COVER SHEET

P	W	-	1	0	2				

S.E.C Registration Number

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

(Company's Full Name)

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

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

ATTY. WILLIAM S. PAMINTUAN	8632-8014
Contact Person	Company Telephone Number

AMENDED DEFINITIVE INFORMATION STATEMENT

1	2	-	3	1

Month Day

Fiscal Year

	2	0	-	I	S	

FORM TYPE

0	5

Month

3	0

Day

Annual Meeting

Secondary License Type, if Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

Remarks = pls. use black ink for scanning purposes

MERALCO

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

TO ALL STOCKHOLDERS
Manila Electric Company (Meralco)

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders of Meralco will be conducted virtually via https://company.meralco.com.ph/corporate-governance/SERVE on Tuesday, May 30, 2023, at 10:00 a.m. with the following agenda:

1. Call to Order
2. Certification of Notice and Quorum
3. Approval of the Minutes of the Annual Meeting of Stockholders held on May 31, 2022
4. Report of the President and Chief Executive Officer
5. Approval of the 2022 Audited Consolidated Financial Statements
6. Ratification of Acts of the Board and Management
7. Amendment of Article I Section 2 and Article II Section 6 of the Company's By-Laws
8. Election of Directors for the ensuing year
9. Appointment of External Auditors
10. Other business that may properly be brought before the meeting
11. Adjournment

Minutes of the 2022 Annual Meeting of Stockholders will be available for examination during office hours at the Office of the Corporate Secretary and at the website of Meralco, www.meralco.com.ph.

The Board has fixed the close of business on **March 6, 2023** as the record date for the determination of stockholders entitled to notice of, and to vote at, the meeting. The stock and transfer books of Meralco will not be closed.

In accordance with Article I, Section 3 of the Company's Amended By-Laws, any instrument authorizing a proxy to act shall be submitted to and received at the principal office of Meralco on or before **May 2, 2023, 5:00 p.m.**, addressed to the attention of the Corporate Secretary c/o Corporate Governance and Compliance Office, Ground Floor, Lopez Bldg., Meralco Center, Ortigas Avenue, Brgy. Ugong, Pasig City. Soft copies of the proxies can be emailed in advance to stockholder.affairs@meralco.com.ph. Validation of proxies is set on **May 12, 2023, 10:00 a.m.** at Meralco Compound, Ortigas Avenue, Brgy. Ugong, Pasig City.

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

Pasig City, March 10, 2023.

SIMEON KEN R. FERRER
Corporate Secretary

Annex "A"

AGENDA
DETAILS AND RATIONALE

1. **Call to Order.** The Chairman of the Board of Directors, Mr. Manuel V. Pangilinan, will call the meeting to order.

2. **Certification of Notice and Quorum.** The Corporate Secretary, Atty. Simeon Ken R. Ferrer, will certify that copies of this Notice were sent to Stockholders of record as of March 6, 2023 and will certify the number of attendees, whether in person or by proxy, for the purpose of determining the existence of quorum to validly transact business.

3. **Approval of the Minutes of the Annual Meeting of Stockholders held on May 31, 2022**. Copies of the draft Minutes are available for examination during office hours at the Office of the Corporate Secretary and at the website of Meralco, www.meralco.com.ph. Stockholders will be asked to approve the draft Minutes and acknowledge the completeness and accuracy thereof. Below is the text of the proposed resolution:

> *"RESOLVED, that the Stockholders of the Corporation hereby approve the Minutes of the Annual Stockholders' Meeting held on May 31, 2022."*

4. **Report of the President and Chief Executive Officer** – The Report summarizes the milestones and key achievements of Meralco and provides a clear picture of how Meralco reached its goals during the past year 2022.

5. **Approval of the 2022 Audited Consolidated Financial Statements** – Meralco's audited financial statements, highlights of which are explained in the President's Report and in the Information Statement, will be presented to the Stockholders for approval. Copies of the 2022 Audited Financial Statements, previously approved by the Board of Directors, were also submitted to the Securities and Exchange Commission and the Bureau of Internal Revenue. Below is the proposed resolution:

> *"RESOLVED, that the audited consolidated financial statements for the year ended December 31, 2022 be, as the same are hereby, approved."*

6. **Ratification of Acts of the Board and Management** – Ratification of the acts of the Board of Directors and Management crucial to the successful performance of the Company in 2022 will be sought from the Stockholders. Below is the proposed resolution:

> *"RESOLVED, that all acts, resolutions, and deeds of the Board of Directors and Management of the Company from the Annual Stockholders' Meeting held on May 31, 2022 up to the date of this meeting be as they hereby are, confirmed, ratified and approved."*

7. **Amendment of Article I Section 2 and Article II Section 6 of the Company's By-Laws -** A resolution approving the amendment will be presented to the stockholders for approval by the affirmative vote of the stockholders representing at least two-thirds (2/3) of the outstanding capital stock. Below is the proposed resolution:

> *"RESOLVED, that the Stockholders of the Corporation hereby approve the amendment of Article I Section 2 and Article II Section 6 of the Company's By-Laws quoted below:*

ARTICLE I
MEETING OF STOCKHOLDERS

SECTION 2. **SPECIAL MEETINGS.** – Special meetings of the stockholders may be called by the Chairman of the Board or by order of the Board of Directors whenever he or they may deem it necessary, and shall be so called whenever persons holding of record at least **ten percent (10%) or more** of **the** outstanding **capital** stock of the Company entitled to vote shall in writing request the same.

x x x

SECTION 6. **VACANCIES.** – If any vacancy shall occur among the directors **other than by removal or by expiration of term**, such vacancy may be filled, pending action by the stockholders, at any regular or special meeting of the Board of Directors, by vote of a majority of all the remaining directors.

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

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

Please refer to pages 5-18 of the Information Statement for the profile of the nominees to the Board.

Stockholders will be given the opportunity to elect the directors who will serve for the term 2023-2024 by way of individual voting administered by a third party.

9. **Appointment of External Auditors** – Meralco's external auditors for 2023-2024, tasked with the preparation of the annual audited financial statements, will be appointed by the Stockholders. This is upon favorable recommendation by the Audit Committee. Below is the text of the proposed resolution:

"RESOLVED, that SGV & Company, Certified Public Accountants, be, as they hereby are, re-appointed as external auditors of the Company for the year 2023-2024."

Please refer to page 39-40 of the Information Statement for the profile of SGV & Company.

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

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

WE ARE NOT SOLICITING YOUR PROXY

Stockholders who will not, are unable or do not expect to attend the meeting but would like to be represented thereat may choose to execute and send a proxy form to the Office of the Corporate Secretary on or before 5:00 p.m., May 2, 2023. Soft copies of the proxies can be emailed in advance to stockholder.affairs@meralco.com.ph. A sample proxy form is provided below. Other forms are available at MERALCO's website www.meralco.com.ph

PROXY

The undersigned stockholder of MANILA ELECTRIC COMPANY (the "Company") hereby appoints _____ or in his absence, the Chairman of the meeting, as attorney-in-fact and proxy, with power of substitution, to present and vote all shares registered in his/her/its name as proxy of the undersigned stockholder, at the Annual Meeting of Stockholders of the Company on May 30, 2023 and at any of the adjournments thereof for the purpose of acting on the following matters:

