabilities			
Notes payable	*20, 24 and 26*	**23,393**	13,428
Trade payables and other current liabilities	*15, 21, 22, 26 and 28*	**93,680**	90,456
Customers' refund	*2, 19 and 26*	**3,032**	4,359
Income tax payable		**2,341**	1,968
Current portion of interest-bearing long-term financial liabilities	*16, 24 and 26*	**5,115**	1,843
Current portion of long-term employee benefits	*25*	**–**	3,463
Total Current Liabilities		**127,561**	115,517
Total Liabilities		**271,778**	253,364
Total Liabilities and Equity		**₱357,019**	₱336,251

See accompanying Notes to Consolidated Financial Statements.

MANILA ELECTRIC COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Note	Years Ended December 31 2019	2018	2017
			(Amounts in millions, except per share data)	
REVENUES				
Sale of electricity	*6, 22, 23, 29 and 31*	**₱310,098**	₱295,389	₱275,172
Sale of other services	*22*	**8,217**	9,065	7,384
		318,315	304,454	282,556
COSTS AND EXPENSES				
Purchased power	*23 and 29*	**241,032**	232,102	214,558
Salaries, wages and employee benefits	*24 and 25*	**13,106**	12,697	12,595
Provision for probable losses and expenses from claims	*2, 18 and 28*	**10,119**	10,198	8,533
Depreciation and amortization	*7, 9, 10 and 24*	**8,730**	7,827	7,520
Contracted services		**6,637**	6,390	5,933
Taxes, fees and permits		**1,118**	901	848
Other expenses	*22 and 24*	**6,334**	5,897	6,191
		287,076	276,012	256,178
OTHER INCOME (EXPENSES)				
Interest and other financial income	*11 and 24*	**3,269**	2,831	2,188
Interest and other financial charges	*20 and 24*	**(1,607)**	(2,033)	(1,530)
Foreign exchange gains (losses) - net		**(508)**	1,134	29
Equity in net earnings (losses) of associates and joint ventures	*8*	**(1,486)**	(725)	221
Others	*2, 22, 29 and 31*	**1,008**	896	576
		676	2,103	1,484
INCOME BEFORE INCOME TAX		**31,915**	30,545	27,862
PROVISION FOR (BENEFIT FROM) INCOME TAX	*27*			
Current		**11,503**	10,522	10,031
Deferred		**(2,960)**	(3,079)	(2,668)
		8,543	7,443	7,363
NET INCOME		**₱23,372**	₱23,102	₱20,499
Attributable To				
Equity holders of the Parent	*30*	**₱23,285**	₱23,017	₱20,384
Non-controlling interests		**87**	85	115
		₱23,372	₱23,102	₱20,499
Earnings Per Share Attributable to Equity Holders of the Parent	*30*			
Basic		**₱20.66**	₱20.42	₱18.09
Diluted		**20.66**	20.42	18.09

See accompanying Notes to Consolidated Financial Statements.

MANILA ELECTRIC COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Note	Years Ended December 31 2019	2018	2017
			(Amounts in millions)	
NET INCOME		**₱23,372**	₱23,102	₱20,499
OTHER COMPREHENSIVE INCOME				
Items that will be reclassified to profit or loss in subsequent years:				
Unrealized fair value gains (losses) on *FVOCI* financial assets	*10*	**507**	(200)	95
Cumulative translation adjustments of associates		**211**	(599)	86
Cumulative translation adjustments of subsidiaries		**(1)**	8	4
Net other comprehensive income (loss) that will be reclassified to profit or loss in subsequent years		**717**	(791)	185
Items that will not be reclassified to profit or loss in subsequent years:				
Remeasurement adjustments on retirement and other post-employment liabilities	*25*	**(5,327)**	1,723	(1,504)
Income tax effect		**1,599**	(517)	455
		(3,728)	1,206	(1,049)
Unrealized fair value gains on equity securities at *FVOCI*		**17**	73	18
Income tax effect		**(2)**	(8)	(2)
		15	65	16
Share in remeasurement adjustments on retirement and other post-employment liabilities		**(2)**	–	2
Net other comprehensive income (loss) that will not be reclassified to profit or loss in subsequent years		**(3,715)**	1,271	(1,031)
OTHER COMPREHENSIVE INCOME (LOSS), NET OF INCOME TAX		**(2,998)**	480	(846)
TOTAL COMPREHENSIVE INCOME, NET OF INCOME TAX		**₱20,374**	₱23,582	₱19,653
Total Comprehensive Income Attributable To				
Equity holders of the Parent		**₱20,287**	₱23,497	₱19,532
Non-controlling interests		**87**	85	121
		₱20,374	₱23,582	₱19,653

See accompanying Notes to Consolidated Financial Statements.

MANILA ELECTRIC COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017

	Equity Attributable to Equity Holders of the Parent													
	Common Stock (Note 15)	Additional Paid-in Capital	Equity Reserve (Note 3)	Employee Stock Purchase Plan (Note 15)	Unrealized Fair Value Gains (Losses) on *FVOCI* Financial Assets (Note 10)	Re-measurement Adjustments on Retirement and Other Post-Employment Liabilities (Note 25)	Share in Re-measurement Adjustments on Associates' Retirement Liabilities (Note 8)	Cumulative Translation Adjustments of Associates (Note 8)	Cumulative Translation Adjustments of Subsidiaries	Treasury Shares (Note 15)	Unappropriated Retained Earnings (Note 15)	Equity Attributable to Equity Holders of the Parent	Non-controlling Interests (Note 6)	Total Equity
	(Amounts in millions)													
At January 1, 2019	**₱11,273**	**₱4,111**	**(₱116)**	**₱1,049**	**(₱295)**	**₱3,535**	**(₱10)**	**₱551**	**₱33**	**(₱11)**	**₱61,922**	**₱82,042**	**₱845**	**₱82,887**
Net income	–	–	–	–	–	–	–	–	–	–	23,285	23,285	87	23,372
Other comprehensive income (loss)	–	–	–	–	522	(3,728)	(2)	211	(1)	–	–	(2,998)	–	(2,998)
Total comprehensive income (loss)	–	–	–	–	522	(3,728)	(2)	211	(1)	–	23,285	20,287	87	20,374
Additions to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	111	111
Dividends	–	–	–	–	–	–	–	–	–	–	(18,099)	(18,099)	(32)	(18,131)
	–	–	–	–	–	–	–	–	–	–	(18,099)	(18,099)	79	(18,020)
At December 31, 2019	**₱11,273**	**₱4,111**	**(₱116)**	**₱1,049**	**₱227**	**(₱193)**	**(₱12)**	**₱762**	**₱32**	**(₱11)**	**₱67,108**	**₱84,230**	**₱1,011**	**₱85,241**
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	–	23,017	23,497	85	23,582
Dividends	–	–	–	–	–	–	–	–	–	–	(15,075)	(15,075)	(64)	(15,139)
Additional investment of non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	2	2
Excess of acquisition cost of controlling interest over carrying value of additional minority interest	–	–	10	–	–	–	–	–	–	–	–	10	–	10
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)
Additional investment of non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	12	12
Excess of acquisition cost of controlling interest over carrying value of additional minority interest	–	–	202	–	–	–	–	–	–	–	–	202	–	202
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

See accompanying Notes to Consolidated Financial Statements.

MANILA ELECTRIC COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

		Years Ended December 31		
	Note	**2019**	2018	2017
			(Amounts in millions)	
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax		**₱31,915**	₱30,545	₱27,862
Adjustments for:				
Provision for probable losses and expenses from claims - net	*2, 23 and 28*	**9,696**	9,795	6,959
Depreciation and amortization	*7, 9 and 10*	**8,730**	7,827	7,520
Interest and other financial income	*24*	**(3,269)**	(2,831)	(2,188)
Interest and other financial charges	*24*	**1,607**	2,033	1,530
Equity in net losses of associates and joint ventures	*8*	**1,486**	725	(221)
Others		**477**	(741)	868
Operating income before working capital changes		**50,642**	47,353	42,330
Increase in:				
Trade and other receivables		**(2,645)**	(8,161)	(3,864)
Inventories		**(746)**	(482)	(538)
Financial and other current assets		**(324)**	(113)	(3,847)
Increase (decrease) in:				
Trade payables and other current liabilities		**1,419**	11,300	(2,012)
Customers' deposits		**1,635**	2,525	3,953
Customers' refund		**(1,327)**	(244)	(385)
Long-term employee benefits		**2,220**	(1,662)	2,151
Cash generated from operations		**50,874**	50,516	37,788
Income tax paid		**(8,443)**	(10,370)	(9,403)
Net cash flows provided by operating activities		**42,431**	40,146	28,385
CASH FLOWS FROM INVESTING ACTIVITIES				
Additions to:				
Financial assets at *FVOCI*	*10*	**(51,065)**	(10,017)	(25,326)
Short-term investments		**(37,957)**	(19,337)	–
Utility plant and others	*7*	**(19,438)**	(12,999)	(11,808)
Debt securities at amortized cost	*10*	**(11,974)**	(12,114)	(1,515)
Investments in associates and interests in joint ventures	*8*	**(6,421)**	(1,667)	(857)
Intangible assets	*10*	**(547)**	(435)	(158)
Investment properties		**(1)**	(2)	–
Proceeds from maturity of:				
Financial assets at *FVOCI*		**51,874**	10,056	31,249
Short-term investments		**41,618**	–	–
Debt securities at amortized cost		**11,065**	9,098	1,466
Interest and other financial income received		**3,395**	2,570	2,201
Proceeds from disposal of utility plant and others		**490**	345	210
Dividends received from associates		**546**	476	473
Increase (decrease) in minority interest		**69**	(62)	(28)
Increase in financial and other noncurrent assets		**(2,047)**	(1,666)	(6,465)
Net cash used in investing activities		**(20,393)**	(35,754)	(10,558)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from:				
Availment of notes payable	*20*	**10,179**	2,229	4,705
Availment of interest-bearing long-term financial liabilities	*16*	**28**	350	600
Disposal of non-controlling interest	*3*	**–**	10	202
Payments of:				
Dividends	*15*	**(18,008)**	(14,557)	(19,843)
Interest-bearing long-term financial liabilities	*16*	**(8,712)**	(424)	(2,827)
Interest and other financial charges		**(1,620)**	(1,563)	(1,387)
Notes payable		**(283)**	(2,419)	(2,593)
Increase (decrease) in other noncurrent liabilities		**(1,831)**	2,516	2,597
Net cash used in financing activities		**(20,247)**	(13,858)	(18,546)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**1,791**	(9,466)	(719)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**36,471**	45,937	46,656
CASH AND CASH EQUIVALENTS AT END OF YEAR	*11*	**₱38,262**	₱36,471	₱45,937

See accompanying Notes to Consolidated Financial Statements.

MANILA ELECTRIC COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

Manila Electric Company ("*MERALCO*") holds a 25-year congressional franchise under Republic Act ("*RA*") No. 9209 valid through June 28, 2028 to construct, operate, and maintain the electric distribution system in the cities and municipalities of Bulacan, Cavite, Metro Manila, and Rizal and certain cities, municipalities and barangays in the provinces of Batangas, Laguna, Pampanga, and Quezon. On October 20, 2008, the Energy Regulatory Commission ("*ERC*") granted *MERALCO* a consolidated Certificate of Public Convenience and Necessity for the operation of electric service within its franchise coverage, effective until the expiration of *MERALCO*'s congressional franchise. *MERALCO*'s participation in retail electricity supply ("*RES*") is directly through its local *RES* unit, *MPower* and indirectly through its affiliate *RES* entities. The *ERC* granted the following subsidiaries of *MERALCO* distinct *RES* licenses to operate as affiliate retail electricity suppliers in Luzon and Visayas, namely; Vantage Energy Solutions and Management, Inc. ("*Vantage*"), a wholly owned subsidiary of *MERALCO*; Solvre, Inc., a wholly owned subsidiary of MERALCO PowerGen Corporation ("*MGen*"); and MeridianX Inc. ("*MeridianX*"), a wholly owned subsidiary of Comstech Integration Alliance, Inc. ("*Comstech*", 60% owned by *MERALCO*), 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 ("*Clark Electric*"). *Clark Electric* is a registered private distribution utility with a franchise granted by Clark Development Corporation ("*CDC*") to own, operate and maintain a power distribution system and to distribute power exclusively within its franchise area, which includes the Clark Freeport Zone and the sub-zones 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. The Bases Conversion and Development Authority ("*BCDA*") confirmed that the power distribution franchise of *Clark Electric* within the entire *CSEZ* is until July 30, 2047.

MERALCO is developing power generation plants facilities of various fuel sources through its wholly owned subsidiary, *MGen*, and is also engaged in rooftop solar energy projects through its wholly owned subsidiary, MSpectrum, Inc. ("*Spectrum*"). It is also developing a mini-hydro power plant project 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*").

Beginning September 2019, *MERALCO*, through its 60% equity ownership in Shin Clark Power Holdings, Inc. ("*Shin Clark*") provides electricity services in New Clark City ("*NCC*"). The 9,450 hectare *NCC* span through Angeles City in Pampanga and the towns of Capas and Bamban in Tarlac.

MERALCO 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% while *JG Summit* has 29.56% direct ownership interest in *MERALCO*. First Philippine Holdings Corporation ("*First Holdings*") and First Philippine Utilities Corporation have a combined direct equity ownership of 3.94% 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 24, 2020.

2. Rate Regulations

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

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

Performance-Based Regulations ("*PBR*")

MERALCO

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

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 ("*RY*s"). A *RY* for *MERALCO* begins on July 1 and ends on June 30 of the following year. The 5th *RP* for Group A *DU*s began on July 1, 2019 and shall end on June 30, 2023.

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 *RY*s 2012, 2013, 2014 and 2015, *MERALCO* filed for the respective *MAP* with the *ERC* on the following dates:

RY	***MERALCO*'s application date**	***ERC* 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 foregoing distribution *MAP*s for each of the *RY*. However, as at February 24, 2020, *MERALCO* continues to await the final approval of the *ERC*.

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* (excluding efficiency adjustment) and the rate translation per customer class, which was reflected in the customer bills starting July 2015. *MERALCO* has completed the presentation of its evidence and is set to file its Formal Offer of Evidence ("*FOE*") after the *ERC* rules on pending motions. As at February 24, 2020, the *ERC*'s ruling on these motions is pending.

In a letter dated June 14, 2019, *MERALCO* advised the *ERC* that it shall continue implementing the existing *ERC*-approved interim average rate pending the regulatory reset process. In a letter dated July 4, 2019, the *ERC* authorized the continued implementation of the interim average rate but directed *MERALCO*, as well as other distribution utilities, to refund any remaining amount pertaining to regulatory reset cost for the previous *RP*s.

While *MERALCO* complied with the directive to refund the total amount of ₱263.9 million, equivalent to ₱0.0731 per *kWh* in its July 2019 billing, it wrote a letter seeking clarification or reconsideration on the basis for the refund of the regulatory reset cost, including the imposition of and basis for the interest computed therein. The refund was included as a separate line item in *MERALCO*'s July 2019 billing to its customers. As at February 24, 2020, the *ERC* has yet to reply to *MERALCO*'s letter.

MERALCO recognized provisions for any resulting over-recoveries. The movements in and the balance of the "Other noncurrent liabilities" account in the consolidated statements of financial position substantially represent these provisions, consistent with the limited disclosure as allowed in Philippine Financial Reporting Standards ("*PFRS*s") as it may prejudice the position of *MERALCO*.

CAPEX for 4th RP and RY 2020

Absent the release by the *ERC* of the final rules to govern the filing of its 4th and 5th *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.

RY	*MERALCO*'s application date	Proposed *CAPEX* amount	Status of applications
2016	February 9, 2015	₱17.7 billion	On June 15, 2016, *MERALCO* received a copy of the *ERC* Decision dated April 12, 2016 which partially approved *MERALCO*'s *CAPEX* program for *RY* 2016 amounting to ₱15.5 billion out of the total proposed *RY* 2016 *CAPEX* of ₱17.7 billion, subject to certain conditions. An intervenor filed a Motion for Reconsideration ("*MR*") on the Decision which is pending before the *ERC*. On July 25, 2016, *MERALCO* filed its opposition to the *MR*. As at February 24, 2020, the *ERC* ruling on the *MR* is pending.
2017	March 8, 2016	₱15.4 billion	On July 26, 2016, *MERALCO* received an Order dated May 5, 2016, which partially approved *MERALCO*'s *CAPEX* program for *RY* 2017 amounting to ₱8.8 billion, subject to certain conditions. On September 14, 2016, *MERALCO* filed an *MR*. Subsequently, on April 25, 2017, *MERALCO* filed a Very Urgent Motion for Resolution of the application. Thereafter, on October 18, 2017, *MERALCO* filed a Manifestation and Urgent Motion for Resolution. On November 9, 2017, *MERALCO* filed a Manifestation with Third Urgent Motion to Resolve the Application. As at February 24, 2020, *MERALCO* is awaiting the final decision of the *ERC*.
2018	April 3, 2017	₱18.8 billion	On May 26, 2017, *MERALCO* received an Order dated May 15, 2017, which sets the case for initial hearing. Hearings were conducted on June 22, 2017, August 1, 2017, August 25, 2017 and September 22, 2017. On November 9, 2017, *MERALCO* filed its *FOE*. *MERALCO* also filed Manifestations on November 9, 2017 and March 28, 2018, informing the *ERC* that it was constrained to implement several projects in order to avert service interruptions to its customers and maintain a robust distribution infrastructure. As at February 24, 2020, the case has been submitted for decision.
2019	April 30, 2018	₱21.0 billion	On July 9, 2018, *MERALCO* filed a Very Urgent Motion for issuance of provisional authority and to set the case for initial hearing. As at February 24, 2020, hearings on this case are ongoing.
2020	July 1, 2019	₱15.5 billion	On July 1, 2019, *MERALCO* filed the application for approval of its very urgent/emergency *CAPEX* projects for *RY 2020*. As at February 24, 2020, hearings on this case are ongoing.

4th and 5th RP Reset Application

MERALCO's 4th *RP* ended on June 30, 2019 and is currently operating in the 5th *RP*. Under *ERC* Resolution No. 25, Series of 2016 dated July 12, 2016, the *ERC* promulgated a Resolution modifying the *RDWR* for privately-owned *DU*s entering the *PBR*. The *ERC* has directed *MERALCO* and Private Electric Power Operators Association ("*PEPOA*") to publish the Resolution. However, *MERALCO* sought clarification from the *ERC* on certain issues in the Resolution, including the need to await the final decision of the *ERC* on the Petition for the Rule Making filed by a consumer group to amend the *PBR*.

In a Notice dated November 16, 2016, the *ERC* approved the draft "Regulatory Asset Base Roll Forward Handbook for Privately Owned Electricity Distribution Utilities" ("*RAB Handbook*") for posting in its website. All interested parties were asked to submit their respective comments on the draft *RAB Handbook*. In an Omnibus Motion filed on February 9, 2017, *MERALCO* submitted its initial comments to the draft *RAB Handbook* but moved for the deferment of the proceedings until the consumer group's Petition as referred in the preceding paragraph has been resolved. As at February 24, 2020, the *ERC* has yet to resolve *MERALCO*'s Omnibus Motion.

On December 21, 2018, *MERALCO* 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*. As at February 24, 2020, the *ERC* has yet to act on *MERALCO*'s Petition.

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

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

MERALCO submitted additional comments on July 15, 2019 and August 2, 2019 and attended public consultations. *MERALCO* is awaiting further action of the *ERC* on the matter.

Clark Electric

Clark Electric is among the four (4) Group D entrants to the *PBR*. Similar to *MERALCO*, it is subject to operational performance and service level requirements approved by the *ERC*. A *RY* for *Clark Electric* begins on October 1 and ends on September 30. The 3rd *RP* for *Clark Electric* began on October 1, 2015 and ended on September 30, 2019. *Clark Electric* 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 and 4th RP PBR Reset for Clark Electric

Pending the release by the *ERC* of the final rules to govern the filing of its 3rd and 4th *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, May 17, 2018 and July 05 2019, *Clark Electric* filed with the *ERC* its proposed *CAPEX* program for *RY*s 2016, 2017, 2018 and 2019, respectively. *Clark Electric* applied for an approval to implement the *CAPEX* in order to continue meeting the electricity requirements of its current and future customers, improve the flexibility, reliability and stability of its distribution network as well as improve customer service. Manifestations as emergency projects were submitted to *ERC* on October 9, 2019 covering most of the applied *CAPEX* Projects for *RY*s 2016, 2017 and 2018. As at February 24, 2020, the application is pending approval by the *ERC*.

Supreme Court ("SC") Decision on Unbundling Rate Case

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

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

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

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

On June 21, 2011, the *ERC* maintained and affirmed its findings and conclusions in its Decision dated March 20, 2003 and Order dated May 30, 2003. The *ERC* stated that the *COA* recommendation to apply disallowances under *PBR* to rate unbundling violates the principle against retroactive rate-making. An intervenor group filed a *MR* of the said Order. On September 5, 2011, *MERALCO* filed its comment on the intervenor's *MR*. On February 4, 2013, the *ERC* denied the intervenor's *MR*. The intervenor filed a Petition for Review before the *CA* and *MERALCO* filed its comment thereon on May 29, 2014. In compliance with the *CA*'s directive, *MERALCO* filed its Memorandum in August 2015. In a Resolution dated September 29, 2015, the *CA* 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 *DU*s that sought to intervene in the case. In a Resolution dated October 3, 2017, the *SC* granted the Motion for Leave to Intervene and Comment-in-Intervention. On November 13, 2019, *MERALCO* received a Decision dated October 8, 2019 partially granting the Petition filed by the National Association of Electric Consumers for Reforms Inc. ("*NASECORE*"), which among other things, (i) voided the adoption by the *ERC* of the current or replacement cost in the valuation of *MERALCO*'s *RAB*; and (ii) remanded the case to *ERC* to determine, within 90 days, finality of the Decision.

MERALCO, *PEPOA* and the *ERC* filed their respective motions for reconsideration which are pending before the *SC*.

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

MERALCO

On July 13, 2009, the *ERC* issued Resolution No. 16, Series of 2009, adopting the "Rules Governing the Automatic Cost Adjustment and True-up Mechanisms and Corresponding Confirmation Process for Distribution Utilities". These rules govern the recovery of pass-through costs,

including under- or over-recoveries with respect to the following bill components: generation charge, transmission charge, *SL* charge, lifeline and inter-class rate subsidies, *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 citizens discounts and specified that post-verification shall coincide with the timeframes in Resolution No. 16, Series of 2009, as amended by Resolution No. 21, Series of 2010.

On June 1, 2015, the *ERC* approved with modification *MERALCO*'s applications for the confirmation of its under- or over-recoveries 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 February 24, 2020, the recovery of the net under-recovery is on going.

On March 31, 2014, *MERALCO* filed its application with the *ERC* to confirm its 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 citizens discount over-recoveries of ₱0.4 million from February 2011 to October 2013, excluding proposed carrying charges. Under- or over-recoveries from November and December 2013 supply months were excluded in the meantime, in view of the pending *SC* and *ERC* cases involving pass-through costs for these months. As at February 24, 2020, 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 24, 2020, 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 24, 2020, the application is pending final approval by the *ERC*.