1. Approval of the Minutes of the Annual Meeting of Stockholders held on May 31, 2022
   ☐Yes ☐No ☐Abstain
2. Approval of 2022 Audited Consolidated Financial Statements
   ☐Yes ☐No ☐Abstain
3. Ratification of Acts of the Board and Management
   ☐Yes ☐No ☐Abstain
4. Amendment of Article I Section 2 and Article II Section 6 of the Company's By-Laws
   ☐Yes ☐No ☐Abstain
5. Election of Directors for the ensuing year
   - 5.1 Ms. June Cheryl A. Cabal-Revilla ☐Yes
   - 5.2 Ms. Lydia B. Echauz ☐Yes
   - 5.3 Atty. Ray C. Espinosa ☐Yes
   - 5.4 Mr. Frederick D. Go ☐Yes
   - 5.5 Mr. James L. Go ☐Yes
   - 5.6 Mr. Lance Y. Gokongwei ☐Yes
   - 5.7 Mr. Jose Ma. K. Lim ☐Yes
   - 5.8 Retired Chief Justice Artemio V. Panganiban ☐Yes
   - 5.9 Mr. Manuel V. Pangilinan ☐Yes
   - 5.10 Mr. Pedro Emilio O. Roxas ☐Yes
   - 5.11 Mr. Victorico P. Vargas ☐Yes
6. Appointment of External Auditors
   ☐Yes ☐No ☐Abstain

_____
PRINTED NAME OF STOCKHOLDER

_____
SIGNATURE OF STOCKHOLDER/AUTHORIZED SIGNATORY

_____
EMAIL ADDRESS/CELL PHONE NO.

_____
DATE

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

1. Check the appropriate box:
   ( ) Preliminary Information Statement
   (✓) Definitive Information Statement

2. Name of Registrant as specified in its charter: **Manila Electric Company**

3. Country of Incorporation: **Philippines**

4. SEC Identification Number: **PW-102**

5. BIR Tax Identification Number: **000-101-528-000**

6. Address of principal office`e: **Lopez Building, Ortigas Avenue, Barangay Ugong, Pasig City 1605**

7. Telephone Numbers: **(632) 8633-4553**

8. Date, time and place of meeting of security holders:

   Date : May 30, 2023
   Time : 10:00 a.m.
   Place : Multipurpose Hall, Meralco Compound, Ortigas Avenue, Brgy. Ugong, Pasig City for presiding officers and Board Members and virtually via https://company.meralco.com.ph/corporate-governance/SERVE

9. Approximate Date on which the Information Statement is first to be sent or given to security holders: **April 19, 2023**

10. Securities registered pursuant to Sections 8 and 12 of the SRC:

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

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

    Yes ✓ No ____

    If so, disclose the name of the Exchange and the class of securities listed therein: **Philippine Stock Exchange/Common Stock and Phillipine Dealing and Exchange Corporation/Fixed Rate Notes**

INFORMATION REQUIRED IN INFORMATION STATEMENT

Date, Time and Place of Meeting of Security Holders

- Date : Tuesday, May 30, 2023
- Time : 10:00 a.m.
- Place : Online web address/URL (for voting in absentia and participation via remote communication) https://company.meralco.com.ph/corporate-governance/SERVE

  Principal Office: Multipurpose Hall, Meralco Compound, Ortigas Avenue
  Barangay Ugong, Pasig City, 1605

The approximate date on which copies of the Information Statement are first to be sent or given to stockholders is on April 19, 2023.

Dissenter's Right of Appraisal

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

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

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

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

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

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

Voting Securities and Principal Holders Thereof

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

As of March 31, 2023, the total outstanding shares/voting shares is 1,127,098,705 common shares, of which 5.15% or 58,036,478 shares are owned by foreign stockholders. Each share is entitled to one (1) vote. Voting rights are vested exclusively on common shares.

All stockholders of record as of March 6, 2023 are entitled to receive a notice of the meeting.

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

Security Ownership of Certain Record and Beneficial Owners

Based on *MERALCO*'s stock and transfer book, the security ownership as of March 6, 2023 of certain record and beneficial owners of more than 5% of any class of its voting securities is as follows:

Title of Class	Name, address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held	Percent
Common	**Beacon Electric Asset Holdings, Inc.** 10/F MGO Building, Legaspi corner Dela Rosa Streets, Legaspi Village Makati City Stockholder	Same as the record owner	Filipino	394,059,235	34.96%
Common	**JG Summit Holdings, Inc.** 42/F Robinsons Equitable Tower, ADB Avenue corner Poveda Road, Ortigas Center Pasig City Stockholder	Same as the record owner	Filipino	297,189,397	26.37%
Common	**Philippine Central Depository ("PCD") Nominee Corporation** 29th Floor, BDO Equitable Tower 8751 Paseo de Roxas Makati City 1226 No relationship with Issuer	PCD Participants	Filipino and Foreign	211,348,779	18.75%
Common	**Metro Pacific Investments Corporation** 10/F MGO Building, Legaspi corner Dela Rosa Streets, Legaspi Village Makati City Stockholder	Same as the record owner	Filipino	140,906,807	12.50%

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

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

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

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

There is no arrangement which may result in a change in control of the Company.

Security Ownership of Management

As of March 31, 2023, the securities owned beneficially, directly or indirectly, by directors and executive officers of *MERALCO* are as follows:

No.	Title of Class	Name of Beneficial Owner	Number of Shares and nature of Beneficial Ownership	Citizenship	Percent of Class
1.	Common	Manuel V. Pangilinan	55,000 (Direct)	Filipino	0.00%
2.	Common	Lance Y. Gokongwei	19,313 (Direct)	Filipino	0.00%
3.	Common	Ray C. Espinosa	56,000 (Direct)	Filipino	0.00%
4.	Common	Anabelle L. Chua	21,060 (Direct)	Filipino	0.00%
5.	Common	Lydia B. Echauz	6,100 (Direct)	Filipino	0.00%
6.	Common	Frederick D. Go	10,030 (Direct)	Filipino	0.00%
7.	Common	Victorico P. Vargas	13,917 (Direct)	Filipino	0.00%
8.	Common	Jose Ma. K. Lim	75,010 (Direct)	Filipino	0.01%
9.	Common	James L. Go	199,450 (Direct)	Filipino	0.02%
10.	Common	Pedro Emilio O. Roxas	1,000 (Direct)	Filipino	0.00%
11.	Common	Artemio V. Panganiban	14,001 (Direct)	Filipino	0.00%
12.	Common	Simeon Ken R. Ferrer	767 (Direct)	Filipino	0.00%
13.	Common	Roberto R. Almazora	93,082 (Direct)	Filipino	0.01%
14.	Common	Ronnie L. Aperocho	14 (Direct)	Filipino	0.00%
15.	Common	William S. Pamintuan	–	Filipino	0.00%
16.	Common	Betty C. Siy-Yap	–	Filipino	0.00%
17.	Common	Maria Luisa V. Alvendia	–	Filipino	0.00%
18.	Common	Roque D. Bacani	–	Filipino	0.00%
19.	Common	Edgardo V. Carasig	–	Filipino	0.00%
20.	Common	Ferdinand O. Geluz	15,877 (Direct)	Filipino	0.00%
21.	Common	Melanie T. Oteyza	–	Filipino	0.00%
22.	Common	Raymond B. Ravelo	–	Filipino	0.00%
23.	Common	Jose Ronald V. Valles	–	Filipino	0.00%
24.	Common	Antonio M. Abuel, Jr.	7,927 (Direct)	Filipino	0.00%
25.	Common	Francis Euston R. Acero	500 (Direct)	Filipino	0.00%
26.	Common	Ireneo B. Acuña	18,355 (Direct)	Filipino	0.00%
27.	Common	Joseph L. Amosco	5,198 (Direct)	Filipino	0.00%
28.	Common	Patrick Dave B. Bacani	–	Filipino	0.00%
29.	Common	Bennette D. Bachoco	–	Filipino	0.00%
30.	Common	Joseph Allan C. Baltazar	–	Filipino	0.00%
31.	Common	Rita D. Bantigue	–	Filipino	0.00%
32.	Common	Sante C. Buella	–	Filipino	0.00%
33.	Common	Ricardo Carmelo D. Buenafe	6,070 (Direct)	Filipino	0.00%
34.	Common	Alberto N. Castillo	600 (Direct)	Filipino	0.00%
35.	Common	Ricardo L. Concepcion	–	Filipino	0.00%
36.	Common	Ma. Cecilia M. Domingo	1,495 (Direct)	Filipino	0.00%
37.	Common	Lawrence S. Fernandez	4,500 (Direct)	Filipino	0.00%
38.	Common	Paul Ryan C. Gregorio	–	Filipino	0.00%
39.	Common	Marvin G. Gonsalves	11,780 (Direct)	Filipino	0.00%
40.	Common	Jerry B. Lao	–	Filipino	0.00%
41.	Common	Erville D. Magtubo	–	Filipino	0.00%
42.	Common	Roderick Dennison N. Nacu	31 (Direct)	Filipino	0.00%
43.	Common	Charina P. Padua	42,609 (Direct)	Filipino	0.00%
44.	Common	Glen N. San Pedro	–	Filipino	0.00%
45.	Common	Jose S. Reyes, Jr.	8,827 (Direct)	Filipino	0.00%
46.	Common	Froilan J. Savet	8,435 (Direct)	Filipino	0.00%

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

As of March 31, 2023, the securities owned beneficially by the nominees for election to the Board of Directors (*"BOD")* are as follows:

No.	Title of Class	Name of Beneficial Owner	Number of Shares and nature of Beneficial Ownership	Citizenship	Percent of Class
1.	Common	Manuel V. Pangilinan	55,000 (Direct)	Filipino	0.00%
2.	Common	Lance Y. Gokongwei	19,313 (Direct)	Filipino	0.00%
3.	Common	Ray C. Espinosa	56,000 (Direct)	Filipino	0.00%
4.	Common	June Cheryl A. Cabal-Revilla	1 (Direct)	Filipino	0.00%
5.	Common	Lydia B. Echauz	6,100 (Direct)	Filipino	0.00%
6.	Common	Frederick D. Go	10,030 (Direct)	Filipino	0.00%
7.	Common	James L. Go	199,450 (Direct)	Filipino	0.00%
8.	Common	Jose Ma. K. Lim	75,010 (Direct)	Filipino	0.00%
9.	Common	Artemio V. Panganiban	14,001 (Direct)	Filipino	0.00%
10.	Common	Pedro Emilio O. Roxas	1,000 (Direct)	Filipino	0.00%
11.	Common	Victorico P. Vargas	13,917 (Direct)	Filipino	0.00%

The aggregate number of shares owned on record by the Chief Executive Officer, Executive Officers, Directors and Nominees as of March 31, 2023 is 718,892 shares or 0.06% of *MERALCO*'s total outstanding shares.

Voting Trust Holders

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

Changes in Control

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

Directors and Executive Officers

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

MANUEL V. PANGILINAN
Filipino, 76 years old
Chairman, Board of Directors
Chairman, Executive Committee
Chairman, Remuneration and Leadership Development Committee
Chairman, Sustainability Committee
Director of Manila Electric Company since May 26, 2009

Education and Training:

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

Membership in Board of Listed Companies:

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

Membership in Board of Non-Listed Companies:

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

- Digital Telecommunications Phils. Inc.
- Digitel Mobile Philippines, Inc.

Position and Membership in Other Organizations and Corporations:

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

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

LANCE Y. GOKONGWEI

Filipino, 56 years old
Vice-Chairman, Board of Directors
Member, Executive Committee
Member, Finance Committee
Member, Remuneration and Leadership Development Committee
Member, Sustainability Committee
Director of Manila Electric Company since December 16, 2013

Education and Training:

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

Membership in Board of Listed Companies:

- Altus Property Ventures, Inc.
- JG Summit Holdings, Inc.
- Universal Robina Corporation
- Cebu Air, Inc.
- Robinsons Land Corporation
- Robinsons Retail Holdings, Inc.
- RL Commercial REIT, Inc
- Shakey's Asia Pizza Ventures, Inc.
- Oriental Petroleum and Minerals Corporation
- United Industrial Corporation Limited

Membership in Board of Non-listed Companies:

- Robinsons Bank Corporation
- Gokongwei Brothers Foundation, Inc.

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

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

RAY C. ESPINOSA
Filipino, 66 years old
President and CEO since May 28, 2019
Director of Manila Electric Company since May 26, 2009

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

Membership in Board of Publicly Listed Companies:
- PLDT Inc.
- Metro Pacific Investments Corporation
- Lepanto Consolidated Mining Company
- Roxas Holdings, Inc.

Membership in Board of Non-Listed Companies:
- AGN Philippines, Inc. – Co-Chairman of the Board
- Atimonan Land Ventures Development Corporation – Chairman of the Board
- Atimonan One Energy, Inc. – Chairman of the Board
- Aurora Managed Power Services Inc. – Chairman of the Board
- BTF Holdings, Inc – Director
- Beacon Electric Asset Holdings, Inc – Director
- Beacon PowerGen Holdings, Inc. – Director
- Bell Telecommunication Philippines, Inc. – Co-Chairman of the Board
- Bonifacio Communications Corp. – Director
- Bow Arken Holding Company, Inc. – Co-Chairman of the Board
- Brightshare Holdings Corporation – Co-Chairman of the Board
- Business World Publishing Corporation – Chairman of the Board
- Calamba Aero Power Corporation – Chairman of the Board
- Cignal Cable Corporation (formerly Dakila Cable TV Corporation) – Director
- Cignal TV, Inc. – Director
- Cinegear, Inc. – Chairman of the Board
- CIS Bayad Center, Inc. – Chairman of the Board

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

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

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

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

ANABELLE L. CHUA
Filipino, 62 years old
Member, Finance Committee
Member, Audit Committee
Member, Risk Management Committee
Member, Nomination and Governance Committee
Member, Related Party Transactions Committee
Director of Manila Electric Company since May 31, 2016

Education and Training:
- BS Business Administration and Accountancy, University of the Philippines

Membership in Board of Listed Companies:
- Philippine Stock Exchange

Membership in Board of Non-Listed Companies:

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

Position and Membership in Other Organizations and Companies

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

FREDERICK D. GO
Filipino, 53 years old
Member, Audit Committee
Member, Nomination and Governance Committee
Member, Related Party Transactions Committee
Member, Risk Management Committee
Member, Sustainability Committee
Director of Manila Electric Company since November 25, 2019

Education and Training:

- BS Management Engineering, Ateneo de Manila University

Membership in Board of Listed Companies:

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

Membership in Board of Non-Listed Companies:

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

Position and Membership in Other Organizations and Companies:

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

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

JAMES L. GO
Filipino, 83 years old
Member, Executive Committee
Member, Audit Committee
Member, Risk Management Committee
Member, Finance Committee
Member, Nomination and Governance Committee
Member, Related Party Transactions Committee
Director of Manila Electric Company since December 16, 2013

Education and Training:
- BS Chemical Engineering, Massachusetts Institute of Technology
- Masters in Chemical Engineering, Massachusetts Institute of Technology

Membership in Board of Listed Companies:
- JG Summit Holdings, Inc.
- Oriental Petroleum and Minerals Corporation
- Robinsons Land Corporation
- Universal Robina Corporation
- Robinsons Retail Holdings, Inc.
- Cebu Air, Inc.
- PLDT Inc.
- United Industrial Corporation Limited

Membership in Board of Non-Listed Companies:
- JG Summit Petrochemical Corporation
- JG Summit Olefins Corporation
- Marina Center Holdings, Inc.
- Hotel Marina City Private Limited
- Gokongwei Brothers Foundation, Inc.