In compliance with relevant rules and regulations, *MERALCO* is set to file its next application for the confirmation of its over/under-recoveries of pass through charges covering the period January 2017 to December 2019 on or before March 31, 2020.

Clark Electric

Clark Electric 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. A public hearing was held on June 17, 2014 and the *ERC* decision was received by *Clark Electric* on January 13, 2017. On January 30, 2017, *Clark Electric* filed a *MR* on the decision of the *ERC*. As at February 24, 2020, the *MR* is pending decision by the *ERC*.

On March 31, 2017, *Clark Electric* 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. A public hearing was held on October 25, 2017. As at February 24, 2020, 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 24, 2020, hearings are ongoing.

Application for the Recovery of Differential Generation Costs

On February 17, 2014, *MERALCO* filed for the recovery of the unbilled generation costs for December 2013 supply month amounting to ₱11,075 million. An amended application was filed on March 25, 2014 to adjust the unbilled generation costs for recovery to ₱1,310 million, following the receipt of the Wholesale Electricity Spot Market ("*WESM*") billing adjustments based on regulated Luzon *WESM* prices. The first hearing was conducted on May 26, 2014. The *ERC* suspended the proceedings, pending resolution of issues of related cases at the *SC* involving generation costs for the November and December 2013 supply months and the regulated *WESM* prices for the said period. As at February 24, 2020, the proceedings remain suspended.

Deferred Purchase Price Adjustment

On October 12, 2009, the *ERC* released its findings on *MERALCO*'s implementation of the collection of the approved pass-through cost under-recoveries for the period June 2003 to January 2007. The *ERC* directed *MERALCO* to refund to its customers ₱268 million of deferred purchase price adjustment transmission line costs related to Quezon Power (Philippines) Limited Company ("*QPPL*") and deferred accounting adjustments incurred along with ₱184 million in carrying charges, or an equivalent ₱0.0169 per *kWh*. *MERALCO* implemented the refund beginning November 2009 until September 2010. However, the *ERC* has yet to rule on *MERALCO*'s deferred purchase price adjustment under-recoveries of ₱106 million, which is not a transmission line fee. On November 4, 2009, *MERALCO* filed an *MR* with the *ERC*. As at February 24, 2020, the *MR* is still pending resolution by the *ERC*

Applications for Recovery of LFT

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

City	Date of filing	Status
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 tax recovery adjustment charge ("*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 24, 2020, the *ERC* resolution of the motion to intervene is pending.
City of Biñan	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 been completed and *MERALCO* filed its *FOE* on August 30, 2018. As at February 24, 2020, *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. As at February 24, 2020, 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. As at February 24, 2020, 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. As at February 24, 2020, the *ERC* has yet to act on *MERALCO*'s Motion.
City of Pasig	May 2, 2019	Application to implement the new *LFT* rate of 55% of 1% and to recover the differential *LFT* paid to the City of Pasig. On May 21, 2019, the *ERC* granted *MERALCO* a provisional authority to implement the new *LFT* rate and to recover the differential *LFT* in the amount of ₱8.9 million at a rate of ₱0.0047 per *kWh* and carrying cost in the amount of ₱0.9 million at a rate of ₱0.0005 per *kWh*, or a total amount of ₱9.8 million at a rate of ₱0.0052 per *kWh* from customers in the City of Pasig over the period of 12 months.

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 February 4, 2019, the *ERC* granted *MERALCO*'s Motion and authorized *MERALCO* to continue with the implementation of the *SC* Refund to eligible accounts or customers under Phases I to IV until June 30, 2019 and submit a proposed scheme on how the unclaimed refund will be utilized for purposes of reducing the distribution rates of customers. On February 18, 2019, *MERALCO* filed a Partial Compliance with Manifestation and Motion. On March 8, 2019, *MERALCO* filed a Compliance with Manifestation and Motion. On July 12, 2019, *MERALCO* filed its Compliance with Manifestation informing the *ERC* that on July 1, 2019, *MERALCO* deposited all the unclaimed amounts of the *SC* Refund as of June 30, 2019 in a separate interest-bearing account. *MERALCO* further manifested in said Compliance that it shall continue with the processing of the refund claims of eligible customers and should the refund claims of these customers be evaluated to be valid, *MERALCO* shall, for the benefit of the customers, withdraw the refund amount from the bank account, release the same to the concerned customers and accordingly inform the *ERC* of such fact. On September 10, 2019, *MERALCO* filed an Urgent Manifestation and Motion with respect to the Order dated December 19, 2018 of the *ERC*. The *ERC* has yet to rule on the Urgent Manifestation and Motion by *MERALCO*. As at February 24, 2020, *MERALCO* continues processing the refund claims of eligible 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 *PFRS*s.

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:

			2019		2018	
			Percentage of Ownership			
Subsidiaries	**Place of Incorporation**	**Principal Business Activity**	**Direct**	**Indirect**	Direct	Indirect
Corporate Information Solutions, Inc. ("*CIS*")	Philippines	e-Transactions	**100**	**–**	100	–
Customer Frontline Solutions, Inc. ("*CFSI*")	Philippines	Tellering services	**–**	**95**	–	95
CIS Bayad Center, Inc. ("*Bayad Center*")	Philippines	Bills payment collection	**–**	**95**	–	95
Fieldtech Specialist, Inc. ("*Fieldtech*")	Philippines	Bills payment collection	**–**	**48**	–	48
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	–
Paragon Vertical Corporation ("*Paragon*")	Philippines	Information technology *("IT")* and multi-media services	**–**	**100**	–	100
Radius Telecoms, Inc. ("*Radius*")	Philippines	Telecommunication services	**–**	**100**	–	100
MGen	Philippines	Development of power generation plants	**100**	**–**	100	–
Calamba Aero Power Corporation [2]	Philippines	Power generation	**–**	**100**	–	100
Atimonan Land Ventures Development Corporation	Philippines	Real estate	**–**	**100**	–	100
Atimonan One Energy, Inc. ("*A1E*") [3]	Philippines	Power generation	**–**	**100**	–	100
MPG Holdings Phils., Inc.	Philippines	Holding company	**–**	**100**	–	100
MPG Asia Limited ("*MPG Asia*")	British Virgin Islands	Holding company	**–**	**100**	–	100
Solvre, Inc. [2]	Philippines	Retail electricity supplier	**–**	**100**	–	100
MGen Renewable Energy, Inc. ("*MGreen*")	Philippines	Renewable energy	**–**	**100**	–	–
Nortesol III Inc. ("*NorteSol*")	Philippines	Renewable energy	**–**	**70**	–	–
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	–

			2019		2018	
			Percentage of Ownership			
Subsidiaries	**Place of Incorporation**	**Principal Business Activity**	**Direct**	**Indirect**	Direct	Indirect
MRAIL, Inc. ("*MRail*")	Philippines	Engineering, construction and maintenance of mass transit system	**100**	**–**	100	–
eSakay, Inc. ("*eSakay*")	Philippines	Maintenance and operation of transport service networks	**100**	**–**	100	–
MIESCOR	Philippines	Engineering, construction and consulting services	**99**	**–**	99	–
Miescor Builders Inc. ("*MBI*")	Philippines	Electric transmission and distribution operation and maintenance services	**–**	**99**	–	99
Miescor Logistics Inc. ("*MLI*")	Philippines	General services, manpower/maintenance	**–**	**99**	–	99
Clark Electric	Philippines	Power distribution	**65**	**–**	65	–
Clarion Energy Management Inc. ("*Clarion*") [2]	Philippines	Retail electricity supplier	**–**	**65**	–	65
Comstech	Philippines	Management of power distribution	**60**	**–**	60	–
MeridianX Inc.	Philippines	Retail electricity supplier	**–**	**60**	–	60
Meridian Power Ventures Limited ("*MPV Limited*") [2]	Hongkong	Investment holdings	**100**	**–**	100	–
Shin Clark [4]	Philippines	Holding company	**60**	**–**	–	–

[1] *Non-operational since 2018.*
[2] *Has not started commercial operations as at December 31, 2019.*
[3] *In development stage as at December 31, 2019.*
[4] *Incorporated on September 17, 2019 and has not started commercial operations as at December 31, 2019.*

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, *Clark Electric* and subsidiary, *Comstech* and subsidiary, *AMPSI, Fieldtech, Bayad Center* and *Shin Clark* 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, 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 were applied retrospectively and are effective starting January 1, 2019, with earlier application permitted.

These amendments do not 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 are 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 generally recognizes 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 *MERALCO Group* applied the modified retrospective approach. The standard's transition provisions permit certain reliefs.

The adoption of *PFRS 16* does not have 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 date. 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 year 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 have no impact on *MERALCO Group*'s financial statements since there are no future plan amendments, curtailments, or settlements.

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 adoption of these amendments does not have impact on *MERALCO Group*'s consolidated financial statements.

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 entity is required to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and use the approach that better predicts the resolution of the uncertainty. The entity shall assume that the taxation authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes that it is not probable that the taxation authority will accept an uncertain tax treatment, it shall reflect the effect of the uncertainty for each uncertain tax treatment using the method the entity expects to better predict the resolution of the uncertainty.

The *MERALCO Group* has applied *IFRIC 23* using the retrospective approach. It did not restate the comparative information as permitted by the specific transitional provision.

The adoption of the interpretation does not have significant impact on *MERALCO Group*'s consolidated financial statements.

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 year 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.

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. The adoption of the amendments does not have effect on *MERALCO Group*'s consolidated financial statements since its current practice is in line with these amendments.

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 years beginning on or after January 1, 2020, with earlier application permitted.

The *MERALCO Group* will apply these amendments to future business combinations.

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

The aggregate of the *MERALCO Group*'s share in profit or loss of its associates and joint ventures is shown on the face of the consolidated statement of income and represents profit or loss after tax.

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

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

Upon loss of significant influence over the associate or joint control over the joint venture, the *MERALCO Group* measures and recognizes any 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 has been recognized for the asset in prior year. Such reversal is recognized in the consolidated statement of income. After such reversal, the depreciation and amortization expense are adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Intangible assets with indefinite useful lives are tested for impairment annually at every reporting date or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired, either individually or at the cash generating unit level, as appropriate. The amount of impairment is calculated as the difference between the recoverable amount of the intangible asset and its carrying amount. The impairment loss is recognized in the consolidated statement of income. Impairment losses relating to intangible assets may be reversed in future years.

Goodwill is reviewed for impairment annually at every reporting year or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of the cash generating unit or group of cash generating units, to which the goodwill relates. Where the recoverable amount of the cash generating unit or group of cash generating units is less than the carrying amount of the cash generating unit or group of cash generating units to which goodwill has been allocated, an impairment loss is recognized. Impairment losses relating to goodwill shall not be reversed in future years.

If the allocation of goodwill acquired in a business combination to cash generating units or group of cash generating units is incomplete, an impairment testing of goodwill is only carried out when impairment indicators exist. Where impairment indicators exist, impairment testing of goodwill is performed at a level at which the acquirer can reliably test for impairment.

Financial Instruments - Initial Recognition and Subsequent Measurement (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 ("*FVPL*").

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the *MERALCO Group*'s business model for managing them. With the exception of trade receivables that do not contain a significant financing component, the *MERALCO Group* initially measures a financial asset at its fair value, and in the case of a financial asset not at *FVPL* , plus transaction costs.

In order for a financial asset to be classified and measured at amortized cost or *FVOCI*, it needs to give rise to cash flows that are *SPPI* on the principal amount outstanding. This assessment is referred to as the *SPPI* test and is performed at an instrument level.

The *MERALCO Group*'s business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the *MERALCO Group* commits to purchase or sell the asset.

Subsequent Measurement

For purposes of subsequent measurement, financial assets are classified in four (4) categories:

- Financial assets at amortized cost (debt instruments)
- Financial assets at *FVOCI* with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at *FVOCI* with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at *FVPL*

Financial Assets at Amortized Cost (Debt Instruments)

This category is the most relevant to the *MERALCO Group*. The *MERALCO Group* measures financial assets at amortized cost if both of the following conditions are met:

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

Financial assets at amortized cost are subsequently measured using the effective interest rate ("*EIR*") method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired. The *MERALCO Group*'s financial assets at amortized cost includes cash and cash equivalents, trade and other receivables, short-term investments, debt securities at amortized cost, 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 *MERALCO Group* also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the *MERALCO Group* has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the *MERALCO Group* could be required to repay.

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.

*ECL*s 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 *ECL*s 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 year, asset quality improves and also reverses any previously assessed significant increase in credit risk since origination, then the loss allowance measurement reverts from lifetime *ECL* to 12-months *ECL*.

The *MERALCO Group* considers a financial asset in default when contractual payments are 300 days past due (average days to terminate customer contract). However, in certain cases, the *MERALCO Group* may also consider a financial asset to be in default when internal or external information indicates that the *MERALCO Group* is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the *MERALCO Group*. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial Liabilities

Initial Recognition and Measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at *FVPL*, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The *MERALCO Group*'s financial liabilities include interest-bearing long-term financial liabilities, customer deposits and refunds, refundable service extension costs, notes payable and trade and other payables.

Subsequent Measurement

Financial Liabilities at FVPL

Financial liabilities at *FVPL* include financial liabilities held for trading and financial liabilities designated upon initial recognition as at *FVPL*.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the *MERALCO Group* that are not designated as hedging instruments in hedge relationships as defined by *PFRS 9*. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognized in the consolidated statement of profit or loss. Financial liabilities designated upon initial recognition at *FVPL* are designated at the initial date of recognition, and only if the criteria in *PFRS 9* are satisfied. The *MERALCO Group* has not designated any financial liability as at *FVPL*.

Loans and borrowings

This is the category most relevant to the *MERALCO Group*. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the *EIR* method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the *EIR* amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the *EIR*. The *EIR* amortization is included as finance costs in the consolidated statement of profit or loss. This category generally applies to interest-bearing loans and borrowings.

Derecognition

A financial liability 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 income.

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 *Clark Electric* 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 reporting date are classified as current assets. Otherwise, these are classified as noncurrent assets.

Value-Added Tax ("VAT")

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

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

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

Provisions

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

Retirement Benefits

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

The net defined benefit liability or asset of the retirement plan is the aggregate of the present value of the defined benefit obligation at the end of the reporting date reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

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

Defined benefit costs comprise of (i) service costs; (ii) net interest on the net defined benefit liability or asset; and (iii) remeasurements of the net defined benefit liability or asset.

Service costs, which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in the consolidated statement of income. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

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

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

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the *MERALCO Group*, nor can they be paid directly to the *MERALCO Group*. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected year until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The *MERALCO Group*'s right to be reimbursed for some or all of the expenditures required to settle a defined benefit obligation is recognized as a separate asset at fair value when, and only when, reimbursement is virtually certain.

The retirement costs under the defined contribution plan are recorded based on *MERALCO Group*'s contribution to the defined contribution plan as services are rendered by the employee.

Termination Benefits

Termination benefits are provided in exchange for its severance as a result of either an entity's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment.

A liability and expense for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of those benefits and when the entity recognizes related restructuring costs. Initial recognition and subsequent changes to termination benefits are measured in accordance with the nature of the employee benefit, as either post-employment benefits, short-term employee benefits, or other long-term employee benefits.

Employee Leave Entitlements

Employee entitlements to annual leave are recognized as a liability when such accrues to the employees. The undiscounted liability for leave expected to be settled wholly before 12 months after the end of the reporting year is recognized for services rendered by employees up to the end of the reporting year.

Unused sick leaves are accumulated, up to a certain limit, and commuted to cash upon separation or retirement. An actuarial valuation of the obligations on the accumulated unused sick leaves is conducted periodically in accordance with the relevant accounting standards.

Long-term Incentive Plan

The liability relating to the long-term incentive plan comprises the present value of the obligation at the end of the reporting date.

Equity

Common stock is measured at par value for all shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown as a deduction from equity, net of any related tax. The amount of proceeds and/or fair value of consideration received, net of incremental costs incurred directly attributable to the issuance of new shares in excess of par value, is recognized as additional paid-in capital.

Employee stock purchase plan cost represents the cumulative compensation expense recognized based on the amount determined using an option pricing model.

Change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction and presented as "Equity Reserve" in the consolidated statement of financial position.

OCI comprises items of income and expense, which are not recognized in profit or loss as required or permitted by *PFRS*.

Cumulative translation adjustment represents the resulting exchange differences in the remeasurement of accounts due to change in functional currency.

Treasury shares are recognized at cost and deducted from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the *MERALCO Group*'s own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized in additional paid-in capital.

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

Non-controlling interests represent the equity interests in *MIESCOR* and subsidiaries, *Clark Electric* and subsidiary, *AMPSI*, *Comstech* and subsidiary, *Fieldtech, Bayad Center* and *Shin Clark*, 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, *LFT* billed and collected on behalf of the local government units, universal charges and *FiT-All* [billed and collected on behalf of Power Sector Assets and Liabilities Management Corporation ("*PSALM*") and National Transmission Corporation ("*TransCo*"), respectively] do not form part of *MERALCO* and *Clark Electric*'s revenues. Revenues are adjusted for the over and/or under-recoveries of pass-through charges.

Sale of Services

The *MERALCO Group* recognizes revenue from construction contracts over time on the basis of direct measurements of the value to customers of the goods or services transferred to date, relative to the remaining goods or services promised under the contract (output method). Progress is measured based on the monthly project accomplishment which integrates the performance to date of the construction activities.

Construction contracts are generally accounted for as a single performance obligation and are not segmented between types of services. For engineering and construction contracts, these two (2) are combined into one performance obligation since these are not distinct within the context of the contract. The combined performance obligation qualifies as a good or service (or a bundle of goods or services) that is distinct.

Interest Income

Interest income is recognized as interest accrues, using the effective interest rate ("*EIR*") method. The *EIR* is the rate that discounts estimated future cash receipts through the expected life of the financial instrument.

Lease Income

Income arising from lease of investment properties and pole positions is accounted for on a straight-line basis over the lease term.

Lease income is included under "Revenues – Sale of other services" account in the consolidated statement of income.

Receivables

Receivables represent the *MERALCO Group*'s right to all amounts of consideration that are unconditional (i.e., only the passage of time is required before payment of the consideration is due).

Contract Assets

A contract asset is the right to consideration in exchange for goods and services transferred to the customer. If the *MERALCO Group* performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognized for the earned consideration that is conditional.

The *MERALCO Group*'s contract assets include unbilled receivables and under-recoveries of pass-through charges.

Contract Liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the *MERALCO Group* has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the *MERALCO Group* transfers good or services to the customer, a contract liability is recognized when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognized as revenue when the *MERALCO Group* performs under the contract.

The following are considered as contract liabilities:

Assets Funded by Customers

In accordance with the Distribution Services and Open Access Rule ("*DSOAR*"), the costs of non-standard connection facilities to connect the customers to *MERALCO*'s distribution network and to provide the customers with ongoing access to the supply of electricity are funded by the customers. *MERALCO* assesses whether the constructed or acquired non-standard connection facilities meet the definition of an asset in accordance with *PAS 16*. If the definition of an asset is met, *MERALCO* recognizes such asset at its acquisition or construction cost with an equivalent credit to the liability account. Such liability to the customers is included under "Other noncurrent liabilities" account in the consolidated statement of financial position, and is recognized as income over the average duration of relationship with the customer. Assets funded by customers do not form part of *MERALCO*'s regulatory asset base until amounts are refunded.

Net Over-recoveries of Pass-through Charges

Transmission and *SL* over-recoveries which resulted from the difference in the power suppliers' billings and recovery of such pass-through costs from consumers are included in "Other noncurrent liabilities" account in the consolidated statement of financial position.

Cost and Expense Recognition

Expenses are decreases in economic benefits during the financial reporting year in the form of outflows or decrease of assets or incurrence of liabilities that result in decrease in equity, other than those relating to distributions to equity participants. These are recognized when incurred.

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.

Lease Liabilities (Applicable starting January 1, 2019)

At the commencement date of the lease, the *MERALCO Group* recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the *MERALCO Group* and payments of penalties for terminating a lease, if the lease term reflects the *MERALCO Group* exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the year on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the *MERALCO Group* uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term Leases and Leases of Low-value Assets

The *MERALCO Group* applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the leases of low-value assets recognition exemption to leases of office equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

Leases

The *MERALCO Group* considers whether a contract is, or contains a lease at the inception of a contract. A lease is a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange of a consideration.

Company as Lessee

Beginning January 1, 2019, at commencement date of the lease, the *MERALCO Group* recognizes a right-of-use ("*ROU*") asset and a corresponding lease liability on the consolidated statements of financial position, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the *MERALCO* Group recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Lease liability is measured at the present value of the unpaid lease payments, discounted using the interest rate implicit in the lease (if readily available) or the *MERALCO Group*'s incremental borrowing rate. Incremental borrowing rate is the rate of interest that the *MERALCO Group* would have to pay to borrow over a similar term and with a similar security the funds necessary to obtain an asset of a similar value to the right-of-use-asset in a similar economic environment.

Lease payments included in the measurement of the lease liability consists of fixed payments, variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee, and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, lease liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in the fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the *ROU* asset, or profit and loss if the *ROU* asset is already reduced to zero.

ROU asset is measured at cost, which consist of the initial measurement of the lease liability, any initial direct costs incurred, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date.

The *MERALCO Group* depreciates *ROU* assets on a straight-line basis using the expected useful life or lease term whichever is shorter. The *MERALCO Group* also assesses the *ROU* asset for impairment when such indicators exist.

Prior to January 1, 2019, the determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

A reassessment is made after inception of the lease only if one of the following applies:

(a) There is a change in contractual terms, other than a renewal or extension of the arrangement;
(b) A renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
(c) There is a change in the determination of whether fulfillment is dependent on a specified asset; or
(d) There is substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c), or (d) and at the date of renewal or extension period for scenario (b).

Leases where the lessor or lessee retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense or income in profit or loss 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 these are earned.

Foreign Currency-Denominated Transactions and Translations

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

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

Transactions in foreign currencies are initially recorded in the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are re-translated using functional currency closing rate of exchange prevailing at the end of the reporting year. 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 when the assets are realized or the liabilities are settled, based on tax rates and tax laws that are enacted or substantively enacted as at the reporting date.

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

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

Earnings per Share

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

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

Contingencies

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

Events After the Reporting Date

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

5. Significant Judgments, Accounting Estimates and Assumptions

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

Judgments

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

Determination of Functional Currency

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

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

Uncertain Tax Position

Upon adoption of *IFRIC 23*, the *MERALCO Group* has assessed whether it has any uncertain tax position. The *MERALCO Group* applies significant judgement in identifying uncertainties over its income tax treatments. The *MERALCO Group* determined, based on its review and assessment of its income tax computations and filings, in consultation with external tax expert, that it is not probable that its uncertain tax treatments will be accepted by the taxation authorities. The *MERALCO Group* quantified the effect of each uncertain tax treatment using the most likely amount which the *MERALCO Group* expects to better predict the resolution of the uncertainty.

Operating Lease Commitments

As Lessor

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

As Lessee

The *MERALCO Group* has entered into various operating lease agreements used for its operations.

For the *MERALCO Group*'s lease under *PFRS 16*, the *MERALCO Group* recognizes *ROU* assets and lease liabilities measured at the present value of lease payments to be made over the lease term using the *MERALCO Group*'s incremental borrowing rate.

The *MERALCO Group* availed exemption of *PFRS 16* for its short-term lease with the term of 12 months or less and low value assets. Accordingly, lease payments on these leases are recognized as expense on a straight-line basis over the lease term.

Prior to January 1, 2019, under *PAS 17*, the *MERALCO Group* has determined that all significant risks and benefits of ownership over the leased properties under the lease arrangements are retained by the lessor. Accordingly, the lease arrangements are accounted as operating leases.

Arrangement that Contains a Lease

Prior to January 1, 2019, *MERALCO*'s Power Purchase Agreements ("*PPA*s") and Power Supply Agreements ("*PSA*s") with certain power generating companies qualify as leases under *IFRIC 4*, *Determining whether an arrangement contains a lease*, 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 *PPA*s and *PSA*s 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.

Upon the adoption of *PFRS 16* on January 1, 2019, based on *MERALCO*'s assessment, the *PPA*s and *PSA*s no longer qualify to be accounted for as lease and are accounted for as ordinary service contracts. *PPA*s and *PSA*s do not qualify under *PFRS 16* since *MERALCO* does not have the right to direct the use, operate and was not involved in the design of the identified asset.

Principal vs. Agent

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

Revenue from sale of electricity requires *MERALCO* and *Clark Electric* to bill customers based 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 *PPA*s. 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 *Clark Electric* assessed that revenues from electricity, re-connection and other non-standard connection services arise from a single performance obligation which will be satisfied over the year when the services are expected to be provided.

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

MERALCO, through *MGen*, has a 51% interest in 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 ₱8,003 million, ₱7,190 million and ₱6,929 million for the years ended December 31, 2019, 2018 and 2017, respectively. Total carrying values of utility plant and others, net of accumulated depreciation and amortization, amounted to ₱151,441 million and ₱139,846 million as at December 31, 2019 and 2018, respectively.

Total depreciation of investment properties amounted to ₱4 million, ₱5 million and ₱4 million for the years ended December 31, 2019, 2018 and 2017, respectively. Total carrying values of investment properties, net of accumulated depreciation, amounted to ₱1,502 million as at December 31, 2019 and 2018.

Total amortization of intangible assets with finite lives amounted to ₱723 million, ₱632 million and ₱587 million for the years ended December 31, 2019, 2018 and 2017, respectively. Total carrying values of intangible assets with finite lives, net of accumulated amortization, amounted to ₱1,764 million and ₱2,057 million as at December 31, 2019 and 2018, respectively.

See *Note 7 – Utility Plant and Others, Note 9 – Investment Properties* and *Note 10 – Financial and 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 financial and other noncurrent assets, requires (i) the determination of future cash flows expected to be generated from the continued use as well as ultimate disposition of such assets and (ii) making estimates and assumptions that can materially affect the consolidated financial statements. Future events may cause management to conclude that utility plant and others, intangible assets, investment properties, investments in associates and interests in joint ventures, goodwill and financial and other noncurrent assets are impaired. Any resulting impairment loss could have material adverse impact on the *MERALCO Group*'s consolidated financial position and 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*s.

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

Account	**2019**	2018
	(Amounts in millions)	
Utility plant and others	**₱151,441**	₱139,846
Investments in associates and interests in joint ventures	**14,965**	11,313
Intangible assets	**1,764**	2,057
Investment properties	**1,502**	1,502
Receivable from the *BIR*	**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 - Financial and 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:

	2019	2018
		(Amounts in millions)
Recognized deferred income tax assets	**₱31,874**	₱29,048
Unrecognized deferred income tax assets	**1,716**	1,564

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 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, 2019 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 in its assessments whether the credit risk has increased significantly since its initial recognition and its measurement of *ECL*. The *MERALCO Group* has considered a range of relevant forward-looking macroeconomic assumptions such as inflation rate, gross domestic product and unemployment rate for the determination of unbiased general industry adjustments and any related specific industry adjustments that support the calculation of *ECL*s.

*ECL*s for trade and other receivables amounted to ₱708 million (provision), ₱1,667 million (reversal), ₱661 million (provision) and for the years ended December 31, 2019, 2018 and 2017, respectively. Trade and other receivables, net of asset impairment, amounted to ₱32,608 million and ₱31,343 million as at December 31, 2019 and 2018, 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 ₱4,558 million and ₱3,812 million as at December 31, 2019 and 2018, 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 ₱1,068 million, ₱1,132 million and ₱908 million for the years ended December 31, 2019, 2018 and 2017, respectively. The retirement and other post-employment benefit liabilities as at December 31, 2019 and 2018 amounted to ₱7,576 million and ₱1,976 million, respectively.

In determining the appropriate discount rate, management considers the interest rates of government bonds in the respective currencies, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The underlying bonds are further reviewed for quality, and those having excessive credit spreads are removed from the population of bonds on which the discount rate is based, on the basis that they do not represent high quality bonds.

The mortality rate is based on publicly available mortality tables for the Philippines and is modified accordingly with estimates of mortality improvements. Future salary increases and retirement benefits increases are based on expected future inflation rates for the Philippines.

See *Note 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 ₱10,119 million, ₱10,198 million and ₱8,533 million for the years ended December 31, 2019, 2018 and 2017, respectively.

Provisions are measured at the present value of management's best estimate of the expenditures required to settle the present obligation at the end of the reporting year. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the liability. As at December 31, 2019, provisions are presented net of the effect of the time value of money amounting to ₱5,283 million.

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

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

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

  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*").

  MGen, through *SBPL*, a 51% owned joint venture entity, constructed and owns 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. The power plant began commercial operations on September 26, 2019.

  MGen is developing a 2 x 600 *MW* (net) coal-fired power plant in Atimonan, Quezon through its wholly-owned subsidiary, *A1E*. It will be the first ultra-supercritical coal-fired facility to be built in the country. *AE1* shall participate in a Competitive Selection Process (*"CSP"*) to be conducted by *MERALCO* for a 1,200 *MW* greenfield power plant capacity.

  In the meantime, advance site preparations and early engineering works are being done in order to meet the target operations date.

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

  MGen Renewable Energy, Inc. ("*MGreen*"), a wholly owned subsidiary of *MGen* was incorporated and registered with the *SEC* on June 6, 2019 to engage in the development of renewable projects.

  On December 5, 2019, *MGen* acquired 70% of *NorteSol*, a company incorporated in the Philippines and engaged in the development, construction and operation of power plant and related facilities using renewable energy system and hybrid energy system. *Nortesol* is currently developing a 110 *MW* dc/90 *MW*ac floating solar facility in Laguna de Bay and waiting for the Laguna Lake Development Authority ("*LLDA*") leasing policy.

  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 *Clark Electric* 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 *Clark Electric*, has submitted the requirements for its *RES* licensing to the *ERC*. As at February 24, 2020, 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, telecommunications services, rail-related operations and maintenance services, insurance and re-insurance, e-business development, power distribution management, energy systems management and harnessing renewable energy, 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*, *eSakay* and *Shin Clark*.

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. None of its revenues from transactions with a single external customer accounts for 10% or more of its revenues from external customers.

	Note	Power			Other Services			Inter-segment Transactions			Total		
		2019	2018	2017	**2019**	2018	2017	**2019**	2018	2017	**2019**	2018	2017
Revenues		**₱310,098**	₱295,389	₱275,172	**₱11,299**	₱11,373	₱9,547	**(₱3,082)**	(₱2,308)	(₱2,163)	**₱318,315**	₱304,454	₱282,556
Segment results		**₱48,213**	₱45,984	₱41,132	**₱2,375**	₱2,513	₱1,904	**₱–**	₱–	₱–	**₱50,588**	₱48,497	₱43,036
Provision for probable losses and expenses from claims		**(10,119)**	(10,198)	(8,533)	**–**	–	–	**–**	–	–	**(10,119)**	(10,198)	(8,533)
Depreciation and amortization	*7, 8 and 10*	**(8,181)**	(7,334)	(7,135)	**(549)**	(493)	(385)	**–**	–	–	**(8,730)**	(7,827)	(7,520)
Interest and other financial income	*24*	**3,213**	2,786	2,153	**56**	45	35	**–**	–	–	**3,269**	2,831	2,188
Equity in net earnings (losses) of associates and joint ventures	*8*	**(1,482)**	(679)	293	**(4)**	(46)	(72)	**–**	–	–	**(1,486)**	(725)	221
Interest and other financial charges	*24*	**(1,477)**	(1,935)	(1,450)	**(130)**	(98)	(80)	**–**	–	–	**(1,607)**	(2,033)	(1,530)
Provision for income tax - net	*27*	**(7,853)**	(6,923)	(6,812)	**(690)**	(520)	(551)	**–**	–	–	**(8,543)**	(7,443)	(7,363)
Net income attributable to non-controlling interests		–	–	–	–	–	–	**(87)**	(85)	(115)	**(87)**	(85)	(115)
Net income attributable to equity holders of the Parent		**₱22,314**	₱21,701	₱19,648	**₱1,058**	₱1,401	₱851	**(₱87)**	(₱85)	(₱115)	**₱23,285**	₱23,017	₱20,384

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:

	2019	2018	2017
		(Amounts in millions)	
EBITDA	**₱40,977**	₱37,165	₱34,474
Add (deduct):			
Interest and other financial income net of charges and foreign exchange gains and losses	**1,154**	1,932	687
Depreciation and amortization	**(8,730)**	(7,827)	(7,520)
Equity in net losses earnings (losses) of associates and joint ventures	**(1,486)**	(725)	221
Income before income tax	**31,915**	30,545	27,862
Provision for income tax - net	**(8,543)**	(7,443)	(7,363)
Net income	**₱23,372**	₱23,102	₱20,499

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

	2019	2018	2017
		(Amounts in millions)	
CCNI	**₱23,832**	₱22,408	₱20,213
Add (deduct) non-core items, net of tax:			
Non-core income (expenses)	**(124)**	(275)	144
Foreign exchange gains (losses)	**(423)**	884	27
Net income for the year attributable to equity holders of the Parent	**23,285**	23,017	20,384
Net income for the year attributable to non-controlling interests	**87**	85	115
Net income	**₱23,372**	₱23,102	₱20,499

7. Utility Plant and Others

The movements in utility plant and others are as follows:

	2019								
	Sub-transmission and Distribution	**Land**	**Buildings and Improve-ments**	**Com-munication Equipment**	**Office Furniture, Fixtures and Other Equipment**	**Trans-portation Equipment**	**Others**	**Construction in Progress**	**Total**
				(Amounts in millions)					
Cost:									
Balance at beginning of year	**₱181,511**	**₱15,412**	**₱6,657**	**₱2,857**	**₱2,831**	**₱3,550**	**₱4,902**	**₱11,004**	**₱228,724**
Additions	**250**	**–**	**188**	**110**	**720**	**345**	**347**	**17,725**	**19,685**
Disposals/retirements	**(3,028)**	**(2)**	**(30)**	**(230)**	**(25)**	**(133)**	**(122)**	**–**	**(3,570)**
Transfers from construction in progress	**10,760**	**–**	**239**	**108**	**50**	**7**	**199**	**(11,363)**	**–**
Reclassifications	**(1)**	**–**	**–**	**37**	**107**	**–**	**–**	**(26)**	**117**
Balance at end of year	**189,492**	**15,410**	**7,054**	**2,882**	**3,683**	**3,769**	**5,326**	**17,340**	**244,956**
Less accumulated depreciation and amortization:									
Balance at beginning of year	**77,148**	**–**	**2,920**	**1,427**	**2,227**	**2,310**	**2,846**	**–**	**88,878**
Depreciation and amortization	**6,720**	**–**	**183**	**194**	**273**	**274**	**359**	**–**	**8,003**
Disposals/retirements	**(3,017)**	**–**	**(16)**	**(80)**	**(25)**	**(127)**	**(101)**	**–**	**(3,366)**
Balance at end of year	**80,851**	**–**	**3,087**	**1,541**	**2,475**	**2,457**	**3,104**	**–**	**93,515**
Net book value	**₱108,641**	**₱15,410**	**₱3,967**	**₱1,341**	**₱1,208**	**₱1,312**	**₱2,222**	**₱17,340**	**₱151,441**

	2018								
	Sub-transmission 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

As at December 31, 2019 and 2018, the net book values of customer-funded assets included in "Utility plant and others" account amounted to ₱5,114 million and ₱3,231 million, respectively. The corresponding liabilities to customers in the same amounts as at December 31, 2019 and 2018 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 ₱247 million, ₱235 million and ₱161 million based on average capitalization rate of 5% for the years ended December 31, 2019, 2018 and 2017, respectively.

8. Investments in Associates and Interests in Joint Ventures

This account consists of the following:

	Place of Incorporation	Principal Activity	2019	2018
			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**	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
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 are as follows:

	Note	2019	2018
			(Amounts in millions)
Acquisition cost:			
Balance at beginning of year		**₱16,144**	₱14,477
Additions		**6,421**	1,667
Reclassification	*10*	**(946)**	–
Balance at end of year		**21,619**	16,144
Accumulated equity in net losses:			
Balance at beginning of year		**(5,372)**	(4,171)
Equity in net losses		**(1,486)**	(725)
Dividends received		**(546)**	(476)
Balance at end of year		**(7,404)**	(5,372)
Share in remeasurement adjustments on retirement liabilities:			
Balance at beginning of year		**(10)**	(10)
Share in actuarial losses		**(2)**	–
Balance at end of the year		**(12)**	(10)
Share in cumulative translation adjustments:			
Balance at beginning of year		**551**	1,150
Translation adjustments		**211**	(599)
Balance at end of year		**762**	551
		₱14,965	₱11,313

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

	2019	2018
		(Amounts in millions)
SBPL	**₱7,054**	₱1,306
GBPC	**5,109**	5,138
RBC JV	**1,032**	1,043
RP Energy	**723**	1,024
MPioneer	**306**	377
Indra Philippines	**308**	331
First Bulacan	**137**	112
Pure Meridian	**131**	119
Aclara Meters	**64**	66
St. Raphael	**48**	48
MDJV	**36**	12
PDS Ghana	**15**	15
BPPC	**2**	2
Mariveles Power	**–**	954
FPM Power	**–**	766
	₱14,965	₱11,313

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* Circulating Fluidized Bed ("*CFB*") coal-fired facility in Panay Island which achieved commercial operations in January 2018, has a *PSA* with *MERALCO* for its 70 *MW* plant capacity, which has been dispatched since January 2018 until August 25, 2019.

GBPC has 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* (net) *CFB* plant completed commissioning and started commercial operations in September 2019.

SBPL

SBPL, which is a joint venture between MGen (51%) and New Growth B.V. (49%), a 100% subsidiary of Electricity Generating Public Company Limited of Thailand ("*EGCO*"), owns and operates a new 455 *MW* (net) supercritical coal-fired power plant in Mauban, Quezon, which began operations on September 26, 2019.

On May 29, 2014, *MERALCO* signed a long-term *PSA* with *SBPL*. The *PSA* was approved by the *ERC* on May 19, 2015.

SBPL has 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. *SBPL* has 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 power plant started its synchronization to the grid on April 30, 2019 and has achieved commercial operations on September 26, 2019, upon receipt of the *PAO* from the *ERC*.

RBC JV

RBC JV is a joint venture between Rockwell Land Corporation ("*Rockwell Land*") and *MERALCO* for a pre-agreed cooperation period, pursuant to which *Rockwell Land* built and managed three (3) Business Process Outsourcing-enabled buildings on a non-regulatory asset base property of *MERALCO*. Investment in *RBC JV* represents *MERALCO*'s 30% interest in the joint venture, while *Rockwell Land* has 70% interest in *RBC JV*.

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 coal-fired power plant to be located in the Subic Bay Freeport Zone.

Considering the significant delay of the *RP Energy* project and the *SC* judgement invalidating the *PSA* with *MERALCO,* the management is reassessing the project technology to ensure the competitiveness of the plant.

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.

On January 23, 2019, an amendatory agreement to the shareholders agreement was executed whereby an affirmative vote of at least one (1) nominee director of each shareholder is no longer required to be obtained for acts of the *BOD* to be effective, provided that the affirmative votes of the majority of the *BOD* present in the meeting have been secured. A series of capital call was issued by *Mariveles Power* in 2019, however, *MGen* waived its right to subscribe to the additional shares, thus reducing its ownership interest from 49% to 10.05%. As a result, *MGen* assessed that joint control in *Mariveles Power* has ceased to exist upon the occurrence of the abovementioned circumstances. Accordingly, *MERALCO* reclassified its investment in *Mariveles Power* to *FVOCI* financial asset in 2019.

The carrying amount and fair value of the investment in *Mariveles Power* at the date of loss of joint control in January 2019 amounted to ₱964.6 million.

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 2019, *MERALCO* re-assessed the estimated recoverable amount of its investment in *FPM Power* in view of the continued depressed market condition in Singapore. As a result of the re-assessment, *MERALCO* recognized provision for impairment on its investment of ₱1,252 million and allowance for expected losses on its advances of ₱2,322 million.

See *Note 14 – Financial and Other Current Assets* and *Note 22 – Related Party Transactions.*

Pioneer

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 a mini-hydroelectric power project.

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*. On September 19, 2019, the ownership in *First Bulacan* was acquired by *MGreen* from *Spectrum* at its acquisition cost of ₱142 million. The joint venture is currently 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. *First Bulacan* has executed an *EPC* contract and is in the final stages of finalizing its loan agreement with a local bank. *First Bulacan* is currently in the process of construction with target completion and commissioning in the 4th quarter of 2020.

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. 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 and was awarded a 20-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.

In October 2019, *ECG* issued a notice to terminate the concession agreement for the operation and maintenance of its assets. Consequently, the Technical Service Agreement ("*TSA*") between *MPV Limited* and *PDS Ghana* was also terminated.

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 two (2)-year warranty period of the Joint Venture ended in April 2019.

BPPC

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

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

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

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 "50 years from the date of incorporation hereof" to "until June 30, 2019". *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.

Due to the lower than expected penetration rate into the micropayments business, *MERALCO* recognized impairment charge of ₱35 million, ₱30 million and ₱171 million for the years ended December 31, 2019, 2018 and 2017, respectively, 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:

	2019		
	GBPC	***FPM Power***	***RP Energy***
	(Amounts in millions)		
Current assets	**₱20,180**	**₱6,980**	**₱293**
Noncurrent assets	**55,968**	**37,450**	**1,149**
Current liabilities	**(11,441)**	**(29,971)**	**(5)**
Noncurrent liabilities	**(30,565)**	**(5,252)**	**(5)**
Non-controlling interests	**(5,439)**	**1,028**	**–**
Net assets	**₱28,703**	**₱10,235**	**₱1,432**

	2018		
	GBPC	*FPM Power*	*RP Energy*
	(Amounts in millions)		
Current assets	₱22,860	₱6,216	₱357
Noncurrent assets	57,147	47,745	1,767
Current liabilities	(11,456)	(11,648)	(49)
Noncurrent liabilities	(34,474)	(25,979)	(5)
Non-controlling interests	(5,173)	555	–
Net assets	₱28,904	₱16,889	₱2,070

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

	2019			2018			2017		
	GBPC	***FPM Power***	*RP Energy*	*GBPC*	*FPM Power*	*RP Energy*	*GBPC*	*FPM Power*	*RP Energy*
	(Amounts in millions)								
Revenues	**₱24,767**	**₱36,909**	**₱12**	₱27,183	₱38,356	₱11	₱23,780	₱28,494	₱8
Costs and expenses	**(21,206)**	**(42,591)**	**(653)**	(24,070)	(41,164)	(753)	(20,399)	(29,745)	(50)
Net income (loss)	**3,561**	**(5,682)**	**(641)**	3,113	(2,808)	(742)	3,381	(1,251)	(42)
Non-controlling interests	**(1,268)**	**950**	**–**	(1,033)	994	–	(977)	877	–
Net income (loss) attributable to equity holders of the parent	**2,293**	**(4,732)**	**(641)**	2,080	(1,814)	(742)	2,404	(374)	(42)
Other comprehensive income	**–**	**528**	**–**	–	(1,503)	–	–	213	–
Total comprehensive income (loss)	**₱2,293**	**(₱4,204)**	**(₱641)**	₱2,080	(₱3,317)	(₱742)	₱2,404	(₱161)	(₱42)
Dividends received	**₱350**	**₱–**	**₱–**	₱350	₱–	₱–	₱–	₱–	₱–

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

	2019		
	GBPC	***FPM Power****	***RP Energy***
	(Amounts in millions, except % of ownership)		
Net assets of associates	**₱28,703**	**₱10,235**	**₱1,432**
Proportionate ownership in associates (%)	**14**	**40**	**47**
	4,018	**4,094**	**673**
Goodwill	**1,091**	**–**	**50**
	₱5,109	**₱4,094**	**₱723**

* See *Note 14 – Financial and Other Current Assets.*

	2018		
	GBPC	*FPM Power**	*RP Energy*
	(Amounts in millions, except % of ownership)		
Net assets of associates	₱28,904	₱16,889	₱2,070
Proportionate ownership in associates (%)	14	40	47
	4,047	6,756	974
Goodwill	1,091	–	50
	₱5,138	₱6,756	₱1,024

* See *Note 14 – Financial and Other Current Assets.*

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

	2019	2018	2017
		(Amounts in millions)	
Share in net income (loss)	**₱23**	₱28	(₱1)
Share in other comprehensive income (loss)	**(3)**	1	2
Share in total comprehensive income (loss)	**₱20**	₱29	₱1
Dividends received	**₱80**	₱21	₱10

Joint Ventures

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

	2019	
	RBC JV	***SBPL***
	(Amounts in millions)	
Current assets	**₱1,182**	**₱5,357**
Noncurrent assets	**2,830**	**55,019**
Current liabilities	**(572)**	**(6,585)**
Noncurrent liabilities	**–**	**(39,960)**
Net assets	**₱3,440**	**₱13,831**

	2018		
	RBC JV	*SBPL*	*Mariveles Power*
	(Amounts in millions)		
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

The foregoing condensed statements of financial position include the following:

	2019	
	RBC JV	***SBPL***
	(Amounts in millions)	
Cash and cash equivalents	**₱1,006**	**₱1,574**
Current financial liabilities (excluding trade payables)	**(41)**	**(2,361)**

	2018		
	RBC JV	*SBPL*	*Mariveles Power*
	(Amounts in millions)		
Cash and cash equivalents	₱822	₱935	₱18
Current financial liabilities (excluding trade payables)	(59)	(920)	(31)

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

	2019		2018			2017		
	RBC JV	***SBPL***	*RBC JV*	*SBPL*	*Mariveles Power*	*RBC JV*	*SBPL*	*Mariveles Power*
	(Amounts in millions)							
Revenues	**₱738**	**₱5,178**	₱699	₱–	₱–	₱689	₱–	₱–
Costs and expenses	**(196)**	**(4,457)**	(207)	(250)	–	(331)	(154)	(10)
Other income - net	**20**	**6**	10	2	1	135	1	–
Provision for income tax - net	**(134)**	**7**	(121)	119	–	(116)	49	–
Net income (loss)	**₱428**	**₱734**	₱381	(₱129)	₱1	₱377	(₱104)	(10)
Dividends received	**₱116**	**₱–**	₱105	₱–	₱–	₱113	₱–	₱–

The foregoing condensed statements of comprehensive income include the following:

	2019		2018			2017		
	RBC JV	***SBPL***	*RBC JV*	*SBPL*	*Mariveles Power*	*RBC JV*	*SBPL*	*Mariveles Power*
			(Amounts in millions)					
Depreciation	**₱206**	**₱4**	₱208	₱3	₱–	₱206	₱3	₱–
Interest income	**(20)**	**(6)**	(10)	(1)	–	(9)	(1)	–
Provision for income tax - net	**134**	**7**	121	119	–	116	49	–

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:

	2019	
	RBC JV	***SBPL***
	(Amounts in millions, except % of ownership)	
Net assets of joint ventures	**₱3,440**	**₱13,831**
Proportionate ownership in joint ventures (%)	**30**	**51**
	₱1,032	**₱7,054**

	2018		
	RBC JV	*SBPL*	*Mariveles Power*
	(Amounts in millions, except % of ownership)		
Net assets of joint ventures	₱3,478	₱2,560	₱1,947
Proportionate ownership in joint ventures (%)	30	51	49
	₱1,043	₱1,306	₱954

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

	2019	2018	2017
		(Amounts in millions)	
Share in net income (loss)	**(₱45)**	(₱17)	(₱18)
Share in other comprehensive income	**–**	–	–
Share in total comprehensive income (loss)	**(₱45)**	(₱17)	(₱18)
Dividends received	**₱–**	₱–	₱–

9. Investment Properties

The movements in investment properties are as follows:

	2019		
	Land	**Buildings and Improvements**	**Total**
		(Amounts in millions)	
Cost:			
Balance at beginning of year	**₱1,427**	**₱202**	**₱1,629**
Additions	**–**	**1**	**1**
Others	**–**	**3**	**3**
Balance at end of year	**1,427**	**206**	**1,633**
Less accumulated depreciation:			
Balance at beginning of year	**–**	**127**	**127**
Depreciation	**–**	**4**	**4**
Balance at end of year	**–**	**131**	**131**
	₱1,427	**₱75**	**₱1,502**

	2018		
	Land	Buildings and Improvements	Total
		(Amounts in millions)	
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

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, 2019 and 2018 are as follows:

	2019	2018
		(Amounts in millions)
Land	**₱4,501**	₱4,501
Buildings and improvements	**197**	194

Land pertains primarily to properties where the business process outsourcing buildings and "Strip" mall are located and other non-regulated asset base properties.