Position and Membership in Other Organizations and Corporations:
- Chairman of JG Summit Holdings, Inc. and Cebu Air, Inc. and Chairman and Chief Executive Officer of Oriental Petroleum and Minerals Corporation

- Chairman Emeritus of Robinsons Land Corporation, Universal Robina Corporation, JG Summit, Petrochemical Corporation and JG Summit Olefins CorporationVice-Chairman of Robinsons Retail Holdings, Inc.
- President and Trustee of Gokongwei Brothers Foundation, Inc.

JOSE MA. K. LIM
Filipino, 70 years old
Chairman, Finance Committee
Chairman, Risk Management Committee
Member, Executive Committee
Member, Audit Committee
Member, Related Party Transactions Committee
Member, Nomination and Governance Committee
Member, Sustainability Committee
Director of Manila Electric Company since May 29, 2012

Education and Training:
- BA Philosophy Degree, Ateneo De Manila University
- MBA Degree, Asian Institute of Management

Membership in Boards of Listed Companies:
- Metro Pacific Investments Corporation

Membership in Boards of Non-Listed Companies:
- Beacon Electric Asset Holdings, Inc.
- Metro Pacific Holdings, Inc.
- Metro Pacific Tollways Corporation
- Colinas Verdes Hospital Managers Corporation
- Maynilad Water Services, Inc.
- Maynilad Water Holding Company, Inc.
- MetroPac Logistics Company, Inc.
- MetroPac Movers, Inc.
- PremierLogistics, Inc.
- MetroPac Water Investments Corporation
- Metro Pacific Light Rail Corporation
- Metro Pacific Investments Foundation Inc.
- Meralco PowerGen Corporation
- Light Rail Manila Corporation
- AF Payments Inc.
- AHI Hospital Holdings Corporation
- Light Rail Manila Holdings, Inc.
- Asian Institute of Management
- Ateneo Graduate School of Business
- Global Business Power Corporation
- NLEX Corporation
- Metro Pacific Tollways North Corporation
- Pacific Global One Aviation Company Inc.
- Philippine Disaster Risk Foundation, Inc.
- Philippine Telecommunications Investment Corp.

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

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

LYDIA B. ECHAUZ
Filipino, 75 years old
Member, Finance Committee
Member, Nomination and Governance Committee
Member, Audit Committee
Director of Manila Electric Company since May 25, 2021

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

Membership in Board of Listed Companies:
- Metro Pacific Investments Corporation
- D&L Industries, Inc.
- Pilipinas Shell Petroleum Corp.

Membership in Board of Non-Listed Companies:
- PLDT Beneficial Trust Fund
- MediaQuest Holdings, Inc.
- Tahanan Mutual Building and Liam Association, Inc.
- Superior Parañaque Homes, Inc.

- Bancholders, Inc.
- Philstar Group
- FERN Realty Corporation
- Riverside College Inc.
- NBS College
- De La Salle College of St. Benilde
- Mano Amiga Academy
- Henry Sy Foundation, Inc.
- Felicidad Sy Foundation, Inc.
- SM Foundation, Inc.
- Akademyang Filipino Asso. Inc.
- Museo de Galeon Foundation, Inc.

ARTEMIO V. PANGANIBAN
Filipino, 86 years old
Lead Independent Director
Chairman, Audit Committee
Member, Executive Committee
Member, Risk Management Committee
Member, Related Party Transactions Committee
Independent Director of Manila Electric Company since May 27, 2008

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

Membership in Boards of Listed Companies:
- Petron Corporation
- PLDT Inc.
- Metro Pacific Investments Corporation
- JG Summit Holdings, Inc.
- GMA Network, Inc.
- GMA Holdings, Inc.
- Asian Terminals, Inc.
- RL Commercial REIT, Inc.
- Jollibee Foods Corporation

Adviser to the Boards of Listed Companies:
- Bank of the Philippine Islands
- Metropolitan Bank and Trust Co.
- Double Dragon Properties Corp.
- Merry Mart Consumer Corp.

Membership in Boards of Non-Listed Large Companies:
- Metro Pacific Tollways Corporation
- TeaM Energy Corporation
- Asian Hospital Inc.

Position and Membership in Other Organizations, Foundation and Corporations:

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

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

Education and Training:

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

Membership in Board of Listed Companies:

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

Membership in Board of Non-listed Companies:

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

Position and Membership in Other Organizations and Corporations:

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

VICTORICO P. VARGAS
Filipino, 71 years old
Member, Finance Committee
Member, Remuneration and Leadership Development Committee

Director of Manila Electric Company since May 28, 2019

Education and Training:
- BS Psychology, University of Santo Tomas

Membership in Board of Non-Listed Companies:
- Smart Communications, Inc.
- PLDT Global, Inc.
- PLDT Subic Telecom, Inc.
- PLDT Clark Telecom, Inc.

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

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

Below is the qualification of Ms. Cabal-Revilla:

JUNE CHERYL A. CABAL-REVILLA
Filipino, 49 years old

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

Membership in Boards of Listed Companies:
- Metro Pacific Investments Corporation

Membership in Boards of Non-Listed Companies:
- AF Payments, Inc.
- Metro Pacific Tollways Corporation
- KM Infrastructure Holdings, Inc.
- Razor Crest Storage Infrastructure Holdings Corporation

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

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

Executive Officers

SIMEON KEN R. FERRER, 66, Filipino
Corporate Secretary (since May 26, 2009)
Atty. Ferrer is the Corporate Secretary of two other public companies: Century Peak Metals Holdings Corporation and Commonwealth Foods, Inc. and an Independent Director of Grand Plaza Hotel Corporation, a company listed on the Philippine Stock Exchange. He is also the Corporate Secretary or Board member of various non-public companies. He is Of Counsel at SyCip Salazar Hernandez & Gatmaitan, having recently retired as Senior Partner and head of the Corporate Services Department. He is a member of the Integrated Bar of the Philippines and the Philippine Bar Association, and a Fellow of the Institute of Corporate Directors. Atty. Ferrer is an *SEC*-accredited lecturer on corporate governance and is a member of the faculty of the School of Law of the Ateneo de Manila University. He is also the International Alumni Contact for the Philippines of the University of Michigan Alumni Association. Atty. Ferrer completed his Bachelor of Science degree in Business Economics and Bachelor of Laws degree at the University of the Philippines and obtained his Master of Laws degree from the University of Michigan as a DeWitt Fellow.

RAY C. ESPINOSA, 66, Filipino
President and CEO (since May 28, 2019)
(*Refer to his profile on page 7)*

ROBERTO R. ALMAZORA, 62, Filipino
Senior Vice President (since March 2009)
Head, MPower
Mr. Almazora heads MPower, the Local Retail Electricity Supply business segment of *MERALCO*. He holds a Bachelor of Science degree in Electrical Engineering from the University of the Philippines, and completed his Masters in Business Management at the Asian Institute of Management. Previously, he held various executive positions during his 35 years with MERALCO and served as Board of Director in various subsidiaries/affiliates of *MERALCO*, among which include Indra Philippines, Inc., Meralco Energy Inc., Meralco Industrial Engineering Services Corporation, Miescor Builders Inc. ("*MBI*"), Miescor Logistics Inc., Aclara Meters Philippines, Inc., Clark Electric Distribution Corporation and Bauang Private Power Corporation. He served as President of *MBI* in 2011. He currently serves as Director in Comstech Integration Alliance, Incorporated. He has also been a recipient of various awards and distinctions. In 2004, he was awarded Outstanding Alumnus for Management by the Epsilon Chi Fraternity of University of the Philippines. In 2011, he was granted the Professional Degree Award from Electrical Engineering by the University of the Philippines Alumni Engineers, where he served as Trustee. He has also been tapped as a resource speaker in various energy conferences and has served as an energy adviser to business groups and associations.

RONNIE L. APEROCHO, 54, Filipino
Senior Vice President (since January 1, 2017)
Head, Networks
Mr. Aperocho also serves as the President and CEO of Meralco Energy, Inc., MRAIL, Inc. and Meralco Industrial Engineering Services Corporation, and the Chairman of the Board of Directors of its two (2) subsidiaries, namely, Miescor Logistics Inc. and Miescor Builders Inc. He is also a member of the Board of Directors of Aclara Meters Philippines, Inc., Clark Electric Distribution Corporation, MGen Renewable Energy Inc., Miescor Infrastructure Development Corporation, Radius Telecoms, Inc. and MSpectrum, Inc. He sits in the Board of Trustees of the Meralco Power Academy and One Meralco Foundation. He holds a Bachelor of Science degree in Electrical Engineering from Mindanao State University and topped the October 1991 Electrical Engineering Board Exams. A registered Professional Electrical Engineer and ASEAN Chartered Professional Engineer, he holds a Masters Degree in Business Administration from J.L. Kellogg School of Management of Northwestern University/The Hong Kong University of Science and Technology.

WILLIAM S. PAMINTUAN, 61, Filipino
Senior Vice President and Chief Legal Counsel
Assistant Corporate Secretary (since January 2012)
Compliance Officer and Head, Legal and Corporate Governance Office
Data Protection Officer
Atty. Pamintuan is is the Corporate Secretary of MERALCO PowerGen Corporation, Atimonan One Energy, Inc., Calamba Aero Power Corporation, Greentech Solar Energy, Inc., Kalilayan Power, Inc., MPG Holdings Phils., Inc., MPG Mauban LP Corporation, MPG Asia Ltd. (a Hong Kong Company), Redondo Peninsula Energy, Inc., First Pacific Leadership Academy, Inc., MRAIL, Inc., Meralco Industrial Engineering Services Corporation, Miescor Infrastructure Development Corporation, MGEN Renewable Energy, Inc., NortesolIII Inc., LagunaSol Corporation, Powersource First Bulacan Solar

Inc., MGREEN International Limited (BVI company), ARB Power Ventures Inc., CACI Power Corporation, GBP Power Resources Inc., Global Energy Supply Corporation, Global Formosa Power Holdings, Inc., Greenergy for Global Inc., Global Hydro Power Corporation, Global Luzon Energy Development Corporation, Global Renewable Power Holdings Corporation, Global Trade Energy Resources Corp., Lunar Power Core Inc., Mindanao Energy Development Corporation, Panay Energy Development Corporation, PH Renewables Inc., Panay Power Corporation, Panay Power Holdings Corporation, Toledo Holdings Corporation, and Global Business Power Corporation.

He also serves as Director of Atimonan One Energy, Inc., Atimonan Land Ventures Development Corporation, Calamba Aero Power Corporation, MGEN Renewable Energy, Inc, MPG Holdings Phils., Inc., MPG Mauban LP Corporation, Miescor Infrastructure Development Corporation, Radius Telecoms, Inc., MSpectrum, Inc., Pure Meridian Hydropower Corporation, Comstech Integration Alliance, Inc., Meridian Atlantic Light Company Ltd., PMHC Pulanai Inc., PMHC Lalawinan Inc., Meridian Power Ventures, Ltd., Aurora Managed Power Services, Inc., eSakay, Inc., MPioneer Insurance, Inc., Aclara Meters Philippines, Inc., Lighthouse Overseas Insurance Limited, E-Meralco Ventures, Inc., Paragon Vertical Corporation, Indra Philippines, Inc. and Meralco Energy, Inc. He is a trustee of Meralco Pension Fund and Meralco Power Foundation, Inc. He is also a member of the Board of Governor of the Philippine Basketball Association.

He served as Vice Chair of MAP Energy Committee. He was a former Trustee of Shareholders' Association of the Philippines, Inc. He served as Officer-in-Charge and Acting President of Meralco Energy, Inc. He was a former Corporate Secretary and Senior Vice President of Digital Telecommunications Phils., Inc. and Digitel Mobile Phils., Inc. He was a General Manager of Digitel Crossing, Inc. He was a former Assistant Corporate Secretary of Cebu Pacific Inc.

He is a member of the board of directors of the University of the Philippines Alumni Association (UPAA) and Board Governor of the UP Vanguard, Inc.. He is a member of the Management Association of the Philippines (MAP), Integrated Bar of the Philippines (IBP) and Philippine Bar Association (PBA). Atty. Pamintuan holds a Bachelor of Arts degree in Political Science and a Bachelor of Laws degree from the University of the Philippines.

BETTY C. SIY-YAP, 61, Filipino
Senior Vice President and Chief Finance Officer (since July 2009)
Chief Risk Officer

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

MARIA LUISA V. ALVENDIA, 60, Filipino
First Vice President (since March 2019)
Chief of Staff and Supply Chain Advisor
Ms. Alvendia is the Chief of Staff of *MERALCO's* President and Chief Executive Officer. Concurrently, she performs the role of Supply Chain Advisor. Prior to joining *MERALCO*, she was the Chief of Staff to the Chief Corporate Services Officer of PLDT, Inc. ("*PLDT*") and Smart Communications, Inc. ("*SMART*") and Group Head of *PLDT* and *SMART* Supply Chain Planning and Procurement. With her industry-recognized supply chain expertise, she became Director of Philippine Institute of Supply Management. She also led various Supply Chain process improvements and system implementation for different companies and held global procurement roles. Ms. Alvendia is a certified Purchasing Manager and holds a Bachelor of Science degree in Psychology from the University of the Philippines.

ROQUE D. BACANI, 47, Filipino
First Vice President (since January 1, 2022)
Head, Information, Communication, Technology and Transformation
Mr. Bacani is the First Vice President and Head of *MERALCO*'s Information, Communication, Technology and Transformation since October 2019 and Acting Group Chief Information Security Officer (CISO) since November 2022. He also serves as the Chief Information Officer of CIS Bayad Center, Inc., Chief Technology Advisor of Radius Telecoms, Inc. and MIESCOR Infrastructure Development Corporation, Acting Head of Information, Communication and Technology in MSERV and member of the MGEN-GBP ICT Steering Committee. Prior to joining *MERALCO*, he took on concurrent roles as Vice President and Head of Group IT Corporate Technology and Head of Data Management Office of Smart Communications, Inc. and PLDT, Inc. He was also a former Chief Technology Officer of Talas Data Intelligence Inc. (a wholly owned subsidiary of PLDT). He holds a Bachelor of Science degree in Industrial Engineering from Polytechnic University of the Philippines.

EDGARDO V. CARASIG, 58, Filipino
First Vice President (since January 1, 2020)
Head, HR and Corporate Services
Mr. Carasig is the Chairman of Customer Frontline Solutions, Inc. and a Director of Meralco Industrial Engineering Services Corporation, Miescor Builders, Inc., Miescor Logistics, Inc., MRAIL, Inc., and CIS Bayad Center, Inc. He is also a trustee of Meralco Pension Fund and Meralco Power Academy. He holds a Bachelor of Science degree in Industrial Management Engineering from the De La Salle University.