The fair values of investment properties were determined by independent, professionally qualified appraisers. The fair value represents the price that would be received to sell an investment property in an orderly transaction between market participants at the measurement date.

The fair value disclosures of the investment properties are categorized as Level 3 as there is no active market for identical or similar properties. The inputs include price per square meter ranging from ₱100 to ₱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. **Financial and Other Noncurrent Assets**

This account consists of:

	Note	2019	2018
		(Amounts in millions)	
Financial assets:			
Debt securities at amortized cost	*14 and 26*	**₱25,588**	₱29,371
Financial assets at *FVOCI*	*8 and 26*	**4,514**	3,890
Advance payments to supplier and others	*26 and 29*	**5,698**	3,619
Nonfinancial assets:			
Under-recoveries of pass-through charges - net	*2*	**5,862**	5,185
Intangible assets	*7*	**1,764**	2,057
Deferred input *VAT*		**1,548**	1,534
Receivable from the *BIR*		**181**	181
Goodwill		**35**	35
Retirement surplus	*25*	**–**	699
Others		**2,792**	2,875
		₱47,982	₱49,446

Debt Securities at Amortized Cost

The details of debt securities at amortized cost are as follows:

	2019			2018		
	Current Portion (see *Note 14*)	**Noncurrent Portion**	**Total**	Current Portion (see *Note 14*)	Noncurrent Portion	Total
	(Amounts in millions)					
Government securities	**₱7,769**	**₱19,539**	**₱27,308**	₱10,193	₱25,099	₱35,292
Private debt securities	**7,160**	**6,049**	**13,209**	–	4,272	4,272
	₱14,929	**₱25,588**	**₱40,517**	₱10,193	₱29,371	₱39,564

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:

	2019	2018
	(Amounts in millions)	
Investment in debt securities:		
Government securities	**₱2,166**	₱2,946
Corporate bonds and other investments	**1,045**	613
Investments in shares of stock and club shares	**1,303**	331
	₱4,514	₱3,890

The balance of *FVOCI* in 2019 includes investment in Mariveles Power amounting to ₱964.6 million.

Interest income from debt and equity securities amounted to ₱1,867 million, ₱1,268 million and ₱1,300 million for the years ended December 31, 2019, 2018 and 2017, respectively.

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

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:

	2019	2018
	(Amounts in millions)	
Balance at beginning of year	**(₱295)**	(₱160)
Unrealized fair value gains (losses) on fair value changes on:		
Debt securities	**507**	(200)
Equity securities	**15**	65
Balance at end of year	**₱227**	(₱295)

Intangible Assets

The movements of intangible assets are as follows:

		2019			
	Note	**Software**	**Franchise**	**Land and Leasehold Rights**	**Total**
		(Amounts in millions)			
Cost:					
Balance at beginning of year		**₱5,308**	**₱49**	**₱431**	**₱5,788**
Additions		**441**	**–**	**106**	**547**
Retirement		**(241)**	**–**	**–**	**(241)**
Reclassification	*7*	**(117)**	**–**	**–**	**(117)**
Balance at end of year		**5,391**	**49**	**537**	**5,977**
Less accumulated amortization:					
Balance at beginning of year		**3,437**	**–**	**294**	**3,731**
Amortization		**690**	**–**	**33**	**723**
Retirement		**(241)**	**–**	**–**	**(241)**
Balance at end of year		**3,886**	**–**	**327**	**4,213**
		₱1,505	**₱49**	**₱210**	**₱1,764**

	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

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 *Clark Electric* 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 *ECL* on net under-recoveries of pass-through charges amounted to ₱3,146 million and ₱4,720 million as at December 31, 2019 and 2018, respectively.

See *Note 12 - Trade and Other Receivables.*

11. Cash and Cash Equivalents

This account consists of:

	2019	2018
	(Amounts in millions)	
Cash on hand and in banks	**₱8,375**	₱8,574
Cash equivalents	**29,887**	27,897
	₱38,262	₱36,471

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.

Interest income on cash in banks and cash equivalents amounted to ₱1,283 million, ₱1,517 million and ₱789 million for the years ended December 31, 2019, 2018 and 2017, respectively.

12. Trade and Other Receivables

This account consists of:

	Note	2019	2018
		(Amounts in millions)	
Trade:			
Electricity	*22, 23 and 26*	**₱25,885**	₱24,487
Service contracts		**5,424**	4,511
Unbilled receivables	*23*	**1,682**	1,220
Nontrade	*22 and 26*	**2,002**	2,805
		34,993	33,023
Less allowance for expected credit losses		**2,385**	1,680
		₱32,608	₱31,343

Movements in allowance for expected credit losses for trade and other receivables are as follows:

	2019			
	Balance at Beginning of Year	**Provisions**	**Write-offs**	**Balance at End of Year**
	(Amounts in millions)			
Trade – electricity	**₱1,360**	**₱404**	**(₱3)**	**₱1,761**
Other trade receivables	**318**	**304**	**–**	**622**
Nontrade receivables	**2**	**–**	**–**	**2**
	₱1,680	**₱708**	**(₱3)**	**₱2,385**

	2018			
	Balance at Beginning of Year	Provisions (Reversals)	Write-offs	Balance at End of Year
	(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

	2019				2018			
	Trade - Electricity	**Other Trade Receivables**	**Nontrade Receivables**	**Total**	Trade - Electricity	Other Trade Receivables	Nontrade Receivables	Total
	(Amounts in millions)							
Individually impaired	**₱845**	**₱622**	**₱2**	**₱1,469**	₱768	₱318	₱2	₱1,088
Collectively impaired	**916**	**–**	**–**	**916**	592	–	–	592
	₱1,761	**₱622**	**₱2**	**₱2,385**	₱1,360	₱318	₱2	₱1,680

Trade Receivables – Electricity

Trade receivables of *MERALCO* and *Clark Electric* include charges for pass-through costs. Pass-through costs of *MERALCO* consist of generation, transmission and *SL* charges, which represent 59%, 8% and 4%, respectively, of the total billed amount in 2019 and 57%, 9% and 4%, respectively, of the total billed amount in 2018. Billed receivables are due 10 days after bill date. *MERALCO*'s and *Clark Electric*'s trade receivables are noninterest-bearing and are substantially secured by bill deposits. Electricity consumed after the meter reading cut-off dates, which will be billed to customers in the immediately following billing period, is included as part of trade receivables.

See *Note 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, consulting and related manpower, light rail maintenance, telecommunications and data transport, e-transactions and bills collection, tellering and e-business development, energy systems management and harnessing renewable energy to third parties.

Receivables from service contracts and others are noninterest-bearing and are generally on 30- to 90-day terms.

See *Note 10 – Financial and Other Noncurrent Assets*.

13. Inventories

	2019	2018
	(Amounts in millions)	
Materials and supplies:		
At cost	**₱4,764**	₱4,011
At net realizable value ("*NRV*")	**4,558**	3,812
Materials and supplies at *NRV*	**₱4,558**	₱3,812

The net realizable value of inventories is net of allowance for inventory obsolescence of ₱205 million and ₱199 million as at December 31, 2019 and 2018, respectively. There were no inventory written off as at December 31, 2019 and 2018.

14. Financial and Other Current Assets

	Note	2019	2018
		(Amounts in millions)	
Financial assets:			
Short-term investments		**₱18,185**	₱21,769
Debt securities at amortized cost	*10 and 26*	**14,929**	10,193
Advances to an associate - net	*8, 22 and 26*	**3,454**	6,007
Current portion of advance payments to a supplier	*26*	**180**	187
Nonfinancial assets:			
Prepayments		**2,670**	2,621
Prepaid tax		**1,380**	1,260
Input *VAT*		**1,207**	757
Others		**256**	924
		₱42,261	₱43,718

Short-term investments are temporary cash placements 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

	2019	2018
	(In millions, except par value)	
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 42,114 and 42,687 shareholders of *MERALCO*'s common shares as at December 31, 2019 and 2018, 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 ₱55,598 million and ₱45,234 million as at December 31, 2019 and 2018, respectively. These amounts are restricted for dividend declaration purposes as of the close of the respective reporting.

The following are the cash dividends declared on common shares in 2019, 2018 and 2017:

Declaration Date	Record Date	Payment Date	Dividend Per Share	Amount
				(In millions)
July 29, 2019	August 20, 2019	September 20, 2019	₱5.46	₱6,158
February 26, 2019	March 22, 2019	April 15, 2019	10.59	11,941
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

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:

	2019	2018
	(Amounts in millions)	
Long-term portion of interest-bearing financial liabilities - long-term debt	**₱12,745**	₱24,745
Current portion of interest-bearing financial liabilities:		
Long-term debt	**3,636**	356
Redeemable preferred stock	**1,479**	1,487
	5,115	1,843
	₱17,860	₱26,588

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, 2019 and 2018. 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:

	2019	2018
		(Amounts in millions)
Fixed Rate Loans		
₱7.0 Billion 12-year Bonds	**₱7,000**	₱7,000
₱11.5 Billion 7-year Bonds	**3,179**	11,500
₱7.2 Billion Note Facility Agreement	**5,400**	5,760
₱600 Million Term Loan Facilities	**540**	540
₱350 Million Note Facility Agreements	**280**	350
₱130 Million Term Loan Facility	**35**	58
₱27 Million Term Loan Facility	**27**	–
Total long-term debt	**16,461**	25,208
Less unamortized debt issuance costs	**80**	107
	16,381	25,101
Redeemable Preferred Stock	**1,479**	1,487
	17,860	26,588
Less current portion	**5,115**	1,843
Long-term portion of interest-bearing financial liabilities	**₱12,745**	₱24,745

All of the interest-bearing long-term financial liabilities as at December 31, 2019 and 2018 are denominated in Philippine peso. The scheduled maturities of the outstanding long-term debt at nominal values as at December 31, 2019 are as follows:

	Amount
	(In millions)
Less than one (1) year	₱3,665
One (1) year up to two (2) years	475
More than two (2) years up to three (3) years	464
More than three (3) years up to four (4) years	464
More than four (4) years up to five (5) years	4,054
More than five (5) years	7,339
	₱16,461

₱18.5 Billion Fixed Rate Puttable Bonds

In December 2013, *MERALCO* offered, sold and issued 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 ₱15.5 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.

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

Holders of the 7-year bonds totaling ₱8.32 billion exercised the put option, which were settled by *MERALCO* in March 2019. As at December 31, 2019, the outstanding balance of the 7-year bonds was ₱3.2 billion and classified as part of current portion of interest-bearing long-term financial liabilities.

₱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

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, five (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.

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

₱27 Million Term Loan Facility

On November 8, 2019, *eSakay* obtained a ₱27 million, seven (7)-year fixed rate term loan. The principal amount is payable over seven (7) years until November 2026.

The annual interest rates for the interest-bearing financial liabilities range from 4.38% to 6.00% and 4.38% and 5.50% as at December 31, 2019 and 2018.

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 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, 2019 and 2018, *MERALCO* is in compliance with all of the covenants of the loan agreements.

Interest expense on interest-bearing long-term financial liabilities amounted to ₱606 million, ₱930 million and ₱1,057 million for the years ended December 31, 2019, 2018 and 2017, respectively.

Unamortized Debt Issuance Costs

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

	Note	**2019**	2018
		(Amounts in millions)	
Balance at beginning of year		**₱107**	₱128
Additions		**–**	5
Amortization charged to interest and other financial charges	*24*	**(27)**	(26)
Balance at end of year		**₱80**	₱107

Redeemable Preferred Stock

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

	2019	2018
Balance at beginning of year	**148,701,324**	149,615,014
Redemptions	**(820,552)**	(913,690)
Balance at end of year	**147,880,772**	148,701,324

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:

	2019			2018		
	Current Portion (see *Note 21*)	**Noncurrent Portion**	**Total**	Current Portion (see *Note 21*)	Noncurrent Portion	Total
			(Amounts in millions)			
Bill deposits	**₱2,557**	**₱28,247**	**₱30,804**	₱2,149	₱27,024	₱29,173
Meter deposits	**313**	**–**	**313**	312	–	312
	₱2,870	**₱28,247**	**₱31,117**	₱2,461	₱27,024	₱29,485

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	**2019**	2018
			(Amounts in millions)
Balance at beginning of year		**₱29,173**	₱26,555
Additions		**5,615**	5,205
Refunds		**(3,984)**	(2,587)
Balance at end of year		**30,804**	29,173
Less portion maturing within one year	*21*	**2,557**	2,149
Noncurrent portion of bill deposits and related interests		**₱28,247**	₱27,024

Interest expense on bill deposits amounted to ₱34 million, ₱31 million and ₱65 million for the years ended December 31, 2019, 2018 and 2017, respectively.

Meter Deposits

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

The *Magna Carta* for residential customers (effective July 19, 2004) and *DSOAR* (effective February 2, 2006) for non-residential customers exempt all customer groups from payment of meter deposits beginning July 2004 for residential customers and 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 and interest 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 advice 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 were 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 *DU*s 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 *DU*s 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 24, 2020, *MERALCO* is waiting for directive from the *ERC* on the next steps with respect to the unclaimed meter deposits.

18. Provisions

Provisions consist of amounts recognized related to certain proceedings and claims against *MERALCO Group*, among others. The movements follow:

	Note	**2019**	2018
		(Amounts in millions)	
Balance at beginning of year		**₱32,550**	₱34,111
Provisions (reversals) for the year – net		**2,063**	(1,265)
Settlements		**(422)**	(296)
Balance at end of year		**34,191**	32,550
Less current portion	*21*	**16,835**	15,108
Noncurrent portion of provisions		**₱17,356**	₱17,442

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, including a proposed scheme on how the unclaimed refund will be utilized for purposes of reducing the distribution rates of customers. On February 18, 2019, *MERALCO* filed a Partial Compliance with Manifestation and Motion. On March 8, 2019, *MERALCO* filed a Compliance with Manifestation and Motion. On July 12, 2019, *MERALCO* filed its Compliance with Manifestation informing the *ERC* that on July 1, 2019, *MERALCO* deposited all the unclaimed amounts of the *SC* Refund as of June 30, 2019 in a separate interest-bearing account. *MERALCO* further manifested in said Compliance that it shall continue with the processing of the refund claims of eligible customers and should the refund claims of these customers be evaluated to be valid, *MERALCO* shall, for the benefit of the customers, withdraw the refund amount from the bank account, release the same to the concerned customers and accordingly inform the *ERC* of such fact. On September 10, 2019, *MERALCO* filed an Urgent Manifestation and Motion with respect to the Order dated December 19, 2018 of the *ERC*. The *ERC* has yet to rule on the Urgent Manifestation and Motion by *MERALCO*. As at February 24, 2020, *MERALCO* is still processing the refund claims of eligible customers.

See *Note 2 – Rate Regulations*.

20. Notes Payable

Notes payable represent unsecured interest-bearing working capital loans obtained from local banks. Annual interest rates were up to 6.48% to 7.50% as at December 31, 2019 and 2018, respectively.

Interest expense on notes payable amounted to ₱896 million, ₱481 million and ₱348 million for the years ended December 31, 2019, 2018 and 2017, respectively.

21. Trade Payables and Other Current Liabilities

This account consists of the following:

	Note	**2019**	2018
			(Amounts in millions)
Trade accounts payable	*22 and 23*	**₱39,520**	₱37,564
Provisions	*18 and 28*	**16,835**	15,108
Taxes		**10,830**	11,151
Accrued expenses:			
Employee benefits		**1,809**	1,747
Interest	*16*	**246**	179
Others		**1,753**	1,531
Current portions of:			
Bill deposits and related interests	*17*	**2,557**	2,149
Deferred income		**994**	987
Meter deposits and related interests	*17*	**313**	312
Refundable service extension costs		**1,468**	3,127
Dividends payable on:			
Common stock	*15*	**1,037**	1,247
Redeemable preferred stock	*16*	**250**	250
Payable to customers		**8,376**	7,766
Universal charges payable	*31*	**2,837**	2,986
FiT-All payable	*31*	**1,257**	1,313
Regulatory fees payable		**226**	196
Other current liabilities		**3,372**	2,843
		₱93,680	₱90,456

Trade Accounts Payable

Trade accounts payable mainly represent obligations to power generating companies, National Grid Corporation of the Philippines ("*NGCP*") and Independent Electricity Market Operator of the Philippines Inc. ("*IEMOP*") for cost of power purchased and transmission services. In addition, this account includes liabilities due to local and foreign suppliers for purchases of goods and services, consisting of transformers, poles, materials and supplies, and contracted services, among others.

Trade payables are noninterest-bearing and are generally settled within 15 to 30 days from the receipt of invoice. Other payables are noninterest-bearing and due within one (1) year from incurrence.

See *Note 22 – Related Party Transactions, Note 23 – Revenue and Purchased Power* 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, 2019 and 2018, the noncurrent portion of refundable service extension costs of ₱6,932 million and ₱6,170 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 which are applied to their current consumption.

22. **Related Party Transactions**

The *MERALCO Group* has approval process and limits on the amount and extent of related party transactions.

The following summarizes the total amount of transactions, which have been provided and/or contracted by the *MERALCO Group* to/with related parties for the relevant year. The outstanding balances are unsecured, noninterest-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 *PSA*s with the following related parties: *SBPL*, *RP Energy*, *St. Raphael*, and *PEDC*.

Following is a summary of related party transactions in 2019, 2018 and 2017 and the outstanding balances as at December 31, 2019 and 2018:

	Amount of Transactions			Outstanding Receivable (Liability)			
Category	**2019**	2018	2017	**2019**	2018	Terms	Conditions
	(Amounts in millions)						
Sale of electricity:							
JG Summit Group	**₱3,473**	₱3,336	₱2,776	**₱397**	₱434	10-day; noninterest-bearing	Unsecured, no impairment
PLDT Group	**1,411**	1,306	958	**108**	34	10-day; noninterest-bearing	Unsecured, no impairment
Metro Pacific Group	**552**	538	486	**42**	47	10-day; noninterest-bearing	Unsecured, no impairment
Purchases of IT services –							
Indra Philippines	**975**	816	1,058	**(128)**	(100)	30-day; noninterest-bearing	Unsecured
Purchases of meters and devices –							
Aclara Meters	**–**	190	454	**–**	–	30-day; noninterest-bearing	Unsecured
Revenue from pole attachment –							
PLDT	**329**	369	391	**101**	81	Advance payment	Unsecured, no impairment
Purchases of wireline and wireless services -							
PLDT Group	**95**	100	90	**(13)**	(21)	30-day; noninterest-bearing	Unsecured
Purchases of power:							
Panay Power Corporation ("*PPC*")	**₱-**	₱–	₱211	**₱-**	₱–	30-day; noninterest-bearing	Unsecured
Toledo Power Corporation ("*TPC*")	**-**	69	357	**-**	–	30-day; noninterest-bearing	Unsecured
PEDC	**1,788**	2,258	1,766	**(242)**	(344)	30-day; noninterest-bearing	Unsecured

Advances to FPM Power

FPM Power has a noninterest-bearing loan from *MPG Asia* amounting to ₱5,786 million (gross of allowance for expected losses of ₱2,332 million) and ₱6,007 million (US$114) as at December 31, 2019 and 2018, respectively, which is due and demandable. The loan remains outstanding as at December 31, 2019.

See *Note 14 – Financial and other Current Assets and Note 8 – Investments in Associates and Interests in Joint Ventures.*

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, 2019 and 2018, the fair value of the total assets being managed by the *Fund* amounted to ₱35.0 billion and ₱34.0 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:

	2019	2018	2017
		(Amounts in millions)	
Short-term employee benefits	**₱548**	₱758	₱754
Long-term employee incentives and retirement benefits	**183**	300	288
Total compensation to key management personnel	**₱731**	₱1,058	₱1,042

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

Each of the directors is entitled to a per diem of ₱140,000 for every *BOD* meeting attended. Each member of the Audit, Risk Management, Remuneration and Leadership Development, Finance, Governance and Nomination Committees is entitled to a fee of ₱24,000 for every committee meeting attended. Also, the members of the *BOD* are entitled to a stock grant based on a pre-approved number of shares for each director which was implemented beginning May 2013 as approved by the stockholders. The directors have the option to receive the number of shares granted or the equivalent cash value.

As at December 31, 2019, 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:

	2019	2018
	(Amounts in millions)	
Trade:		
Electricity	**₱25,885**	₱24,487
Service contracts	**5,424**	4,511
Contract assets:		
Unbilled receivables	**1,682**	1,220
Under-recoveries of pass-through charges - net	**5,862**	5,185
Contract liabilities:		
Over-recoveries from transmission and *SL* charges	**1,146**	820
Nonrefundable liability related to asset funded by customers	**822**	745

The revenue recognized from the nonrefundable liability related to assets funded by customers amounted to ₱94 million, ₱127 million and ₱66 million in 2019, 2018 and 2017, respectively.