FERDINAND O. GELUZ, 58, Filipino
First Vice President (since January 1, 2020)
Chief Commercial Officer of Customer Retail Services
Mr. Geluz is the Chief Commercial Officer of Customer Retail Services since August 2020. He was also appointed Director, President, and Chief Executive Officer of MSpectrum, Inc., Chairman of Shin Clark Power Holdings, Inc., and President of Shin Clark Power Corporation. He is also a director of Miescor Logistics Inc., Miescor Builders Inc., Radius Telecoms Inc., CIS Bayad Center, Inc., eSakay, Inc., Meralco Energy Inc., Aclara Meters Philippines, Inc., Corporate Information Solutions, Inc., Customer Frontline Solutions, Inc., Aurora Managed Power Services, Inc., Paragon Vertical Corporation, Pure Meridian Hydropower Corporation, PMHC Lalawinan Inc., PMHC Pulanai Inc., One Meralco Foundation, Meralco Power Academy, and Clark Electric Distribution Corporation. He previously occupied the position of First Vice President and Head of *MERALCO*'s Supply Chain and

Logistics Management from July 2018 to July 2020, managing the supply chain (strategic sourcing, vendor management, procurement, and materials management) and facilities engineering and security services. He holds a Bachelor of Science in Electrical Engineering from the University of the Philippines. He was the 6th placer in the Board Examination for a Registered Electrical Engineer in 1998 and was the recipient of the 2019 Professional Degree Award in Electrical Engineering from the UP Alumni Engineers/UP College of Engineering.

MELANIE T. OTEYZA, 52, Filipino
First Vice President (since October 1, 2018)
Chief Audit Executive

Ms. Oteyza was a former Director of Rajawali Corpora in Indonesia handling Corporate Governance and Internal Audit. She was also previously the Ethics Committee Chairman, Audit and Risk Committee Deputy Chairman and a Member of the HR and IT Board Committees for RC Holding. In Singapore, she was appointed as the Audit Director of Singapore Telecommunications Limited Inc. ("SingTel") handling the international investments, joint ventures and regional mobile associates in Africa and Asia Pacific of the SingTel group. She was also the Assistant Vice President for Internal Audit of San Miguel Corporation and the Country Audit Head for National Foods Limited handling internal audit across Australia as well as other international entities in the Asia Pacific region. She was also the Audit Center Head of PLDT Inc. and an Internal Audit Executive at Digital Telecommunications Philippines Inc. She worked in various assurance and consulting companies such as Protiviti Singapore and SyCip, Gorres and Velayo (a Member Firm of Ernst & Young Global). She also served as a member of the Board of Governor for the Singapore Institute of Internal Auditors ("IIA") and Board of Director for the Philippine Institute of Internal Auditors ("IIA"). She was also a CIA Reviewer and Trainer in IIAP.

Ms. Oteyza holds a Bachelor of Science Degree in Commerce Major in Accounting, Magna Cum Laude and a PICPA Awardee for Academic Excellence. She was also given a full scholarship of SGV given here academic achievements. She earned her Master's Degree in Business Administration at University of Santo Tomas with Summa Cum Laude as the highest academic distinction. She also completed her Executive Management Leadership Program from the Asian Institute of Management with Superior Performance Award.

Ms. Oteyza is a Certified Public Accountant with international certifications from IIA USA such as Certified Internal Auditor ("CIA") and a William S. Smith Awardee, Certification in Risk Management Assurance ("CRMA"), Certification in Control Self-Assessment ("CCSA") and a Qualified Validator in Quality Assurance for Internal Audit. She recently passed and obtained a certification in Qualification in Internal Audit Leadership (QIAL) issued by IIA USA last December 2022 as the only Filipino recipient joining the circle of Chief Audit Executives globally with that premier designation. She successfully passed the Professional Directors Program ("PDP") examination and completed the PDP program of the Institute of Corporate Directors ("ICD") on September 2019 where she is currently a Graduate Member and a Teaching Faculty. She is actively involved in the Corporate Governance Standards and Thought Leadership Committees of ICD.

RAYMOND B. RAVELO, 45, Filipino
First Vice President (since January 1, 2022)
Chief Sustainability Officer
Concurrent to his role as Chief Sustainability Officer, Mr. Ravelo is also the Head of Strategic Business Development Office and the President and Chief Executive Officer ("CEO") of eSakay, Inc. He is a Director on the Boards of eSakay, Inc., MSpectrum, Inc., MGEN Renewable Energy, Inc. ("MGreen") and Powersource First Bulacan, Solar Inc. He also previously served as the President and CEO and a member of the Board of Directors of Radius Telecoms, Inc. from 2011 to 2016. Prior to joining *MERALCO*, he was part of McKinsey and Company's Washington DC office where he led strategy development efforts and operations performance transformations for top companies in North America, Latin America, Europe, Southeast Asia, and across a wide range of industries. Mr. Ravelo holds a Bachelor of Science degree, magna cum laude, in Management Engineering from the Ateneo de Manila University. He earned his Masters in Business Administration at The Wharton School of the University of Pennsylvania where he was a Joseph Wharton Fellow and an Omnicom Communication Fellow. Mr. Ravelo is also a former Trustee of the Wharton-Penn Alumni Association, Inc.

JOSE RONALD V. VALLES, 52, Filipino
First Vice President (since January 1, 2020)
Head, Regulatory Management Office (since July 2018)
Atty. Valles is a member of the Board of Directors of Clark Electric Distribution Corporation and Philippine Electricity Market Corporation. He holds a Bachelor of Science degree in Commerce Major in Management of Financial Institutions from the De La Salle University, a Bachelor of Laws degree from San Beda College, and a Master's degree in Business Economics from University of Asia and the Pacific ("UA&P"). He attended the Public Utility Research Center – World Bank International Training Program on Utility Regulation and Strategy at the University of Florida and the Global Strategic Leadership Program by Wharton University of Pennsylvania and First Pacific Leadership Academy.

ANTONIO M. ABUEL, JR., 54, Filipino
Vice President (since January 1, 2014)
Head, Facilities, Safety & Security Management (since December 1, 2022)
Mr. Abuel has been employed in *MERALCO* for 32 years. Prior to his new assignment, he has been leading *MERALCO*'s Environment, Health and Safety ("ESH") and Business Continuity Programs for 6 years. He had extensive work experience in Networks for 26 years which included headships of Network Planning and Project Management, North and Central Distribution Services and Subtransmission Services. Mr. Abuel has also been serving as Board of Trustee and President of MERALCO Savings and Loan Association ("MESALA") since May 1, 2021. He is one of the MERALCO representatives to the Department of Energy ("DOE") Task Force on Energy Resiliency ("TFER") and was active contributor to the recently released DOE National Energy Contingency Plan ("NECP"). He was also recently appointed Chairman of the MERALCO Fund for Charity Inc. ("MEFCI"). Some of his external affiliations are Chairman of the Institute of Integrated Electrical Engineers Electrical Safety Committee from 2019 to present, member of the IIEE Specialty Committee, elected and serves as member of the Board of Director of Safety Organization of the Philippines from 2018 to present, as well as member of the Board of Trustee and President of the ("DOE")-supported Safety and Health Association for the Philippine Energy Sector ("SHAPES") from 2019 to present. Mr. Abuel is a Professional Electrical Engineer, ASEAN Certified Professional

Engineer, Department of Labor and Employment ("DOLE") Accredited Occupational Safety and Health Consultant, Bureau of Fire Accredited Fire Safety Practitioner and Fire Brigade Member Practitioner, Department of Environment and Natural Resources and Laguna Lake Development Authority accredited Pollution Control Officer. Recently achieved the Certified Security Professional ("CSP") accreditation. He achieved a Pass with Merit in the Certificate of the Business Continuity Institute Examination in December 2016. He completed his academic requirements for Executive Masters in Business Administration at the Asian Institute of Management in 2009, studied MBA at the University of Santo Tomas from 2006 to 2008 (36 units). He holds a Bachelor of Science degree in Electrical Engineering from the University of Santo Tomas.

FRANCIS EUSTON R. ACERO, 45, Filipino
Vice President (Since January 1, 2022)
Data Protection Officer (since December 13, 2021)
Atty. Acero joined *MERALCO* in November 2019, where he was assigned as the Deputy Data Protection Officer and thereafter as Data Protection Officer. Prior to joining *MERALCO*, he was the Division Chief of the Data Security and Technical Standards Division of the National Privacy Commission from March to October 2019, and the Complaints and Investigation Division of the National Privacy Commission from August 2016, where he was an active contributor to the Implementing Rules and Regulations of the Data Privacy Act and for other issuances of the National Privacy Commission. Atty. Acero is also a faculty member of the Far Eastern University, where he has taught since 2016. Atty. Acero is a Certified Information Privacy Professional (Europe) from the International Association of Privacy Professionals. Atty. Acero is also a Certified Data Protection Trainer from the National Association of Data Protection Officers of the Philippines. Atty. Acero completed his Bachelor of Arts degree in Journalism at the University of the Philippines and his Juris Doctor from the Ateneo de Manila University.

IRENEO B. ACUÑA, 56, Filipino
Vice President (since January 1, 2013)
Head, Electric Distribution Development Group
Mr. Acuña heads the Electricity and Distribution Development Group which is responsible for the development of business opportunities in electricity distribution and the operations for Cavite Ecozone and Pampanga Electric Cooperative II. Mr. Acuña is a Director of Comstech Integration Alliance Inc. He graduated with a Bachelor of Science degree in Electrical Engineering from Far Eastern University – Institute of Engineering. He completed his Executive Master in Business Administration from the Asian Institute of Management (with Distinction).

JOSEPH L. AMOSCO, 54, FILIPINO
Vice President (since January 1, 2022)
Head, Energy Management, MPower
Mr. Amosco heads the Energy Management organization of the Retail Electricity Supply unit of *MERALCO*. He previously held headship positions in Energy Sourcing Office of *MERALCO* and was part of the Management Team who established Meralco Energy, Inc. He holds a Bachelor of Science degree in Mechanical Engineering from De La Salle University, a Bachelor of Science degree in Electrical Engineering and ranked 6th in the 1991 Mechanical Engineering Board Examinations. He completed his Masters in Management at the Asian Institute of Management.

PATRICK DAVE B. BACANI, 52, Filipino
Vice President (since January 1, 2017)
Head, Sustainability Programs, Reporting & Partnerships
Mr. Bacani has been with *MERALCO* since August 2012. He joined the Corporate Sustainability Office in September 2021. Prior to his current role, he performed various roles under Human Resources & Corporate Services. As an HR practitioner for over 25 years, Mr. Bacani served companies across various industries – 24/7, Convergys, Chevron, Change Management International, and SyCip Gorres Velayo & Co. He holds a degree in Management major in Human Resources Management from De La Salle University - College of St. Benilde and Masters in Business Administration from De La Salle University.

BENNETTE D. BACHOCO, 54, Filipino
Vice President (since July 7, 2011)
Head, Financial Planning and Reporting
Ms. Bachoco is a Director of Miescor Builders Inc., Customer Frontline Solutions, Inc., Inc. and Meralco Financial Services Corporation. She is also an agent of Meralco Pension Fund. Prior to joining *MERALCO*, she was a Partner of SyCip Gorres Velayo & Co. (a Member Firm of Ernst & Young Global) and was a former Senior Vice President for Finance of Trans-Asia Oil and Energy Development Corporation. Ms. Bachoco holds a Bachelor of Science degree in Business Administration and Accountancy from the University of the Philippines and a Master in Business Management from the Asian Institute of Management.

JOSEPH ALLAN C. BALTAZAR, 56, Filipino
Vice President (since January 1, 2016)
Head, South Distribution Services
Mr. Baltazar was a former Trustee of Meralco Employees Fund for Charity, Inc. He was a former Director and Corporate Secretary of the Grid Management Committee and was a member of the WESM Technical Committee under the Independent Electricity Market Operator of the Philippines. Mr. Baltazar is a Professional Electrical Engineer and a graduate of Bachelor of Science in Electrical Engineering at Mapua Institute of Technology.

RITA D. BANTIGUE, 59, Filipino
Vice President (since January 1, 2020)
Corporate Human Resource and Transformation Office Head, Miescor and Head, HR Business Partner for Subsidiaries.
Ms. Bantigue has had 32 years of experience as a Human Resource Practitioner. She holds a Bachelor of Arts degree major in Psychology, Guidance and Counseling from St. Scholastica's College. She received her Masters of Arts major in Guidance and Counseling and Doctor of Philosophy major in Counseling Psychology from the De La Salle University.

SANTE C. BUELLA, 56, Filipino
Vice President (since January 1, 2022)
Head, Central Distribution Services
Mr. Buella has been with *MERALCO* since September 1990. He held various key positions under Networks organization prior to his assignment as Head of Revenue Assurance and Metering Services in July 2019, and as Head of Central Distribution Services in February 2023. He holds a Bachelor of Science in Electrical Engineering degree ("BSEE") from the Technological Institute of the Philippines ("TIP") Manila.

RICARDO CARMELO D. BUENAFE, 54, Filipino
Vice President (since January 1, 2022)
Head, Regulatory Risk and Compliance
Mr. Buenafe has been the Head of Regulatory Compliance Office of *MERALCO* since 2008. Prior to this, he was part of the Executive Staff of the President and Chief Operating Officer, a member of the Interruption Frequency Rate/Cumulative Interruption Time (IFR/CIT) Task Force Secretariat, Power Quality Office and Technical Quality Assurance Staff. He holds a Bachelor of Science degree in Management Engineering from the Ateneo de Manila University and a Master of Business Administration degree from the University of the Philippines. He has been with *MERALCO* for 32 years.

ALBERTO N. CASTILLO, 56, Filipino
Vice President (since January 1, 2022)
Head, Sub-Transmission Services
Mr. Castillo has been employed in *MERALCO* for 34 years. Prior to his assignment as Head of Sub-transmission Services ("STS") in 2021, he led the Substation Department for five (5) years with his expertise in substation construction, operation and maintenance works. He is a graduate of Bachelor Science in Electrical Engineering at Mapua Institute of Technology and a holder Professional Electrical Engineering (PEE) license.

RICARDO L. CONCEPCION, 58, Filipino
Vice President (since January 1, 2022)
Head, MERALCO Employee and Labor Relations (since 2001)
General Manager, MIESCOR BUILDERS INC. (since 2017)
Head, MIESCOR GROUP Corporate Labor Relations (since 2019)
Mr. Concepcion has been an HR practitioner for 38 years. He joined *MERALCO* in 1989 and he was assigned as Head of MERALCO's Employee and Labor Relations office from 2001 to present. In 2017, he was also assigned the role of General Manager for Miescor Builders, Inc. or MBI – a subsidiary of MIESCOR. In 2019, he also headed, in concurrent capacity, MIESCOR Group's Corporate Labor Relations, including its Security office. Mr. Concepcion was also the former head of MIESCOR Group's Human Resources from 2015 to 2019. He is currently a member of the People Management Association of the Philippines ("PMAP") - Labor and Industrial Relations Committee and *MERALCO*'s representative to the Employers Confederation of the Philippines ("ECOP"). Mr. Concepcion graduated from the University of Santo Tomas with a degree in AB-Behavioral Science, achieved his Certificate Course on Human Resources Management in Ateneo de Manila University and he also holds a Bachelor of Laws degree from Jose Rizal University.