Purchased Power

The details of purchased power are as follows:

	2019	2018	2017
		(Amounts in millions)	
Generation costs	**₱205,273**	₱196,489	₱178,913
Transmission costs	**35,759**	35,613	35,645
	₱241,032	₱232,102	₱214,558

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

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

The details of purchased power follow:

	2019	2018	2017
		(Amounts in millions)	
First Gas Power Corporation ("*FGPC*") and FGP Corp. ("*FGP*")	**₱54,781**	₱53,885	₱46,492
NGCP	**35,680**	35,509	35,482
South Premiere Power Corporation ("*SPPC*")	**31,483**	30,455	29,606
IEMOP	**27,084**	29,127	24,286
San Miguel Energy Corporation ("*SMEC*")	**19,971**	14,922	14,563
QPPL	**17,032**	15,767	14,640
Masinloc Power Partners Co. Ltd. ("*MPPCL*")	**12,998**	12,959	13,913
First NatGas Power Corp. ("*FNPC*")	**12,855**	5,696	–
Therma Luzon, Inc. ("*TLI*")	**10,354**	12,176	11,168
Sem-Calaca Power Corporation ("*Sem-Calaca*")	**5,172**	12,658	11,391
SBPL	**4,950**	–	–
Therma Mobile, Inc. ("*TMO*")	**1,928**	1,695	3,112
AC Energy Philippines, Inc. ("*AC Energy*") formerly Phinma Energy Corporation	**1,824**	1,954	2,511
PEDC	**1,788**	2,258	1,766
Southwest Luzon Power Generation Corporation	**903**	2,076	3,228
Millenium Energy, Inc. ("*MEI*")	**500**	–	–
Others	**1,729**	965	2,400
	₱241,032	₱232,102	₱214,558

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, 2019 and 2018, the total transmission costs and *SL* charge over-recoveries included in "Other noncurrent liabilities" account in the consolidated statements of financial position amounted to ₱1,146 million and ₱820 million, respectively.

24. Expenses and Income

Salaries, Wages and Employee Benefits

	Note	**2019**	2018	2017
			(Amounts in millions)	
Salaries, wages and related employee benefits		**₱12,038**	₱11,565	₱11,687
Retirement benefits	*25*	**929**	1,030	798
Other post-employment benefits	25	**139**	102	110
		₱13,106	₱12,697	₱12,595

Depreciation and Amortization

	Note	**2019**	2018	2017
			(Amounts in millions)	
Utility plant and others	*7*	**₱8,003**	₱7,190	₱6,929
Intangible assets	*10*	**723**	632	587
Investment properties	*9*	**4**	5	4
		₱8,730	₱7,827	₱7,520

Other Expenses

	Note	**2019**	2018	2017
			(Amounts in millions)	
Materials used	*13*	**₱2,520**	₱2,967	₱2,015
Rent and utilities		**815**	764	862
Insurance		**386**	371	348
Transportation and travel		**366**	384	418
Advertising		**358**	349	374
Communication	*22*	**136**	140	145
Others		**1,753**	922	2,029
		₱6,334	₱5,897	₱6,191

25. Long-term Employee Benefits

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

	2019	2018
		(Amounts in millions)
Retirement benefits liability	**₱5,627**	₱343
Long-term incentives	**1,306**	3,467
Other post-employment benefits	**1,949**	1,633
	8,882	5,443
Less current portion	**–**	3,463
	₱8,882	₱1,980

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)

	2019	2018	2017
		(Amounts in millions)	
Current service costs	**₱895**	₱979	₱873
Net interest costs (income)	**(8)**	18	(101)
Net retirement benefits expense	**₱887**	₱997	₱772

Retirement Benefits Liability (Asset)

	2019	2018
	(Amounts in millions)	
Defined benefit obligation	**₱40,674**	₱33,686
Fair value of plan assets	**(35,047)**	(34,042)
Net retirement benefits liability (asset)	**₱5,627**	(₱356)

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

	2019	2018
	(Amounts in millions)	
Retirement surplus under financial and other noncurrent assets	**₱–**	(₱699)
Retirement benefits liability	**5,627**	343
Net retirement benefits liability (asset)	**₱5,627**	(₱356)

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

	2019	2018
	(Amounts in millions)	
Retirement benefits liability (asset) at beginning of year	**(₱356)**	₱432
Net retirement benefits expense	**887**	997
Contributions by employer	**–**	(26)
Amounts recognized in *OCI*	**5,096**	(1,759)
Net retirement benefits liability (asset) at end of year	**₱5,627**	(₱356)

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

	2019	2018
	(Amounts in millions)	
Defined benefit obligation at beginning of year	**₱33,686**	₱37,676
Interest costs	**2,341**	1,815
Current service costs	**895**	979
Benefits paid	**(2,970)**	(2,450)
Actuarial losses (gains) due to:		
Changes in financial assumptions	**7,283**	(5,172)
Experience adjustments	**(561)**	838
Defined benefit obligation at end of year	**₱40,674**	₱33,686

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

	2019	2018
	(Amounts in millions)	
Fair value of plan assets at beginning of year	**₱34,042**	₱37,244
Interest income	**2,349**	1,797
Return on plan assets, excluding amount included in net interest on the net defined benefit obligation and interest income	**1,626**	(2,575)
Contributions by employer	**–**	26
Benefits paid	**(2,970)**	(2,450)
Fair value of plan assets at end of year	**₱35,047**	₱34,042

The Board of Trustees ("*BoT*") of 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, 2019 and 2018 amounted to ₱35,047 million and ₱34,042 million, respectively. The major categories of plan assets are as follows:

	2019	2018
		(Amount in millions)
Investments quoted in active markets:		
Quoted equity investments:		
Holding firms	**₱3,509**	₱2,787
Banks	**1,215**	954
Property	**841**	733
Telecommunication	**702**	688
Electricity, energy, power and water	**502**	655
Food, beverages and tobacco	**498**	484
Retail	**477**	349
Transportation services	**330**	213
Construction, infrastructure and allied services	**263**	151
Mining	**62**	127
Others	**1,691**	1,297
Quoted debt investments:		
"AAA" rated securities	**13,321**	13,501
Government securities	**8,341**	7,964
Cash and cash equivalents	**1,359**	1,807
Real property	**1,014**	1,014
Receivables	**921**	1,317
Others	**1**	1
Fair value of plan assets	**₱35,047**	₱34,042

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)

	2019	2018	2017
		(Amounts in millions)	
Interest costs	**₱118**	₱78	₱85
Current service costs	**21**	24	25
	₱139	₱102	₱110

Other Long-term Post-employment Benefits Liability

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

	2019	2018
		(Amounts in millions)
Balance at beginning of year	**₱1,633**	₱1,590
Interest costs	**118**	78
Current service costs	**21**	24
Benefits paid	**(54)**	(95)
Actuarial losses due to change in assumptions	**231**	36
Balance at end of year	**₱1,949**	₱1,633

Actuarial Assumptions

The principal assumptions used as at December 31, 2019 and 2018 in determining retirement benefits and other long-term post-employment benefits obligations are shown below:

	2019	2018
Annual discount rate	**4.56%**	7.24%
Future range of annual salary increases	**5.00 %–11.00%**	5.00 %–11.00%

Sensitivity Analysis

The sensitivity analysis below has been determined based on a method that extrapolates the impact on the defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting year. The calculation of the defined benefit obligation is sensitive to the assumptions set above. The following table summarizes how the impact on the defined benefit obligation at the end of the reporting year would have increased (decreased) as a result of a change in the respective assumptions, keeping all other assumptions constant. There have been no changes in the method and assumptions used in the sensitivity analysis from prior year.

The sensitivity analysis may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation from one another.

		Effect on Present Value of Defined Benefit Obligation	
	% Change	**2019**	2018
		(Amounts in millions)	
Annual discount rate	+1.0%	**(₱3,085)**	(₱1,911)
	-1.0%	**3,789**	2,267
Future range of annual salary increases	+1.0%	**1,823**	1,270
	-1.0%	**(1,652)**	(1,153)

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.

MERALCO does not expect to contribute to the *Fund* in 2020.

The following is the maturity profile of the undiscounted benefit obligation as at December 31, 2019:

	Amounts
	(In millions)
Less than one (1) year	₱4,343
One (1) year up to five (5) years	19,205
More than five (5) years up to 10 years	27,487
More than 10 years up to 15 years	15,706
More than 15 years up to 20 years	9,996
More than 20 years	8,835

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 ₱42 million, ₱33 million and ₱26 million for the years ended December 31, 2019, 2018 and 2017, respectively.

Consolidated Retirement Benefits Cost (included in "Salaries, wages and employee benefits" account in the consolidated statements of income)

	2019	2018	2017
		(Amounts in millions)	
Expense recognized for defined benefit plans	**₱887**	₱997	₱772
Expense recognized for defined contribution plan	**42**	33	26
Retirement benefits expense	**₱929**	₱1,030	₱798

Long-term Incentive Plan ("LTIP")

MERALCO's *LTIP* covers qualified employees and is based on *MERALCO Group*'s achievement of specified level of *CCNI* approved by the *BOD* and determined on an aggregate basis for a three (3)-year period as well as employees' attainment of a minimum level of performance rating. Employees invited to *LTIP* must serve a minimum uninterrupted period to be entitled to an award. Further, the employee should be on active employment at the time of pay-out.

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 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, 2019				
Noncurrent				
Financial and other noncurrent assets	**₱31,286**	**₱4,514**	**₱–**	**₱35,800**
Current				
Cash and cash equivalents	**38,262**	**–**	**–**	**38,262**
Trade and other receivables	**30,935**	**–**	**–**	**30,935**
Financial and other current assets	**36,748**	**–**	**–**	**36,748**
Total assets	**₱137,231**	**₱4,514**	**₱–**	**₱141,745**
Liabilities as at December 31, 2019				
Noncurrent				
Interest-bearing long-term financial liabilities - net of current portion	**₱–**	**₱–**	**₱12,745**	**₱12,745**
Customers' deposits - net of current portion	**–**	**–**	**28,247**	**28,247**
Refundable service extension costs - net of current portion	**–**	**–**	**6,932**	**6,932**
Current				
Notes payable	**–**	**–**	**23,393**	**23,393**
Trade payables and other current liabilities	**–**	**–**	**54,093**	**54,093**
Customers' refund	**–**	**–**	**3,032**	**3,032**
Current portion of interest-bearing long-term financial liabilities	**–**	**–**	**5,115**	**5,115**
Total liabilities	**₱–**	**₱–**	**₱133,557**	**₱133,557**
Assets as at December 31, 2018				
Noncurrent				
Other noncurrent assets	₱32,990	₱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
Nonrefundable liability related to asset funded by customers	–	–	745	745
Over-recoveries from transmission and *SL* charges	–	–	820	820
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	₱–	₱–	₱134,840	₱134,840

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:

	2019		2018	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
		(Amounts in millions)		
Financial assets				
Debt securities at amortized cost	**₱40,517**	**₱39,147**	₱39,564	₱33,043
Financial assets at *FVOCI*	**4,514**	**4,514**	3,890	3,890
Financial assets at amortized cost -				
Advance payments to a supplier and others	**5,878**	**6,063**	3,806	3,785
	₱50,910	**₱49,724**	₱47,260	₱40,718
Financial liabilities				
Financial liabilities carried at amortized cost -				
Interest-bearing-long-term financial liabilities	**₱16,381**	**₱18,704**	₱26,588	₱27,620

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 4.12% and 6.71% as at December 31, 2019 and 2018, respectively.

Financial assets at FVOCI

The fair values were determined by reference to market bid quotes as at reporting date.

Debt securities at amortized cost

The fair values were determined by discounting the expected future cash flows using the interest rate as at reporting date.

Meter Deposits and Customers' Refund

Meter deposits and customers' refund are due and demandable. Thus, the fair values of these instruments approximate their carrying amounts.

Bill Deposits

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

Interest-bearing Long-term Financial Liabilities

The fair values of interest-bearing long-term debt (except for redeemable preferred stock) were computed by discounting the instruments' expected future cash flows using the rates ranging from 0.11% to 4.00% as at December 31, 2019 and 0.12% to 4.03% as at December 31, 2018.

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:

	2019				2018			
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
				(Amounts in millions)				
Financial assets								
Advance payments to a supplier and others	**₱–**	**₱6,063**	**₱–**	**₱6,063**	₱–	₱3,785	₱–	₱3,785
Financial assets at *FVOCI*	**3,518**	**–**	**996**	**4,514**	3,846	–	44	3,890
Debt securities at amortized cost	**39,147**	**–**	**–**	**39,147**	33,043	–	–	33,043
	₱42,665	**₱6,063**	**₱996**	**₱49,724**	₱36,889	₱3,785	₱44	₱40,718

	2019				2018			
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
				(Amounts in millions)				
Financial liabilities								
Interest-bearing long-term financial liabilities	**₱–**	**₱18,704**	**₱–**	**₱18,704**	₱–	₱27,620	₱–	₱27,620

For the years ended December 31, 2019 and 2018, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurements.

Financial Risk Management Objectives and Policies

The main risks arising from the financial instruments are interest rate risk, foreign currency risk, commodity price risk, credit risk, and liquidity risk. The importance of managing these risks has significantly increased in light of the considerable change and volatility in the Philippine and international financial markets. The *BOD* reviews and approves policies for managing each of these risks. Management monitors the market price risk arising from all financial instruments. The policies for managing these risks are as follows:

Interest Rate Risk

The *MERALCO Group*'s exposure to the changes in market interest rates relate to changes of fair value of its long-term financial assets and to the fluctuation of future cash flows in relation to its long-term interest-bearing financial liabilities.

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, 2019 and 2018.

Foreign Currency Risk

The revaluation of any of foreign currency-denominated financial assets and financial liabilities as a result of the appreciation or depreciation of the Philippine peso is recognized as foreign exchange gains or losses as at the end of each reporting year. The extent of foreign exchange gains or losses is largely dependent on the amount of foreign currency-denominated financial instruments. While an insignificant percentage of the *MERALCO Group*'s revenues and liabilities is denominated in *U.S.* dollars, a substantial amount of the *MERALCO Group*'s expenditures for electricity capital projects and a portion of the operating expenses are denominated in foreign currencies, mostly in *U.S.* dollars. As such, a strengthening or weakening of the Philippine peso against the *U.S.* dollar will decrease or increase in Philippine peso terms, the principal amount of the *MERALCO Group*'s foreign currency-denominated liabilities and the related interest expense, foreign currency-denominated capital expenditures and operating expenses 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, 2019 and 2018, translated to Philippine peso at ₱50.64 and ₱52.58 to US$1, respectively.

	2019		2018	
	U.S. Dollar	**Peso Equivalent**	U.S. Dollar	Peso Equivalent
		(Amounts in millions)		
Financial assets:				
Cash and cash equivalents	**$171**	**₱8,657**	$127	₱6,693
Trade and other receivables	**2**	**97**	2	104
Short-term investments	**104**	**5,331**	119	6,237
Advances to an associate	**67**	**3,416**	114	5,969
Debt securities at amortized cost	**20**	**1,013**	20	1,052
Financial assets at *FVOCI*	**12**	**592**	5	263
Advance payments to a supplier	**51**	**2,584**	55	2,872
	427	**21,690**	442	23,190
Financial liabilities -				
Trade payables and other liabilities	**(3)**	**(177)**	(7)	(360)
	$424	**₱21,513**	$435	₱22,830

All of the *MERALCO Group*'s long-term financial liabilities are denominated in Philippine peso. However, an insignificant portion of its trade payables are denominated in *U.S.* dollar. Thus, the impact of ₱1 movement of the Philippine peso against the *U.S.* dollar will not have a significant impact on the *MERALCO Group*'s obligations.

The following table demonstrates the sensitivity to a reasonably possible change in the *U.S.* dollar exchange rate vis-a-vis the Philippine peso, with all other variables held constant, of the *MERALCO Group*'s income before income tax for the years ended December 31, 2019 and 2018 (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.

	2019		2018	
	Appreciation (Depreciation) of U.S. Dollar	**Effect on Income before Income Tax**	Appreciation (Depreciation) of U.S. Dollar	Effect on Income before Income Tax
	(In %)	*(In millions)*	*(In %)*	*(In millions)*
U.S. dollar-denominated financial assets and financial liabilities	**+5**	**₱1,076**	+5	₱1,142
	–5	**(1,076)**	–5	(1,142)

Foreign exchange gain or loss for the year is computed based on management's best estimate of a +/–5 percent change in the closing Philippine peso to *U.S.* dollar conversion rate using the balances as at financial reporting date of *U.S.* dollar-denominated cash and cash equivalents, receivables and other assets and liabilities. There has been no change in the methods and assumptions used by management in the above analysis.

Commodity Price Risk

Commodity price risk is the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in world prices or index of the commodity. The exposure of *MERALCO* and *Clark Electric* to price risk is minimal. The cost of fuel is part of *MERALCO*'s and *Clark Electric*'s generation costs that are recoverable through the generation charge in the billings to customers.

Credit Risk

Credit risk is the risk that a counterparty will not meet its obligation under a financial instrument or customer contract, leading to a financial loss. The *MERALCO Group* is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions and other financial instruments.

Trade and Other Receivables and Contract Assets

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 *ECL*s is a significant estimate. The amount of *ECL*s is sensitive to changes in circumstances and forecast of 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:

	2019							
	Billed electric receivables							
		Days past due						
	Current	**1–30 Days**	**31–60 Days**	**61–90 Days**	**Over 90 Days**	**Unbilled receivables**	**Other receivables**	**Total**
				(Amounts in millions, except ECL rate)				
ECL Rate	**0.99%**	**1.58%**	**6.14%**	**16.81%**	**86.87%**	**0.15%**	**6.85%**	

	2019							
Estimated total gross carrying amount at default	**₱2,933**	**₱2,025**	**₱684**	**₱297**	**₱1,849**	**₱1,525**	**₱9,108**	**₱18,421**
Expected credit loss	**29**	**32**	**42**	**50**	**1,606**	**2**	**624**	**2,385**

	2018							
	Billed electric receivables							
		Days past due						
	Current	1–30 Days	31–60 Days	61–90 Days	Over 90 Days	Unbilled receivables	Other receivables	Total
	(Amounts in millions, except ECL rate)							
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	
	2019	2018
	(Amounts in millions)	
Cash and cash equivalents:		
Cash in banks	**₱8,250**	₱8,483
Cash equivalents	**29,887**	27,897
Trade and other receivables:		
Electricity	**24,124**	23,127
Service contracts	**4,811**	4,202
Nontrade receivables	**2,000**	2,803
Financial current assets:		
Debt securities at amortized cost	**14,929**	10,193
Short-term investments	**18,185**	21,769
Advances to an associate	**3,454**	6,007
Current portion of advance payments to a supplier	**180**	187
Financial noncurrent assets:		
Debt securities at amortized cost	**25,588**	29,371
Financial assets at *FVOCI*	**4,514**	3,890
Advance payment to a supplier and others	**5,698**	3,619
	₱141,620	₱141,548

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:

	2019					
	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	**₱38,137**	**₱–**	**₱–**	**₱–**	**₱–**	**₱38,137**
Trade and other receivables:						
Electricity	**5,729**	**2,443**	**11,464**	**4,488**	**1,761**	**25,885**
Service contracts	**2,760**	**–**	**181**	**1,870**	**613**	**5,424**
Nontrade receivables	**1,525**	**67**	**–**	**408**	**2**	**2,002**
Financial and other current assets:						
Debt securities at amortized cost	**14,929**	**–**	**–**	**–**	**–**	**14,929**
Short-term investments	**18,185**	**–**	**–**	**–**	**–**	**18,185**
Advances to an associate	**3,454**	**–**	**–**	**–**	**–**	**3,454**
Current portion of advance payments to a supplier	**180**	**–**	**–**	**–**	**–**	**180**
Financial and other noncurrent assets:						
Debt securities at amortized cost	**25,588**	**–**	**–**	**–**	**–**	**25,588**
Financial assets at *FVOCI*	**4,514**	**–**	**–**	**–**	**–**	**4,514**
Advance payment to a supplier and others	**5,698**	**–**	**–**	**–**	**–**	**5,698**
	₱120,699	**₱2,510**	**₱11,645**	**₱6,766**	**₱2,376**	**₱143,996**

	2018					
	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	₱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
Financial and other current assets:						
Short-term investments	21,769	–	–	–	–	21,769
Debt securities at amortized cost	10,193	–	–	–	–	10,193
Advances to an associate	6,007	–	–	–	–	6,007
Current portion of advance payments to a supplier	187	–	–	–	–	187
Financial and other noncurrent assets:						
Debt securities at amortized cost	29,371	–	–	–	–	29,371
Financial assets at *FVOCI*	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

Credit ratings are determined as follows:

- High Grade

  High grade financial assets include cash in banks, cash equivalents, short-term investments, advances to an associate, debt securities at amortized cost investments, *FVOCI* financial assets and advance payments to a supplier transacted with counterparties of good credit rating or bank standing. Consequently, credit risk is minimal. These counterparties include large prime financial institutions, large industrial companies and commercial establishments, and government agencies. For trade receivables, these consist of current month's billings (less than 30 days) that are expected to be collected within 10 days from the time bills are delivered.

- Standard Grade

  Standard grade financial assets include trade receivables that consist of current month's billings (less than 30 days) that are expected to be collected before due date (10 to 14 days after bill date).

- Sub-standard Grade

  Sub-standard grade financial assets include trade receivables that consist of current month's billings, which are not expected to be collected within 60 days.

Liquidity Risk

Liquidity risk is the risk that the *MERALCO Group* will be unable to meet its payment obligations when these fall due. The *MERALCO Group* manages this risk through monitoring of cash flows in consideration of future payment of obligations and the collection of its trade receivables. The *MERALCO Group* also ensures that there are sufficient, available and approved working capital lines that it can draw from at any time.

The *MERALCO Group* maintains an adequate amount of cash, cash equivalents and *FVOCI* financial assets, which may be readily converted to cash in any unforeseen interruption of its cash collections. The *MERALCO Group* also maintains accounts with several relationship banks to avoid significant concentration of funds with one (1) institution.

The following table sets out the maturity profile of the principal amount of financial assets and contract assets:

	2019				
	Less than 3 Months	**Over 3–12 Months**	**Over 1–5 Years**	**More than 5 Years**	**Total**
			(Amount in millions)		
Cash in bank and cash equivalents	**₱38,137**	**₱–**	**₱–**	**₱–**	**₱38,137**
Trade and other receivables	**30,935**	**–**	**–**	**–**	**30,935**
Short-term investments	**5,931**	**12,254**	**–**	**–**	**18,185**
Debt securities at amortized cost	**2,101**	**12,769**	**17,697**	**7,950**	**40,517**
Financial assets at *FVOCI*	**4,514**	**–**	**–**	**–**	**4,514**
Advances to an associate	**–**	**3,454**	**–**	**–**	**3,454**
Advance payments to a supplier	**186**	**186**	**5,506**	**–**	**5,878**
	₱81,804	**₱28,663**	**₱23,203**	**₱7,950**	**₱141,620**

	2018				
	Less than 3 Months	Over 3–12 Months	Over 1–5 Years	More than 5 Years	Total
			(Amount in millions)		
Cash in bank and cash equivalents	₱36,380	₱–	₱–	₱–	₱36,380
Trade and other receivables	30,132	–	–	–	30,132
Short-term investments	8,469	13,300	–	–	21,769
Debt securities at amortized cost	2,988	6,858	19,659	10,059	39,564
Financial assets at *FVOCI*	3,890	–	–	–	3,890
Advances to an associate	–	6,007	–	–	6,007
Advance payments to a supplier	186	186	3,434	–	3,806
	₱82,045	₱26,351	₱23,093	₱10,059	₱141,548

The following table sets out the maturity profile of the financial liabilities and contract liabilities based on contractual undiscounted payments plus future interest:

	2019				
	Less than 3 Months	**Over 3–12 Months**	**Over 1–5 Years**	**More than 5 Years**	**Total**
			(Amounts in millions)		
Notes payable	**₱1,094**	**₱23,404**	**₱–**	**₱–**	**₱24,498**
Trade payables and other current liabilities	**49,755**	**–**	**–**	**–**	**49,755**
Customers' refund	**3,032**	**–**	**–**	**–**	**3,032**
Interest-bearing long-term financial liabilities:					
Fixed rate borrowings	**293**	**1,311**	**11,104**	**7,856**	**20,564**
Redeemable preferred stock	**1,479**	**–**	**–**	**–**	**1,479**
Customers' deposits	**1,275**	**1,595**	**6,075**	**22,172**	**31,117**
Refundable service extension costs	**345**	**1,123**	**4,405**	**2,527**	**8,400**
Nonrefundable liability related to asset funded by customers	**127**	**127**	**127**	**441**	**822**
Over-recoveries from transmission and *SL* charges	**–**	**–**	**1,146**	**–**	**1,146**
Total undiscounted financial liabilities	**₱57,400**	**₱27,560**	**₱22,857**	**₱32,996**	**₱140,813**

	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
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	₱25,238	₱36,354	₱138,479

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 ₱2,557 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, 2019.

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.

	2019	2018
		(Amounts in millions, except debt to equity ratio)
Long-term debt	**₱16,381**	₱25,101
Notes payable	**23,393**	13,428
Redeemable preferred stock	**1,479**	1,487
Debt (a)	**₱41,253**	₱40,016
Equity attributable to the holders of the parent (b)	**₱84,230**	₱82,042
Debt to equity ratio(a)/(b)	**0.49**	0.49

27. Income Taxes and Local Franchise Taxes

Income Taxes

The components of net deferred income tax assets and liabilities are as follows:

	Note	**2019**	2018
			(Amounts in millions)
Deferred income tax assets:			
Provisions for probable losses and expenses from claims	*18 and 21*	**₱28,397**	₱26,503
Unfunded retirement benefits cost and unamortized past service cost	*25*	**1,564**	1,330
Accrued employee benefits and other post employment benefits	*25*	**910**	558
Allowance for expected credit losses	*12*	**527**	374

(Forward)

	Note	2019	2018
			(Amounts in millions)
Allowance for excess of cost over net realizable value of inventories	*13*	**₱58**	₱58
Actuarial losses	*25*	**76**	–
Others		**342**	225
		31,874	29,048
Deferred income tax liabilities:			
Revaluation increment in utility plant and others	*15*	**6,801**	6,896
Capitalized interest		**768**	750
Capitalized duties and taxes deducted in advance		**591**	602
Depreciation method differential		**86**	249
Actuarial gains	*25*	**–**	1,542
Others		**272**	276
		8,518	10,315
		₱23,356	₱18,733

The deferred income tax assets and liabilities are presented in the consolidated statements of financial position as follows:

	2019	2018
		(Amounts in millions)
Deferred income tax assets - net	**₱23,440**	₱18,800
Deferred income tax liabilities - net	**(84)**	(67)
	₱23,356	₱18,733

Provision for (benefit from) income tax consists of:

	2019	2018	2017
		(Amounts in millions)	
Current	₱11,503	₱10,522	₱10,031
Deferred	(2,960)	(3,079)	(2,668)
	₱8,543	₱7,443	₱7,363

The deferred tax assets charged directly to *OCI* amounted to ₱1,597 million (benefit), ₱525 million (expense) and ₱453 million (benefit) for the years ended December 31, 2019, 2018 and 2017, respectively.

A reconciliation between the provision for income tax computed at statutory income tax rate of 30% for the years ended December 31, 2019, 2018 and 2017, and provision for income tax as shown in the consolidated statements of income is as follows:

	2019	2018	2017
		(Amounts in millions)	
Income tax computed at statutory tax rate	**₱9,574**	₱9,163	₱8,359
Income tax effects of:			
Interest income subjected to lower final tax rate	**(978)**	(845)	(652)
Nondeductible interest expense	**403**	349	269
Nontaxable income	**(254)**	(251)	(10)
Equity in net losses of associates and joint ventures	**446**	217	(66)
Difference in calculation of tax deductible costs and expenses	**(1,697)**	(2,025)	(1,064)
Unrecognized deferred tax assets	**859**	449	533
Others	**190**	386	(6)
	₱8,543	₱7,443	₱7,363

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 2019 and 2018, *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 subsequent taxable years, for which the related income and expense were not considered in determining gross income for income tax purposes, were not recognized. This is because the manner by which *MERALCO* expects to recover or settle the underlying assets and liabilities would not result in any future tax consequence under the current method of computing taxable income.

Meanwhile, certain deferred income tax assets and liabilities expected to be recovered or settled in taxable year 2020, for which the related income and expense were considered in determining gross income for income tax purposes, were 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 was 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 be recovered or settled in taxable years 2021 onwards were 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, 2019 and 2018, which were not recognized in the taxable year 2019 and 2018 are as follows:

	2019	2018
		(Amounts in millions)
Deferred tax assets:		
Provisions for various claims	**₱1,207**	₱1,177
Others	**16**	32
	1,223	1,209
Deferred tax liabilities:		
Depreciation method differential	**29**	86
Revaluation increment in utility plant and others	**17**	53
Capitalized interest	**10**	28
Capitalized duties and taxes deducted in advance	**2**	23
Allowance for expected credit losses	**–**	32
Others	**2**	5
	60	227
	₱1,163	₱982

The temporary differences for which deferred tax assets have not been recognized pertain to the tax effect of net operating loss carryover ("*NOLCO*") amounting to ₱1,843 million and ₱1,940 million as at December 31, 2019 and 2018, respectively. These are not recognized because the Company does not expect to utilize such deferred tax assets against sufficient taxable profit.

NOLCO totaling to ₱1,843 million may be claimed as deduction against taxable income as follows:

Date Incurred	Expiry Date	Amount
		(In millions)
December 31, 2017	December 31, 2020	₱613
December 31, 2018	December 31, 2021	859
December 31, 2019	December 31, 2022	371
		₱1,843

NOLCO amounting to ₱465 million, ₱322 million and ₱500 million expired in 2019, 2018 and 2017, respectively.

LFT

Consistent with the decisions of the *ERC*, *LFT* is a recoverable charge of the *DU* from the particular province or city imposing and collecting the *LFT*. It is presented as a separate line item in the customer's bill and computed as a percentage of the sum of generation, transmission, distribution services and related *SL* charges.

The Implementing Rules and Regulations ("*IRR*") issued by the *ERC* provide that *LFT* shall be paid only on its distribution wheeling and captive market supply revenues. Pending the promulgation of guidelines from the relevant government agencies, *MERALCO* is paying *LFT* based on the sum of the foregoing charges in the customers' bill.

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, 2019 and 2018, the amount of unissued *TCCs* of ₱181 million is presented as part of "Financial and other noncurrent assets" account in the consolidated statements of financial position.

See *Note 10 – Financial and Other Noncurrent Assets.*

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

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

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

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

On July 12, 2013, the *BIR* appealed the *CTA* En Banc's Amended Decision dated November 13, 2012 and Resolution dated May 22, 2013 via Petition for Review with the *SC.* As at February 24, 2020, the case is pending resolution by the *SC.*

LFT Assessments of Municipalities

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

RPT Assessments

Several Local Government Units ("*LGUs*") assessed *MERALCO* for deficiency *RPT* on certain assets. The assets include electric transformers, distribution wires, insulators, and poles, collectively referred to as *TWIP*. Of these *LGUs*, one (1) has secured a favorable decision from the *CA*. Such decision was appealed by *MERALCO* to the *SC* for the benefit of *MERALCO* customers. On October 22, 2015, *MERALCO* received a copy of the *SC* Decision promulgated on August 5, 2015 declaring, among others, that the transformers, electric posts, transmission lines, insulators, and electric meters of *MERALCO* are not exempted from *RPT* under the *LGC*. *MERALCO* did not appeal the *SC* Decision. The cases of the other *LGUs* are pending with their respective administrative bodies or government offices.

In 2016, *MERALCO* began the process of settlement with the affected *LGUs*. *MERALCO* has filed for the recovery of the resulting *RPT* payments to certain *LGUs* from customers in the relevant areas with the *ERC* and will file for similar recovery for succeeding payments.

On January 30, 2017, *PEPOA* filed a Petition for rule-making proposing that *RPT* be allowed as a pass-through cost in the light of the *SC* Decision. Hearings have been completed and *MERALCO* filed its intervention and submitted its comments. As at February 24, 2020, the Petition is pending before the *ERC.* A similar Petition was likewise filed by the Philippine Rural Electric Cooperative Association ("*PHILRECA*") on April 17, 2019. As at February 24, 2020, hearings are ongoing.

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 power supply contract with the *NPC.*

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

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

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

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

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

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

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

With the dismissal of the petition filed by the Office of the Solicitor General ("*OSG*") with the *CA*, *MERALCO* filed a motion for the reception of its evidence *ex-parte* with the *RTC-Pasig* pursuant to the ruling of the *CA*. In a Decision dated May 29, 2012, the *RTC-Pasig* declared the *SA* valid and binding, independent of the pass-through for the settlement amount which is reserved for the *ERC*. The *OSG* has filed a Notice of Appeal with the *RTC-Pasig* on June 19, 2012. After both parties filed their respective appeal briefs, the *CA* rendered a Decision dated April 15, 2014 denying the appeal and affirming the *RTC* Decision, which declared the *SA* as valid and binding. The *OSG* filed a Petition for Review with the *SC*. On November 10, 2014, *MERALCO* filed its comment to the Petition. *PSALM* likewise filed its comment to the Petition. In a Resolution dated July 8, 2015, the *SC* resolved to serve anew its Resolutions requiring *NPC* to comment on the Petition. In compliance, *NPC* submitted its Comment dated September 8, 2015. *MERALCO* submitted its Motion for Leave to File and to Admit Attached Reply on October 12, 2015. Pursuant to the *SC* Resolution dated November 11, 2015, the *OSG* filed a Consolidated Reply to the comments filed by *NPC*, *MERALCO* and *PSALM*. *MERALCO* then filed a Motion for Leave to File and to Admit the Attached Rejoinder. The parties have filed their respective memoranda. As at February 24, 2020, *MERALCO* is awaiting further action of the *SC* on the matter.

Sucat-Araneta-Balintawak Transmission Line

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

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

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

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

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

the said expert. Intervenor *MERALCO* intends to file its Comment/Opposition in due course. As at February 24, 2020, *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 *MR*s filed by *NPC* and *PSALM*.

On September 12, 2013, *MERALCO* filed a Manifestation with Motion with the *ERC* seeking approval of its proposal to offset the amount of ₱73.9 million per month against its monthly remittances to *PSALM*. *PSALM* and *NPC* filed their comments *Ad Cautelam* and Comment and Opposition *Ad Cautelam*, respectively, on *MERALCO*'s Manifestation with Motion. On November 4, 2013, *MERALCO* filed its reply. As at February 24, 2020, *MERALCO*'s Manifestation with Motion is pending resolution by the *ERC*.

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

On February 3, 2014, *MERALCO* filed a Comment with Opposition to the Application for *TRO* or Writ of Preliminary Injunction dated January 30, 2014. *PEMC* filed a Comment and Opposition Re: Petition for Certiorari with Urgent *TRO* and/or Writ of Preliminary Mandatory Injunction dated January 6, 2014. On June 4, 2014, the *CA* issued a Resolution declaring that *PSALM* is deemed to have waived the filing of a Reply to the comment and opposition of *MERALCO* and *PEMC* and directing the parties to submit their simultaneous memoranda within 15 days from notice. On December 1, 2014, the *CA* issued a decision dismissing the Petition for Certiorari filed by *PSALM* against the *ERC*, *MERALCO* and *PEMC* and affirming the *ERC*'s ruling on the refund of the ₱5.2 billion of transmission line losses double charged by *PSALM* and *NPC*. On January 30, 2015, *PSALM* filed its *MR* on the December 1, 2014 Decision of the *CA*. *MERALCO* has filed its Opposition to the *MR*. In a Resolution dated August 11, 2015, the *CA* denied *PSALM*'s *MR*. On October 27, 2015, *MERALCO* received *PSALM*'s Petition for Review with the *SC*. The Petition has been given due course and the parties have filed their respective memoranda. As at February 24, 2020, *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 24, 2020, 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 24, 2020, *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 24, 2020, the Petition is pending resolution by the *ERC*.

SC TRO on MERALCO's December 2013 Billing Rate Increase

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

On December 19, 2013, several party-list representatives of the House of Representatives filed a Petition against *MERALCO*, *ERC* and *DOE* before the *SC*, questioning the *ERC* clearance granted to *MERALCO* to charge the resulting price increase, alleging the lack of hearing and due process. It also sought for the declaration of the unconstitutionality of the *EPIRA*, which essentially declared the generation and supply sectors competitive and open, and not considered public utilities. A similar petition was filed by a consumer group and several private homeowners' associations challenging also the legality of the *AGRA* that the *ERC* had promulgated. Both petitions prayed for the issuance of *TRO*, and a Writ of Preliminary Injunction.

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

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

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

On March 3, 2014, the *ERC* issued an Order voiding the Luzon *WESM* prices during the November and December 2013 supply months on the basis of the preliminary findings of its Investigating Unit ("*IU*") that these are not reasonable, rational and competitive, and imposing the use of regulated rates for the said period. *PEMC* was given seven (7) days upon receipt of the Order to calculate these regulated prices and implement the same in the revised *WESM* bills of the concerned *DU*s in Luzon. *PEMC*'s recalculated power bills for the supply month of December 2013 resulted in a net reduction of the December 2013 supply month bill of the *WESM* by ₱9.3 billion. Due to the pendency of the *TRO*, no adjustment was made to the *WESM* bill of *MERALCO* for the November 2013 supply month. The timing of amounts to be credited to *MERALCO* is dependent on the reimbursement of *PEMC* from associated generator companies. However, several generating companies, including *MPPCL*, SN Aboitiz Power, Inc., TeaM (Philippines) Energy Corporation, PanAsia Energy, Inc. ("*PanAsia*"), and *SMEC*, have filed *MR*s questioning the Order dated March 3, 2014. *MERALCO* has filed a consolidated comment to these *MR*s. In an Order dated October 15, 2014, the *ERC* denied the *MR*s. The generating companies have appealed the Orders with the *CA*. *MERALCO* has filed a motion to intervene and a comment in intervention. The *CA* consolidated the cases filed by the generation companies. In a Decision dated November 7, 2017, the *CA* set aside *ERC* Orders dated March 3, 2014, March 27, 2014, May 9, 2014 and October 15, 2014 and declared the orders null and void. The Decision then reinstated and declared valid *WESM* prices for the November and December 2013 supply months. *MERALCO* and the *ERC* have filed their respective motions for reconsideration. Several consumers also intervened in the case and filed their respective motions for reconsideration. In a Resolution dated March 29, 2019, the *CA* denied the motions for reconsideration and upheld its Decision dated November 7, 2017.

MERALCO and several consumers have elevated the *CA* Decision and Order to the SC where the case is pending.

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

On April 22, 2014, the *SC* extended indefinitely the *TRO* issued on December 23, 2013 and February 18, 2014 and directed generating companies, *NGCP* and *PEMC* not to collect from *MERALCO*. As at February 24, 2020, 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 tribune that issued the assailed ordinances. The *IU* filed its own Comment dated December 19, 2017. In a Manifestation and Motion dated December 22, 2017, the *OSG* informed the *CA* that it will no longer represent the *IU* and will instead participate as "tribune of the people". In the meantime, *TMO* also filed a separate Petition for Review on Certiorari with the *CA*. In a Resolution dated January 10, 2018, the *CA* ordered the consolidation of the petitions of *TMO* and *MERALCO*. In a Decision dated May 23, 2018, the *CA* denied the consolidated Petitions filed by *MERALCO*, *TMO*, and *APRI*, and ruled that the jurisdiction to resolve the *IU* cases remains with the *ERC* because the Philippine Competition Act ("*PCA*") does not apply retroactively.

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

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

The *ERC* has elevated the matter to the *SC*. *MERALCO* and *TMO* have been required to file their respective comments to the Petition filed by the *SC*.

SPPC vs. PSALM

SPPC and *PSALM* are parties to an Independent Power Producer Administration ("*IPPA*") Agreement covering the Ilijan Power Plant. On the other hand, *MERALCO* and *SPPC* had a *PSA* covering the sale of electricity from the Ilijan Power Plant to *MERALCO*. In a letter dated September 8, 2015, *SPPC* informed *MERALCO* that due to an ongoing dispute with *PSALM* arising from difference in interpretation of the provisions of the *IPPA* Agreement, *PSALM* terminated the said Agreement. *SPPC* filed a complaint at the *RTC*-Mandaluyong to nullify the termination notice for lack of factual and legal basis. On said date, the executive judge of *RTC*-Mandaluyong issued a 72-hour *TRO*. In an Order dated September 11, 2015, the *RTC*-Mandaluyong extended the *TRO* by an additional 17 days. In an Order dated September 28, 2015, the *RTC*-Mandaluyong granted the prayer for preliminary injunction. *PSALM* has filed *MR*s 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 *MR*s. *PSALM* elevated these orders to the *CA* through a Petition for Certiorari. In a Resolution dated May 25, 2017, the *CA* denied *PSALM*'s prayer for the issuance of a *TRO* and/or writ of preliminary injunction. In a Decision dated December 19, 2017, the *CA* dismissed the Petition and affirmed the Orders of the *RTC*-Mandaluyong. As at February 24, 2020, hearings are ongoing before the new presiding judge.

Ombudsman Cases Against MERALCO Directors

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

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 24, 2020, *MERALCO* is awaiting further action of the Office of the Ombudsman on the matter.

Others

Liabilities for certain local taxes amounting to ₱1,473 million and ₱2,688 million as at December 31, 2019 and 2018, respectively, are included in the "Other noncurrent liabilities" account in the consolidated statements of financial position.

Management and its internal and external counsels believe that the probable resolution of these issues will not materially affect *MERALCO*'s financial position and results of operations.

29. Significant Contracts and Commitments

MERALCO

Independent Power Producers ("IPPs")

FGPC and *FGP*

In compliance with the *DOE*'s program to create a market for Camago-Malampaya gas field and enable its development, *MERALCO* 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 *PPA*s 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 *PPA*s. 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 *PPA*s of *FGP* and *FGPC* were approved by the *ERC* on May 31, 2006.

Under the respective *PPA*s 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 – Financial and other Noncurrent Assets.*

Committed Energy Volume to be Purchased

The following are forecasted purchases/payments to *FGPC*, *FGP* and *QPPL* corresponding to the Minimum Energy Quantity ("*MEQ*") provisions of the contracts. The forecasted fixed payments include capacity charge and fixed operation and maintenance cost escalated using the U.S. and Philippine Consumer Price Index.

Year	MEQ	Equivalent Amount
	(In million kwh)	*(In Millions)*
2020	14,195	₱25,218
2021	14,195	25,733
2022	14,195	26,881
2023	14,195	26,926
2024–2030	33,194	58,624

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 *PSA*s are for a period of seven (7) years, extendable for three (3) years upon agreement of the parties. Thereafter, applications for approval of the *PSA*s were filed with the *ERC*.

MPower likewise signed separate *PSA*s 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 *PSA*s of *MERALCO* with *SPPC*, *Sem-Calaca*, *MPPCL*, *TLI* and *SMEC*.

*MR*s were filed regarding the *ERC* decisions on the *PSA*s with *SPPC*, *Sem-Calaca* and *SMEC*. *MERALCO* is awaiting the decision of the *ERC* on the *SPPC* and *Sem-Calaca MR*s. 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 24, 2020, 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 *PSA*s for an additional period of three (3) years up to December 25, 2022. Thereafter, relevant Manifestations with Motion for Approval of the Supplemental Agreements were filed with the *ERC*. In its order dated September 11, 2019, the *ERC* denied the motion filed by *MERALCO* to extend the *PSA* with *TLI*.

On December 6, 2019, *MERALCO* and *TLI* executed a new short-term *PSA* for the purchase of 250 *MW* capacity and energy from *TLI*'s power plant for the period of December 26, 2019 to December 25, 2020. On December 19, 2019, the *DOE* issued a Certificate of Exemption from *CSP* in favor of *MERALCO* for the new short-term *PSA*. On December 23, 2019, *MERALCO* filed an application with the *ERC* for the approval of its new short-term *PSA* with *TLI*. Hearings have been set for March 5, 18 and 25, 2020.

Under the *PSA*s 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
	(In Megawatt)	*(In millions)*
2020	3,133	₱63,970
2021	2,575	60,390
2022	2,575	61,461
2023	2,575	62,346
2024–2030	11,305	304,101

The *ERC*, for the *MPPCL* case, issued an Order dated October 11, 2016 resolving to consider *MERALCO*'s "Manifestation and Motion" as a new application for approval of *PSA*. In view of the said Order, *MERALCO* and *MPPCL* filed a Joint Application for approval of the supplemental agreement extending the term of their *PSA* for an additional three (3) years. The initial hearing for the case was set on May 25, 2017 and a series of hearings ensued, however, a petition for intervention and opposition was filed by a consumer group, mainly on the ground that the parties, in extending the *PSA*, failed to conduct a *CSP*, thus, omitting a key policy and regulatory requirement of the *DOE* and *ERC* in assuring the least cost of electricity supply procured by *MERALCO* in order to oppose the extension of the *PSA*. As at February 24, 2020, the hearing of the case is suspended, while the parties await the resolution of the *ERC*.

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, beginning 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 the 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*. In its Order dated December 11, 2018, the *ERC* granted the parties interim relief authorizing the implementation of the recovery of the increase in excise tax as a result of the implementation of the *TRAIN* Law, subject to certain conditions. On December 27, 2019, *MERALCO* filed a Manifestation with the *ERC* manifesting that, in view of the billing of *TLI* and its submission of the validation of its third party auditor and *DOE* Certification, the implementation of the additional coal excise tax will be reflected in *MERALCO*'s January 2020 billing to its customers.

Philippine Power and Development Company ("*Philpodeco*")

On May 15, 2014, *MERALCO* and *Philpodeco* executed a *PSA*. *Philpodeco* operates three (3) run-of-river hydro power plants, namely: (i) Palakpakin, a 448 *kW* hydro power plant located at Barangay Prinza, Calauan, Laguna; (ii) Calibato, a 75 *kW* Calibato hydro power plant located at Barangay Sto. Angel, San Pablo City, Laguna; and (iii) Balugbog, a 528 *kW* hydro power plant located at Barangay Palina, Nagcarlan, Laguna. The *PSA* has a term of five (5) years from the delivery period commencement date.

On June 2, 2014, *MERALCO* filed an application with the *ERC* for the approval of its *PSA* with *Philpodeco*. This *PSA* provides that *MERALCO* shall accept all the energy deliveries of *Philpodeco* as measured by the latter's billing meter. Hearings on this case have been completed and *MERALCO* has submitted its *FOE*. On January 25, 2019, *MERALCO* filed an Urgent Motion to Resolve the case. On May 22, 2019, *MERALCO* filed a Manifestation with Motion to Resolve seeking *ERC* confirmation of the extension of the term of the *PSA* with *Philpodeco* from May 15, 2019 to October 25, 2019. On October 24, 2019, *MERALCO* wrote *DOE* asking for exemption form the requirement for *CSP* for a further extension of the term of the *PSA* with *Philpodeco* from October 25, 2019 to May 15, 2020. On the same date, *MERALCO* also filed a Manifestation with Motion to

Resolve seeking *ERC* confirmation of the said extension of term. In its letter to *Philpodeco* dated December 18, 2019, the *DOE* has taken the position that "*xxx [u]nder Section 45(b) of Republic Act No. 9136, ERC is the sole authority mandated to review and approve PSAs.*" As at February 24, 2020, 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 24, 2020, the contract term has expired and *MERALCO* is awaiting the *ERC*'s decision.

SBPL

On May 30, 2014, *MERALCO* signed a long-term *PSA* for a 455 *MW* net capacity and electric output with *SBPL*. *SBPL* began commercial operations on September 26, 2019.

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 with modification for the approval of 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* which expired on December 25, 2019 is extendible for 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 24, 2020, the case is pending decision by the *ERC*.

PSAs with Application for Approval with the ERC

Pangea Green Energy Philippines, Inc. ("*PGEP*")

On May 31, 2012, *MERALCO* signed a *CSE* with *PGEP,* a biomass power plant located in Payatas, Quezon City using methane gas extracted from the Payatas landfill as its fuel. Its plant has a total nominal generating capacity of 1,236 *kW*. The *CSE* is for a period of two (2) years from the delivery period commencement date.

On June 15, 2012, *MERALCO* filed an application for approval of the *CSE*. On August 28, 2012, the *ERC* issued an Order provisionally approving the application. On August 29, 2013, the *ERC* extended the provisional authority in its Order dated August 12, 2013. On March 2, 2015, *MERALCO* and *PGEP* executed a Letter of Agreement extending the *CSE* until February 29, 2016. On March 4, 2015, *MERALCO* filed a Manifestation with Motion with the *ERC* for the approval of the extended term. On September 16, 2015, *MERALCO* received a letter from *PGEP* seeking the termination of the *CSE* effective October 15, 2015. The termination of the *CSE* was thereafter formalized in the Letter Agreement dated October 29, 2015 where the parties agreed to terminate the *CSE* effective October 9, 2015, which was *PGEP*'s Facility Registration Date with the *WESM*. On January 8, 2016, *MERALCO* filed a Manifestation with Motion with the *ERC* seeking approval of the extended term of March 4, 2015 until October 9, 2015. On May 17, 2018 and January 25, 2019, *MERALCO* filed Urgent Motions to Resolve the case. In its Order dated February 18, 2019, the *ERC* directed *MERALCO* to submit certain documents to facilitate its evaluation of the application. On March 29, 2019, *MERALCO* filed its Compliance with Manifestation. As at February 24, 2020, the contract term has expired and any 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 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 24, 2020, the contract term has expired and the decision remains pending with the *ERC*.

Solar Philippines Tarlac Phase 2

On February 22, 2019, after being declared the winning power supplier in a *CSP*, *MERALCO* signed a 20-year *PSA* with *Solar Philippines Tarlac* for the purchase of up to 50 *MW* of electric output from Phase 2 of its solar plant in Tarlac. The application for approval of the *PSA* with *Solar Philippines Tarlac* was filed on March 18, 2019. As at February 24, 2020, the case is pending decision by the *ERC*.

FNPC

Following conduct and completion of a *CSP*, *MERALCO* confirmed effectivity of the *PSA* with *FNPC* dated December 13, 2017, for the purchase of 414 *MW* electric energy generated by the San Gabriel Gas Plant beginning *ERC* approval and ending on February 23, 2024. A joint application for approval of the *PSA* with *FNPC* was filed on March 19, 2018. In an Order dated June 5, 2018, *ERC* granted interim relief to provisionally implement the *PSA*. On June 26, 2018, *MERALCO* and *FNPC* implemented the *PSA* based on the June 5, 2018 Order of the *ERC*. On August 8, 2018, a party filed an intervention to the case. *MERALCO* and *FNPC* filed their Comment/Opposition to said intervention. *FNPC* thereafter filed a Compliance with Motion for Confidential Treatment of Information. Thereafter, the pre-trial conference on the case was concluded. As at February 24, 2020, the parties are awaiting the order of the *ERC* resolving the intervention and *FNPC*'s Compliance with Motion and setting the case for another hearing.

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*.

On May 17, 2019, *MERALCO* received a copy of an *SC* Decision dated May 3, 2019 declaring the first paragraph of *ERC* Resolution No. 13 Series of 2015 and *ERC* Resolution No. 1 of 2016 void. As such, all *PSA* applications submitted by *DU*s to the *ERC* for approval on or after June 30, 2015 are required to undergo *CSP*. Consequently, on June 14, 2019, *MERALCO* and *RP Energy* filed a Joint Urgent Motion to Withdraw the Joint Application. In an Order dated August 13, 2019, the *ERC* granted the parties' Joint Urgent Motion.

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*. The Energy Investment Coordinating Council, through the *DOE*, has granted the *A1E* project a Certificate of Energy Project of National Significance ("*CEPNS*") for commerciality. On May 17, 2019, *MERALCO* received the *SC* Decision that effectively required all *PSA* applications for *ERC* approval filed on or after June 30, 2015 to undergo *CSP*. Consequently, on July 14, 2019, *MERALCO* and *A1E* filed a Joint Urgent Motion to Withdraw the Joint Application. In an Order dated August 13, 2019, the *ERC* granted the parties' Joint Urgent Motion.

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*. On May 17, 2019, *MERALCO* received the *SC* Decision that effectively required all *PSA* applications for *ERC* approval filed on or after June 30, 2015 to undergo *CSP*. On October 4, 2019, *MERALCO* and *St. Raphael* filed a Joint Urgent Motion to Withdraw the Joint Application. As at February 24, 2020, the parties are awaiting *ERC*'s action on the Joint Urgent Motion.

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 the said *ERC* Order. In an Order dated March 20, 2018, *ERC* directed *MERALCO* and *Central 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. On May 17, 2019, *MERALCO* received the *SC* Decision that effectively required all *PSA* applications for *ERC* approval filed on or after June 30, 2015 to undergo *CSP*. Consequently, on August 29, 2019, *MERALCO* and *Central Luzon Power* filed a Joint Urgent Motion to Withdraw the Joint Application. In an Order dated September 11, 2019, the *ERC* granted the parties' Joint Urgent Motion.

Mariveles Power

On April 26, 2016, *MERALCO* signed a 20-year *PSA* with *Mariveles 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 *Mariveles Power* intends to construct, own and operate in Mariveles, Bataan. On April 29, 2016, the Joint Application for approval of said *PSA* was filed with the *ERC*. In its Order dated August 9, 2016, the *ERC* held the processing of the application in abeyance. On September 30, 2016, *Mariveles Power* filed a *MR* of the said *ERC* Order. In an Order dated March 20, 2018, *ERC* directed *MERALCO* and *Mariveles 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. Mariveles Power* filed a pleading explaining status of the *ECC* application. On May 17, 2019, *MERALCO* received the *SC* Decision that effectively required all *PSA* applications for *ERC* approval filed on or after June 30, 2015 to undergo *CSP*. On August 29, 2019, *MERALCO* and *Mariveles Power* filed a Joint Urgent Motion to Withdraw the Joint Application. In an Order dated September 11, 2019, *ERC* granted the parties' Joint Urgent Motion.

PEDC

On April 26, 2016, *MERALCO* signed a 20-year *PSA* with *PEDC* for the purchase of up to 70 *MW* of electric output from the 150 *MW* coal-fired power generating facility that *PEDC* owns and operates in Brgy. Ingore, La Paz, Iloilo. In its letter dated November 23, 2016, the *ERC* informed *MERALCO* that the *ERC* has provisionally approved the *PSA* between *MERALCO* and *PEDC* in its Order dated July 11, 2016. On January 10, 2017, *MERALCO* and *PEDC* filed their Joint Motion to Admit the *FOE* with Joint Urgent Motion for Early Resolution of the Application, seeking to, among other things, already source 70 *MW* from *PEDC* beginning January 28, 2017 in order to temper the anticipated additional burden that the *SPEX*-Malampaya outage may bring to end-users. On March 3, 2017, *PEDC* filed a Motion partially seeking reconsideration of the provisional rate approved under the *PSA*. On October 3, 2017, *PEDC* filed a Supplemental Motion for Reconsideration. On April 30, 2018, *MERALCO* received *PEDC*'s Manifestation and Motion praying that *MERALCO* be authorized by the *ERC* to collect from its customers the difference between the provisional rate approved by the *ERC* and the rates originally applied for under the *PSA*. As at February 24, 2020, further *ERC* 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 *MR*s, 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. 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 granting 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 24, 2020, the case is awaiting further action from the *CA*.

In the meantime, on May 17, 2019, *MERALCO* received the *SC* Decision that effectively required all *PSA* applications for *ERC* approval filed on or after June 30, 2015 to undergo *CSP*. Consequently, on October 8, 2019, *MERALCO* filed a Manifestation that it has requested *DOE* for exemption from *CSP* for a *PSA* with *PEDC* for an additional period up to one (1) year and preparations for the implemented term of their *PSA* (i.e., not covered by *CSP* exemption) is already underway. On January 15, 2020, the *DOE* issued a *CSP* exemption for a period of one (1) year from August 26, 2019 to August 25, 2020.

Global Luzon Energy Development Corporation ("*GLEDC*")

On April 27, 2016, *MERALCO* signed a 20-year *PSA* with *GLEDC* for the purchase of 600 *MW* of electric output from the 2 x 335 *MW* coal-fired power generating facility that *GLEDC* intends to construct, own, operate, manage and maintain in Luna, La Union. On April 29, 2016, the Joint Application for approval of said *PSA* was filed with the *ERC*. In its Order dated August 9, 2016, the *ERC* held the processing of the application in abeyance. On October 21, 2016, *MERALCO* received *GLEDC*'s *MR* of the said Order. On March 6, 2018, *GLEDC* filed a Manifestation updating the *ERC* of the status of its *ECC* Application. In an Order dated March 20, 2018, *ERC* directed *MERALCO* and *GLEDC* 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*. *GLEDC* initially filed a pleading explaining status of the *ECC* application. *GLEDC* thereafter filed a Compliance with the *ERC* submitting the *ECC* granted by the *DENR* and moved that the August 9, 2016 Order of the *ERC* be lifted so that the case can proceed. On June 14, 2019, *MERALCO* and *GLEDC* filed a Joint Motion to Withdraw the Joint Application. In an Order dated August 13, 2019, the *ERC* granted the parties' Joint Motion.

First Bulacan

On September 16, 2016, *MERALCO* signed a 20-year *PSA* with *First Bulacan* for the purchase of 50 *MW* of electric output from its solar plant in San Miguel, Bulacan. On February 23, 2017, after conduct of a *CSP* wherein *First Bulacan* was declared as the winning power supplier, the application for approval of the *PSA* with *First Bulacan* was filed. Hearings have been completed and *MERALCO* filed its *FOE* on July 12, 2017.

In a Decision dated June 20, 2019, the *ERC* approved the *PSA* between *MERALCO* and *First Bulacan* subject to certain conditions. The applicable rate shall be ₱4.69 per *kWh*, subject to 2% annual escalation, excluding the franchise and benefits to host communities charge.

Solar Philippines Tanauan Corporation ("*Solar Philippines Tanauan*")

On September 16, 2016, *MERALCO* signed a 20-year *PSA* with *Solar Philippines Tanauan* for the purchase of 50 *MW* of electric output from its solar plant in Tanauan, Batangas. On February 27, 2017, after conduct of a *CSP* wherein *Solar Philippines Tanauan* was declared as the winning power supplier, the application for approval of the *PSA* with *Solar Philippines Tanauan* was filed. Hearings have been completed and *MERALCO* filed its *FOE* on July 12, 2017. In a letter dated December 29, 2017, the *ERC* informed *MERALCO* and *Solar Philippines Tanauan* that the *ERC* 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*.

Solar Philippines Tarlac Phase 1

On October 6, 2017, after being declared the winner power supplier in a *CSP*, *MERALCO* signed a 20-year *PSA* with *Solar Philippines Tarlac* for the purchase of up to 85 *MW* of electric output from Phase one (1) of its solar plant in Tarlac. The application for approval of the *PSA* with *Solar Philippines Tarlac* was filed on October 19, 2017. Hearings have been completed and parties await *ERC* resolution on *Solar Philippines Tarlac*'s opposition to a consumer group's intervention, which shall prompt submission of case for final decision. Meanwhile, in an Order dated November 28, 2017, the *ERC* granted Interim Relief to provisionally implement the *PSA*. On July 3, 2018, *Solar Philippines Tarlac* filed a Motion for Partial Reconsideration of the said Order. *MERALCO* and *Solar Philippines Tarlac* have agreed on a way forward, subject to resolution of the Motion for Partial Reconsideration. On July 13, 2018, *MERALCO* filed its *Comment with Opposition* in so far as the adjustment of the timelines under the *PSA* is concerned. On November 26, 2018, a consumer group filed its *Comment with Opposition,* likewise with respect to *Solar Philippines Tarlac's* motion for the adjustment of the timelines under the *PSA.* In its Order dated January 23, 2019, the *ERC* partially granted the Motion for Partial Reconsideration filed by *Solar Philippines Tarlac* and allowed the 2% annual escalation under the *PSA*. On June 25, 2019, the *ERC* promulgated its Order leaving the adjustment of the timelines set under the *PSA* to the discretion of *MERALCO* and *Solar Philippines Tarlac.* As at February 24, 2020, the parties are awaiting *ERC*'s final decision on the Joint Application.

Interim Power Supply Agreements ("IPSAs")

On January 24, 2017, in view of the Malampaya shutdown that was to coincide with the scheduled outage of other plants, *MERALCO* signed an *IPSA* with Strategic Power Development Corporation ("*SPDC*") for the supply of 100 *MW* per hour of electric power from 0901H to 1000H and from 2001H to 2100H, and 150 *MW* per hour of electric power from 1001H to 2000H, from January 28, 2017 until February 16, 2017. An application for approval of such *IPSA* was filed before the *ERC* on February 9, 2017. The said *IPSA* was effective immediately, on the condition that disallowances and penalties that the *ERC* may impose as a result thereof shall be for the account of *SPDC. MERALCO* and *SPDC*, in a letter agreement dated February 15, 2017, agreed to extend the term of the *IPSA* until March 25, 2017 under the same terms and conditions of the *IPSA*. On February 16, 2017, *MERALCO* and *SPDC* filed a Joint Manifestation with Motion with the *ERC* apprising the Honorable Commission of the extended term and praying that the same be duly considered and approved accordingly. The hearings on this case have been completed and *MERALCO* filed its *FOE* on July 21, 2017. As at February 24, 2020, the contract term has expired and *MERALCO* awaits the *ERC*'s final decision on the *IPSA.*

On April 15, 2019, in view of the *NGCP* forecast that low voltage situations will occur for the weekdays of May up to the first half of June 2019 every time the Luzon peak demand exceeds 11,200 *MW*, *MERALCO* signed two (2) separate *IPSA*s with: (i)*MEI* for the purchase of 70 *MW* of electric power, subject to a net dependable capacity test, from April 26, 2019 to June 25, 2019, from *MEI*'s Millennium Gas Turbine Power Plant in Navotas Fishport Complex, Navotas City; and (ii) *TMO* for the purchase of up to 200,000 *kW* contract capacity and associated energy, subject to restatement based on the results of capacity test, from April 26, 2019 to April 25, 2020, from *TMO*'s 242 *MW*-installed capacity, barge-mounted, bunker-fired diesel power generating and interconnection facilities in Navotas City. For the said *IPSA*s, *MERALCO* also received the *DOE*'s grant of exemption from the requirement for *CSP*. The applications for approval of said *IPSA*s were filed before the *ERC* on April 17, 2019. In accordance with the said *IPSA*s, with the filing of the joint applications and *DOE*'s exemption, the mutual obligations to sell and purchase power under said agreements were implemented beginning April 26, 2019. On July 1, 2019, *MERALCO* filed its Compliance with Formal Offer of Evidence on the *TMO IPSA* Joint Application. Thereafter, on July 3, 2019, *MERALCO* received petitions for intervention in both cases. On July 15, 2019, *MERALCO* filed an Opposition to the petition for intervention filed in the *TMO IPSA* Joint Application considering that the same was already filed out of time. On the other hand, in light of the declarations of yellow and red alerts in the *Luzon* Grid by *NGCP, MERALCO* and *MEI*, in a Letter Agreement dated June 20, 2019, agreed to extend their *IPSA* until September 25, 2019. *MERALCO* also received the *DOE*'s grant of exemption from the requirement for *CSP* for said period. Further, given continuing declarations of yellow and red alerts in the Luzon grid by *NGCP*, *MERALCO* and *MEI*, in a Letter Agreement dated September 23, 2019, agreed to further extend their *IPSA* until April 25, 2020. *MERALCO* also wrote *DOE* on September 25, 2019 to request for exemption from the requirement for *CSP* for said period. In a Letter Agreement dated January 28, 2020, *MERALCO* and *MEI* agreed on another extension of their *IPSA* from April 26, 2020 to June 25, 2020 in view of *DOE*'s forecast, presented to *MERALCO* in a meeting with the *DOE* on January 16, 2020, which showed red alert situation in the Luzon grid for the period from April to June 2020. *MERALCO* wrote *DOE* on January 29, 2020 to request for exemption from the requirement for *CSP* for said period. As at February 24, 2020, the parties are awaiting further action from the *ERC* on the Joint Applications.

Clark Electric

SMEC

On March 20, 2013, *Clark Electric* and *SMEC*, as the *IPP* Administrator of the Sual coal-fired thermal power plant, entered into a *PSA* through December 25, 2019, unless terminated earlier in accordance with the terms of the Agreement. The initial contracted capacity from the plant was pegged at 55,000 *kWh* which may be increased up to 70,000 *kWh*.

On July 09, 2015, *Clark Electric* and *SMEC* filed a joint application for the amendment of the *PSA,* which prayed that *Clark Electric* be allowed to get additional supply from *SMEC* as replacement power during scheduled maintenance shutdown of the Sual Power Plant Unit 1at rate lower than that of the *WESM* rate. Although a decision has yet to be granted by *ERC* with respect to the said application, it has, nonetheless, granted *Clark Electric*'s application for Interim Power Supply Agreements for the replacement power during the outage of Sual 1 in 2016 and in 2017 through the *ERC* orders dated September 20, 2016 and September 13, 2017, respectively.

With the effectivity of *RCOA*, the various contestable customers shifted their power supply sourcing from *Clark Electric* to their respective *RES*. In line with the switching, *Clark Electric* and *SMEC* agreed to gradually lower the *PSA* contracted capacity by an aggregate of 40 *MW* in 2017 to manage the electric retail rates of its captive customers.

On October 10, 2019, *Clark Electric* and *SMEC* jointly filed an Extremely Urgent Motion for the Confirmation of the *PSA* Extension in which the *ERC* resolved to grant an interim relief to extend the implementation of the *PSA* from December 26, 2019 to December 25, 2020.

SPDC

On February 20, 2017, *Clark Electric* executed an agreement for the power supply with *SPDC*, the *IPP* Administrator of the 345 *MW* San Roque Hydroelectric Power Plant in Barangay San Roque, San Miguel, Pangasinan. *Clark Electric* and *SPDC* agreed that the latter shall supply a total of 25 *MW*, consisting of 20 *MW* (firm) and 5 *MW* (non-firm) capacities during Mondays to Saturdays, excluding national holidays from trading intervals 0901H to 2100H. This *PSA* was entered into by *Clark Electric* 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 *Clark Electric* and *SPDC* on May 19, 2017 for *ERC* approval. On May 29, 2019 and May 30, 2019, respectively, *Clark Electric* and *SPDC* received the Honorable Commission's Order dated December 19, 2019, which granted interim relief to implement the *PSA*. In view of this, the parties immediately implemented the *PSA* beginning July 2019 billing period.

On December 10, 2019, *Clark Electric* and *SPDC* filed an Extremely Urgent Motion for the Confirmation of the *PSA* Extension praying for the confirmation of the extension of the *PSA* effective December 26, 2019 to December 25, 2020. Thus, on December 19, 2019, the *ERC* issued an order which granted an interim relief to implement the said extension.

TransCo/NGCP

Clark Electric entered into a Transmission Service Agreement 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. *Clark Electric* executed a Transmission Service Agreement on December 26, 2013 with *NGCP* for the provision of necessary transmission services in accordance with the *OATS* rules for five (5) years until December 25, 2018. This was renewed for another five years until December 25, 2023.

Interconnection Agreement with Alternergy Wind One Philippine Holdings Corporation ("*Alternergy*")

On March 1, 2012, *MERALCO* signed an Interconnection Agreement with *Alternergy*, an embedded generator, 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. Under the agreement, *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* formalized 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*, an embedded generator, 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. 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*, an embedded generator, 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* 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*, an embedded generator, 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* 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.

Cagbalete Island Microgrid Electrification Expansion Capital Expenditure Project ("*Cagbalete Microgrid Project*")

On May 31, 2019, *MERALCO* filed an application dated May 29, 2019 to implement the proposed *Cagbalete Microgrid Project*. The *Cagbalete Microgrid Project* with an estimated cost of ₱219 million, will utilize a scaled-up hybrid generation system by similarly using solar photovoltaic ("*PV*") panels, diesel generators and lithium-ion battery storage as main components.

MERALCO inaugurated the first phase of its power microgrid in Cagbalete Island, Quezon Province as part of its continuing initiative of rural energization using sustainable energy. The microgrid is a hybrid generating plant that features a 60 *kW PV* system, 150 *kWh* battery energy storage system and two (2) units of 30 *kW* diesel generators, which shall provide 24 x 7 power to the residents of the island.

Lease Agreement with CDC

On June 23, 2004, *Clark Electric* entered into a lease agreement with *CDC* for the lease of land and structures for the period of 18 years beginning July 2005, renewable for 25 years upon mutual agreement of both parties.

Beginning July 2004, as stated in the lease agreement, *CDC* charges guarantee fees equivalent to ₱0.05 per *kWh* sold for the first eight (8) years, ₱0.075 per *kWh* for the next four (4) years, and ₱0.12 per *kWh* for the succeeding six (6) years.

IMC with PELCO II

On February 12, 2014, *Comstech* entered into an *IMC* with *PELCO II* for a period of 20 years. *PELCO II* is an electric cooperative with franchise to distribute electric power in certain municipalities of Pampanga.

Pursuant to the *IMC*, *Comstech* shall render technical and management services for the operation, maintenance and management and improvement of *PELCO II*'s electric distribution. As consideration for its technical, consultancy and management services, *Comstech* is entitled to a performance-based remuneration and management fee based on a certain percentage of the operating revenues of *PELCO II*.

TSA between PDS Ghana and MPV Limited

On March 1, 2019, *PDS Ghana* and *MPV Limited* entered into a *TSA* to provide expertise and credentials in the technical, commercial, and regulatory areas of the distribution utility operations.

In October 2019, *ECG* issued a notice to terminate the concession agreement for the operation and maintenance of its assets principally due to alleged material breaches in the provision of the Demand Guarantees by *PDS Ghana*. Consequently, the *TSA* between *MPV Limited* and *PDS Ghana* was also terminated.

Agreement and Registration with PEZA

MERALCO has a concession agreement with *PEZA* for 25 years, whereby *MERALCO* has been contracted to operate the distribution system of *CEZ* beginning May 26, 2014.

MERALCO has a tripartite agreement with *PEZA* and *AC Energy* for the sale of power to *CEZ* and its locators. Said tripartite agreement was extended until December 25, 2019.

On December 29, 2014, *MERALCO* secured its Certificate of Registration No.10-01-U from *PEZA*, which confirms *MERALCO* as an Ecozone Utilities Enterprise at the *CEZ*.

Joint Venture Agreement with New Clark City

On April 3, 2019, a Consortium between *MERALCO*, Marubeni Corporation, The Kansai Electric Power Co., Inc. and Chubu Electric Power Co., Inc. signed a Joint Venture Agreement with the Bases Conversion and Development Authority ("*BCDA*") for the construction, operation and maintenance of the electric distribution system in New Clark City.

MERALCO completed the construction of Phase 1A of the Interim Electrical Distribution facilities, which consists of (i) a 33 *MVA*, 69 *kV*-13.8 *kV* interim substation; (ii) 2.2 kilometers of 13.8 *kV* overhead lines; and (iii) 1.5 kilometers of 13.8 *kV* underground line. In addition, the *BCDA* constructed a 69 *kV* sub-transmission line connection to Tarlac Electric Cooperative II ("*TARELCO II*").

30. Earnings Per Share Attributable to Equity Holders of the Parent

Basic and diluted earnings per share are calculated as follows:

	2019	2018	2017
		(Amounts in millions)	
Net income attributable to equity holders of the Parent (a)	**₱23,285**	₱23,017	₱20,384
Weighted average common shares outstanding (b)	**1,127**	1,127	1,127
Per Share Amounts:			
Basic and diluted earnings per share (a/b)	**₱20.66**	₱20.42	₱18.09

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 2019, 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

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 *DU*s 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 a Department Circular "Providing Policies to Facilitate the Full Implementation of *RCOA* in the Philippine Electric Power Industry". The Circular essentially provided for mandatory contestability.

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

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

1. Provided for mandatory contestability. Failure of a contestable customer to switch to *RES* upon date of mandatory contestability (December 26, 2016 for those with average demand of at least one (1) *MW* and June 26, 2017 for at least 750 *MW*) shall result in the physical disconnection from the *DU* system unless it is served by the supplier of last resort ("*SOLR*"), or, if applicable, procures power from the *WESM*;
2. Prohibits *DU*s from engaging in the supply of electricity to the contestable market except in its capacity as a *SOLR*;
3. Mandates Local *RES*s to wind down their supply businesses within a period of three (3) years;
4. Imposes upon all *RES*s, including *DU*-affiliate *RES*s, 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 *RES*s 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 *DU*s. 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 24, 2020, 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 24, 2020, 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 *DU*s which are under the legislatively-authorized regulatory jurisdiction of the *ERC*. The *Guidelines* are the subject of an injunction case filed by the *DU*s 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 *STA*s. The Motion was heard by the *ERC* on October 17, 2014. After the parties have submitted their respective comments and pleadings, the *ERC* conducted another hearing on February 23, 2015.

In an Order dated March 4, 2015, the *ERC* considered but denied the new and substantive allegations in *MERALCO*'s Motion to Reopen Proceedings. *MERALCO* then filed a Petition for Review with the *CA* to question the Orders of the *ERC*. In a Decision dated August 12, 2016, the *CA* dismissed the Petition. On September 17, 2016, *MERALCO* filed a *MR*. In an Amended Decision dated September 15, 2017, the *CA* granted *MERALCO*'s *MR* and approved the sale of the Dasmarinas-Abubot-Rosario 115 *kV* line and Rosario substation equipment in favor of *MERALCO*. *NGCP* filed a *MR* (of the Amended Decision) dated October 4, 2017. In a Resolution dated May 31, 2018, the *CA* denied the *MR*. *NGCP* filed a Petition for Review with the *SC*.

On March 20, 2015, *MERALCO* filed a case for "Interpleader with Consignation and Specific Performance" against *TransCo* and the Municipality of Labrador, Pangasinan ("*Labrador*") with the *RTC*-Pasig, praying for the *RTC*-Pasig to (i) accept and approved the consignation of the amount of ₱194.1 million; (ii) declare *MERALCO* to have paid in full the purchase price of the sale of *TransCo*'s assets; (iii) direct *TransCo* to execute the corresponding Deeds of Absolute Sale; and (iv) direct *Labrador* and *TransCo* to interplead their respective claims. On April 14 and 20, 2015, *Labrador* and *TransCo* filed their respective Motions to Dismiss on the ground of impropriety of the filing of the Interpleader and on the ground of *litis pendentia*. *MERALCO* received an Order from *RTC*-Pasig granting the Motions to Dismiss of both *TransCo* and *Labrador*. *MERALCO* filed a *MR* which 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 24, 2020, *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 a renewable energy policy that offers guaranteed payments on a fixed rate per *kWh* for electricity from wind, solar, ocean, hydropower and biomass energy sources, excluding any generation for own use.

To fund the *FiT* payments to eligible *RE* developers, a *FiT-All* charge shall be imposed on all end-users. The *FiT-All* will be established by the *ERC* upon petition by *TransCo*, which had been designated as the *FiT* Fund Administrator.

On February 5, 2014, the *ERC* released the *FiT-All* disbursement and Collection Guidelines ("*FiT Guidelines*") to supplement the *FiT* Rules. This set of guidelines will govern how the *FiT-All* will be calculated using the formulae provided. It will also outline the process of billing and collecting the *FiT-All* from the electricity consumers, the remittance to a specified fund, the disbursement from the *FiT-All* fund and the payment to eligible *RE* developers.

Starting 2014, *TransCo* applied for the following *FiT-All* rates with the *ERC*, and *ERC* rendered a Decision approving the following:

Year	Applied Rate per *kWh*	Approved Rate per *kWh*	Date Approved
2014–2015	₱0.0406	₱0.0406	December 10, 2015
2016	0.1025	0.1830	May 9, 2017
2017	0.2291	0.2563	February 27, 2018
2018	0.2932	0.2226	March 12, 2019
2019	0.2780	0.0495	October 28, 2019
2020	0.2278	–	Pending *ERC* Decision

On December 23, 2014, *MERALCO* received a copy of a Petition for Prohibition and Certiorari filed with the *SC* against the *ERC, DOE, TransCo*, *NREB* and *MERALCO*. The Petition seeks (i) the issuance of a *TRO* and/or *WPI*, and after giving due course to the Petition, a Writ of Prohibition to enjoin the respondents from implementing the *FiT-All*, the *FiT* Rules and *FiT* Guidelines; and (ii) the annulment of the *FiT* Rules and *FiT* Guidelines. The parties have been directed to submit their respective memoranda.

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 24, 2020, the *MR* is pending further action of the *ERC*.

On September 29, 2016, Alternergy Wind One Corporation, Petrowind Energy, Inc. and Trans-Asia Renewable Energy Corporation filed a Petition to Initiate Rule-Making to adjust the Wind *FIT* rate of ₱7.40 per *kWh* to ₱7.93 per *kWh*. *MERALCO* filed an intervention in the case. The hearing on the Petition was set on January 6, 2017. *MERALCO*'s motion on the propriety of the petition has been submitted for the resolution of the *ERC*.

Recovery of National Power Corporation's ("NPC") Stranded Contract Costs

In an Order dated May 22, 2018, the *ERC* approved *PSALM*'s petition for the recovery of *NPC*'s stranded contract costs portion of the universal charge ("*UC-SCC*"). Accordingly, *PSALM* is hereby authorized to recover the stranded contract costs for Luzon, Visayas and Mindanao grids totaling ₱8,547 million with a monthly rate of ₱0.1938 per *kWh* starting May 2018 billing period until the full amount has been recovered.

On January 14, 2019, *MERALCO* received a letter dated December 28, 2018 from *PSALM* advising *MERALCO* to cease the implementation of the collection of the ₱0.1938 per *kWh* for the recovery of the additional *SCC* effective January 2019 as it already recovered the full amount of the stranded contract costs. This was after *MERALCO* had already completed the billing program for January 2019. Accordingly, on February 6, 2019, *MERALCO* wrote *ERC* proposing to reverse the said collections of the additional *UC-SCC*. On February 7, 2019, *MERALCO* received a letter from the *ERC* which allowed the full reversal of the subject *UC-SCC* in its February billing equivalent to ₱0.3876 per *kWh*, without prejudice to further validation by the *ERC* as to the final amounts due.

In a Decision dated April 10, 2019, the *ERC* approved with modification *PSALM*'s petition for the availment of the *NPC*'s stranded contract costs portion of the universal charge for calendar year 2014. *PSALM* is hereby authorized to recover the *UC-SCC* for Luzon, Visayas and Mindanao grids totaling ₱5,117 million with a monthly rate of ₱0.0543 per *kWh* within a period of 12 months.

Net Metering Program

The *RE* Act mandates the *DU*s 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 *DU*s.

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 *DU*s' implementation of the Net Metering Program. Included in the Rules are the interconnection standards that shall provide technical guidance to address engineering, electric system reliability, and safety concerns for net metering interconnections. However, the final pricing methodology to determine the rate at which energy exported back to the distribution system by Net Metering Program participants will be addressed in another set of rules by the *ERC* in due course. In the meantime, the *DU*s' 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, 2019, *MERALCO* has already installed 2,706 meters and energized 2,505 net metering customers.

Interruptible Load Program ("ILP")

In an *ERC* Order dated April 11, 2014, the *ERC* approved with modification *MERALCO*'s request that it be allowed to adopt and implement the *ILP*. *ILP* protocols, compensation and recovery mechanism are governed by *ERC* Resolution No. 5, Series of 2015 "A Resolution Adopting the Amended Rules to Govern the Interruptible Load Program", *DOE* Circular No. DC2015-06-0003 "Providing the Interim Manner for Declaring Bilateral Contract Quantities in the Wholesale Electricity Spot Market and Directing the Philippine Electricity Market Corporation to Establish Necessary Protocols to Complement the Interruptible Load Program" and *ERC* Resolution No. 3, Series of 2019 "A Resolution Clarifying Section 3, Article III of the Amended Interruptible Load Program Rules".

As at December 31, 2019, there are 138 companies with a total committed de-loading capacity of 542.90 *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 24, 2020, the *ERC* has yet to resolve *MERALCO*'s Motion for Partial Reconsideration.

On February 24, 2020, *MERALCO* filed an application, with prayer for provisional authority, for continuing authority to (a) issue bonds or other evidence of indebtedness; and (b) whenever necessary, to mortgage, pledge or encumber any of its property to any creditor in connection with its authority to issue bonds or any other evidence of long-term indebtedness. *MERALCO* is awaiting the further action of the *ERC*.

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, 2019, there are 101,941 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 *DU*s 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" ("*2015 DOE Circular*"), prescribing *DU*s to procure all its uncontracted demand through *CSP*, through the participation of a third party and which may be done by *DU*s on an aggregated basis. The *2015 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 *DU*s are required to undergo *CSP*. Pending the *ERC*'s issuance of a prescribed process, *DU*s 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 *PSA*s 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 on 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 *PSA*s with provisions allowing the automatic renewal or extension of their term, *PSA*s 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 *PSA*s 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 *PCC* 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 the meantime, on February 9, 2018, the *DOE* published a *DOE* Circular entitled, "Adopting and Prescribing the Policy for the Competitive Selection Process in the Procurement by Distribution Utilities of Power Supply Agreements for the Captive Market" ("*2018 DOE Circular*"). Upon effectivity of the Circular, all prospective *PSA*s in grid and off-grid areas shall be procured through *CSP*. The *CSP* under the *2018 DOE Circular* involves publication of invitation to bid, pre-bid conference, bid evaluation, and pre-/post-qualification of winning bidder. Exemption from *CSP* may be granted by the *DOE* in the following instances:

i. Generation project owned by the *DU* funded by grant or donations
ii. Negotiated procurement of emergency supply
iii. 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.*

*PSA*s 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*"). The *DU*'s *TPBAC* shall be composed of the following [a] one (1) *DU* officer or employee knowledgeable in the technical operations of the *DU;* [b] one (1) *DU* officer or employee with knowledge and/or experience with any local or international competitive bidding procedures; [c] one (1) lawyer; [d] one (1) finance officer or accountant that has knowledge on electricity pricing; and [e] one (1) technical person, or a person with knowledge and/or experience with any local or international competitive bidding procedures. Any two of the last three (3) members shall be captive customer representatives. The selection process of the representatives of the captive customers to the *DU*'s *TPBAC* shall be submitted to the *DOE* for approval. The *DOE* has already approved the selection process of *MERALCO*'s *TPBAC* captive customer representatives.

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 *DU*s after at least two (2) failed *CSP*s 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 *2018 DOE 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 *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. On March 14, 2019, the *ERC* posted on its website the third draft of the said Rules. The *ERC* received comments thereon. As at February 24, 2020, *MERALCO* is awaiting the rules and procedures to be promulgated by the *ERC*.

On May 17, 2019, *MERALCO* received a copy of the *SC*'s Decision dated May 3, 2019 in the *SC* case. The Decision declared the first paragraph of Section 4 of *ERC* Resolution No. 13, Series of 2015 (*CSP* Guidelines), and *ERC* Resolution No. 1, Series of 2016 (*ERC* Clarificatory Resolution), as void. As such, all *PSA* applications submitted by *DU*s to the *ERC* on or after June 30, 2015 shall comply with the Competitive Selection Process and the purchased power cost resulting from such compliance shall retroact to the date of effectivity of the complying *PSA*, but in no case earlier than June 30, 2015, for purposes of passing on the purchased power cost to consumers. The Decision highlighted that the *ERC* does not have statutory authority to postpone effectivity date of *CSP*, and thereby cannot amend the 2015 *DOE* Circular. Consequently, the 90 *PSA*s submitted to the *ERC* after effectivity of *CSP* on or after June 30, 2015 cannot serve as basis to pass on purchased power cost to consumers; and the *ERC* must require *CSP* for all *PSA* applications submitted on or after June 30, 2015. Moreover, the Decision pronounced that, by virtue of *DOE*'s issuance of the *2018 DOE Circular* in February 2018, which contained the *DOE*'s guidelines on the implementation of *CSP*, the *DOE* revoked the authority it delegated to *ERC* to issue supplemental guidelines to implement *CSP*.

In compliance with the *SC* Decision, *MERALCO* constituted its *TPBAC* to conduct *CSP* in accordance with the *2018 DOE Circular* and its submitted Power Supply Procurement Plan for 2019. Three (3) Invitations to Bid inviting interested and qualified parties to participate in *MERALCO*'s *CSP* for 3 sets of *PSA*s involving (i) 1,200 *MW* baseload capacity by December 26, 2019, (ii) 500 *MW* mid-merit capacity by December 26, 2019, and (iii) 1,200 *MW* baseload capacity from greenfield power plant by 2024, were published on July 12, 15, and 16, 2019, respectively. On September 13, 2019, *MERALCO* signed 3 *PSA*s for baseload capacity with *AC Energy* for 200 *MW*, *SMEC* for 330 *MW*, and *SPPC* for 670 *MW*. On September 16, 2019, *MERALCO* signed 3 *PSA*s for mid-merit capacity with First Gen Hydro Power Corporation ("*First Gen Hydro*") for 100 *MW*, *AC Energy* for 110 *MW*, and *SPPC* for 290 *MW*. On October 22, 2019, the joint applications for approval of these 6 *PSA*s were filed before the *ERC*. Certain consumer groups intervened in the joint applications. In its letters to *MERALCO,* all dated December 23, 2019, the *ERC* granted provisional authority to implement *MERALCO*'s 3 *PSA*s for baseload capacity with *AC Energy, SPPC and SMEC*. On January 16, 2020, *SPPC* and *SMEC* filed Urgent Ex-Parte Motions for Clarification with the *ERC*. On January 30, 2020, *MERALCO* received the orders of the *ERC* granting provisional authority to implement *MERALCO*'s 2 *PSA*s for baseload and mid-merit capacity with *AC Energy*. On February 3, 2020, *AC Energy* wrote letters to *ERC* requesting for the urgent re-evaluation and reconsideration of the provisional authority rate for its *PSA*s with baseload and mid-merit capacity with *MERALCO*. As at February 24, 2020, the six (6) *PSA* applications are submitted for resolution 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 they were covered or not during the relevant test periods. As at February 24, 2020, the *ERC* has yet to act on the Motion.

32. **Notes to Consolidated Statements of Cash Flows**

	2019			2018		
	Interest-bearing long-term financial liabilities	Notes payable	Dividends payable	Interest-bearing long-term financial liabilities	Notes payable	Dividends payable
	(Amounts in millions)					
Beginning balance	**₱26,588**	**₱13,428**	**₱1,247**	₱26,670	₱13,586	₱938
Payments	**(8,712)**	**(283)**	**(18,008)**	(424)	(2,419)	(14,557)
Availments	**28**	**10,179**	**–**	350	2,229	–
Dividend declarations	**–**	**–**	**18,099**	–	–	15,075
Preferred stock redemption	**(8)**	**–**	**–**	(9)	–	–
Reclassifications	**(69)**	**69**	**–**	(32)	32	–
Interest accretion	**27**	**–**	**–**	26	–	–
Others	**6**	**–**	**(301)**	7	–	(209)
Ending balance	**₱17,860**	**₱23,393**	**₱1,037**	₱26,588	₱13,428	₱1,247

33. **Event After the Financial Reporting Date**

On February 24, 2020, the *BOD* of *MERALCO* approved the declaration of cash dividends of ₱10.395 a share to all shareholders of record as at March 20, 2020, payable on April 15, 2020.

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.

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.

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 EFFICIENCY AND CONSERVATION ACT or Republic Act No. 11285 which took effect on May 24, 2019, is a comprehensive energy efficiency and conservation policy that mandates the efficient and judicious use of energy resources and promote the development and utilization of both new and alternative sources of energy efficient technologies and systems.

ENERGY REGULATORY COMMISSION (ERC) is the independent, quasi-judicial regulatory body that was created pursuant to Section 38 of the EPIRA.

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.

HIGH EFFICIENCY, LOW EMISSIONS (HELE) technology are commercially available systems for fossil fuel fired power plants that reduces their greenhouse gas emissions by improving a power plant's efficiency. Improving efficiency increases the amount of energy that can be extracted from a single unit of fossil fuel resulting to less greenhouse gas emissions. HELE power plants have significantly reduced emissions of carbon dioxide (CO_2), nitrogen oxides (NO_x), sulphur dioxide (SO_2), and particulate matter (PM).

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 equalto 1,000 watthours.

LOAD is the entity or electrical equipment that consumes or draws electrical energy.

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.

MEGAWATT (MW) is the unit of electric power equal to 1,000,000 watts.

MEGA-VOLT AMPERE (MVA) is the practical unit of apparent power, equivalent to 1,000,000 volt-amperes

POWER is the average of the instantaneous power over one period of the electrical wave, measured in watts or multiples thereof.

RETAIL COMPETITION AND OPEN ACCESS (RCOA) was established with the promulgation of the Electric Power Industry Reform Act (EPIRA) or Republic Act No. 9136 in 2001. Retail Competition is the provision of electricity to End-users in the Contestable Market by Local and Retail Electricity Suppliers through Open Access, which is 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. Commercial operations of RCOA started on June 26 2013. This allows contestable customers (CCs) under the initial phase (average monthly peak demand of 1MW and above) to switch to their chosen Retail Electricity Supplier (RES) or Local RES on a voluntary basis. Presently, the RCOA allows contestable customers in the Luzon and Visayas grids.

SMART GRID refers to a modernized electrical grid that utilized innovative technologies with two-way and/or multi-way communication technologies, real time monitoring and control systems to; Improve overall reliability, power quality, security, efficiency and management of the electricity grid with full cybersecurity and interoperability; Allow suitable integration of bulk and flexible generation, distributed energy resources, micro-grids, and electric vehicles with management systems and; Empower customers with the provisions of timely information and control options through enhanced energy management systems.

SUSTAINABLE DEVELOPMENT GOALS (SDGs) are a collection of 17 global goals designed to be a "blueprint to achieve a better and more sustainable future for all" developed by the United Nations.

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.

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 DUís 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-å-vis imported fuels.

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.

ISO Certification

Certification of Environmental Management Systems		
Certified Entities	**Certification Standard**	**Date of Certification**
• 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	June 10, 2019

Certification of Occupational Health and Safety Management Systems		
Certified Entities	**Certification Standard**	**Date of Certification**
• 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	June 10, 2019

Certification of Quality Management Systems		
Certified Entities	**Certification Standard**	**Date of Certification**
• Supply Chain Management • Procurement • Materials Management • Strategic Sourcing and Vendor Management • Supply Chain Process & Standards	ISO 9001: 2015 Quality Management Systems	June 28, 2018

Accreditation of Calibration and Testing Laboratories		
Certified Entities	**Certification Standard**	**Date of Certification**
• Meter Testing Laboratory	ISO/ IEC 17025: 2017 General Requirements for the Competence of Testing and Calibration Laboratories	July 8, 2019

Investor Information

TRANSFER AGENT

RCBC Stock Transfer, G/F Grepalife Building
221 Sen. Gil Puyat Avenue corner Pasong Tamo St., Makati City
Telephone numbers: +632 8894 9000 local 3692 or 3694
Email: abmadrid@rcbc.com, joscruz@rcbc.com, drlaxamana@rcbc.com, jsbonoan@rcbc.com

CORPORATE COMPLIANCE OFFICE (formely Stockholder Affairs)

G/F Lopez Building, Ortigas Avenue Brgy. Ugong, Pasig City, 1605 Philippines
Telephone numbers: +632 8632 8884, +632 8632 8883, +632 8632 8765, +632 8632 8616, +632 1622 2183, +632 1622 2731
Fax No.: +632 8632 8885
Email: corporate.compliance@meralco.com.ph

INVESTOR RELATIONS OFFICE

6/F Lopez Building, Ortigas Avenue, Brgy. Ugong, Pasig City, 1605 Philippines
Telephone Number: +632 8632 2950
Email: investor.relations@meralco.com.ph

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.

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Corporate Information

CORPORATE OFFICE

Lopez Building, Ortigas Avenue, Brgy. Ugong,
Pasig City, 1605 Philippines
Telephone numbers: +632 8631 2222, +632 16220

The Meralco and One Meralco Foundation 2019 Annual Reports and the Meralco 2019 Sustainability Report can be viewed and downloaded at the Meralco website, www.meralco.com.ph.