MA. CECILIA M. DOMINGO, 54, Filipino
Vice President (since January 1, 2019)
Head, Enterprise and National Government
Ms. Domingo is the head of *MERALCO* Enterprise and National Government since July 2019, the segment that caters to the needs of *MERALCO*'s top 2000 Enterprises, conglomerates and multinationals. She started in *MERALCO* as a cadet engineer in 1990 and has been assigned in different offices and positions within the Company. She is a registered electrical engineer who graduated Magna Cum Laude from Nueva Ecija University of Science and Technology in Cabanatuan City. She holds an Executive Masters in Business Administration from the Asian Institute

of Management. She serves as Council Leader of Capitol City Foursquare Church, a Born-Again Christian church where she and her family actively worship and serve.

LAWRENCE S. FERNANDEZ, 54, Filipino
Vice President (since January 1, 2015)
Head, Utility Economics
Mr. Fernandez received a Bachelor of Science degree in Mechanical Engineering from the University of the Philippines and is a licensed mechanical engineer. He is member of the Renewable Energy Market Governance Committee, representing private distribution utilities. Mr. Fernandez was a Director of the Philippine Economics Society and had served as a Director of the Energy Efficiency Practitioners of the Philippines ("*ENPAP*") (formerly Energy Management Association of the Philippines).

PAUL RYAN C. GREGORIO, 50, Filipino
Vice President (since January 1, 2023)
Head, Talent Management
Mr. Gregorio has been with *MERALCO* for 13 years. He started as Head of *MERALCO* Sports and Youth Advocacy. He was head coach of the *MERALCO* Bolts in the Philippine Basketball Association from 2010 to 2014. He completed his Bachelor of Arts in Communication Major in Film and Audio-Visual Communication in University of the Philippines Diliman.

MARVIN G. GONSALVES, 55, Filipino
Vice President (January 1, 2023)
Head, Revenue Assurance and Metering Services - RAMS (since February 2023)
Mr. Gonsalves has been with *MERALCO* for 33 years. He is *MERALCO*'s subject matter expert in electrical metering having taken various positions in Networks Metering group for 27 years. Prior to head of RAMS, he headed Networks Technology Asset Management (*NTAM*) and Networks Project Portfolio Management (*NPPM*) until January 2023. Since 2021, He is *MERALCO* 's official representative to the Economic and Environment Development Sector and Infrastructure Committee of the Regional Development Council - National Capital Region under the Metro Manila Council. He is the author of technical book references used by Networks group for metering (*i.e., kWH Meter Measurement Uncertainty and Timely Identification and Prediction of the Potential Impact of Increasing VRES to the Distribution System of a DU Using AMI Technology*). Mr. Gonsalves completed his Master of Science in Electrical Engineering (*MSEE*) in UP Diliman in 2006 and a Professional Electrical Engineer (*PEE*) by profession. He is also the 2023 Chairman of Meralco Employees Mutual Aid and Benefits Association, Inc.

JERRY B. LAO, 52, Filipino
Vice President (since January 1, 2022)
Head, Networks Project Portfolio Management
Mr. Lao has been employed in *MERALCO* for 29 years and for the last 9 years he has been the Sector Head of San Pablo, Balintawak, Manila and Pasig. This eventually led him to become the present head of Central Distribution Services. He previously served as Chairman of Meralco Employees Mutual Aid and Benefits Association, Inc. (2018-2019). He has also been serving as Member of the MERALCO Kuryenteng Ligtas (KLigtas) Awards Program from 2017 to present. He is a Professional Electrical Engineer and holds a Bachelor of Science degree in Electrical Engineering from Holy Angel University.

ERVILLE D. MAGTUBO, 48, Filipino
Vice President (since January 1, 2022)
Head, Customer Care Group
Mr. Magtubo joined *MERALCO* in August 2020 to head the newly formed Customer Care Group of *MERALCO*. With a Bachelor of Computer Science degree from the University of the Philippines, he has a combined experience of 28 years in the areas of IT services and outsourcing services. Mr. Magtubo was part of the ePLDT group for 12 years. He was Assistant Vice-President and Head of the Systems Integration Group that provided various IT integration services for the customers of ePLDT. He was later appointed as Vice President and General Manager of iPlus Intelligent Networks, Inc, an ePLDT subsidiary that provided managed IT services and outsourcing services. Concurrently, he was the Sales Director of Infocom Technologies, Inc, another subsidiary that provided connectivity services and contact center services. Prior to joining ePLDT, he was the Channels Manager for Southeast Asia and India of Internet Security Systems, a U.S. based data security company.

RODERICK DENNISON N. NACU, 50, Filipino
Vice President (since January 1, 2023)
Head, Tariff Management
Mr. Nacu is the Head of Tariff Management since 2018. He joined *MERALCO* in 1994 and was part of the *MERALCO* Mechanical Engineering Program, Non-Technical System Loss Reduction Program and Utility Economics. He holds Bachelor of Science in Mechanical Engineering and Master of Business Administration degrees from the University of the Philippines. Mr. Nacu is a licensed mechanical engineer.

CHARINA P. PADUA, 54, Filipino
Vice President (since January 1, 2018)
Head, Home and Micro Business - North Business Area
Ms. Padua has been the Head of Home and Micro Business for North Business Area since February 1, 2019. She served as Head of Commercial Operations of *MERALCO* since October 2012 until January 31, 2019. She holds a Bachelor of Science degree in Business Economics from the University of the Philippines and an Executive Masters in Business Administration from the Asian Institute of Management. She served as a Trustee in the Board of Meralco Savings and Loans Association from 2013 to 2016.

GLEN N. SAN PEDRO, 58, Filipino
Vice President (since December 1, 2020)
Head of Supply Chain Management
Mr. San Pedro was the Head of Procurement of PLDT, Inc. and then as Group Head of Procurement and Logistics for eight (8) years at ePLDT, Inc. He continued to specialize in Supply Chain Management and procurement when he migrated to Alberta, Canada. He was the purchaser for food processing specialist of Newly Weds Foods Inc. that further exposed him to international standards and best practice. He holds a Bachelor of Science degree in Management Engineering from Manuel L. Quezon University. He completed "Supply Management Training in Procurement" as well as "Principles of Buying" from The Purchasing Management Association of Canada (in Edmonton, Alberta, Canada).

JOSE S. REYES JR., 53, Filipino
Vice President (since January 1, 2018)
Head, Networks Technology and Asset Management
Mr. Reyes is a Professional Electrical Engineer. His areas of expertise include electric distribution construction, operation, repair and maintenance, power system analysis, power quality, electric distribution process, technology and technical standards, and asset performance management. He serves *MERALCO* in various capacities in electric power distribution and power quality since 1991, later as Head of North Distribution Services in January 2016, until his current appointment as Head of Networks Technology and Asset Management in July 2021. He joined *MERALCO* in 1991 as a Cadet Engineer and completed the course with Academic Excellence and Exemplary Leadership awards. He was also recognized as one of *MERALCO*'s outstanding employees for supervisory category in 2008 and 2009, and his office was awarded with the *MERALCO* Presidential Awards for Technical Services category in 2005 and 2008. Mr. Reyes holds a Bachelor of Science degree in Electrical Engineering from the Mapúa Institute of Technology, and a Master of Science degree in Electrical Engineering from the University of the Philippines. He also completed his Management Development Program from the Asian Institute of Management with Academic Excellence award and the New Frontiers Middle Management Program with Outstanding Action Learning Project award. He was a former President and current Trustee of the Meralco Employees Fund for Charity, Inc., and a Life Member of the Institute of Integrated Electrical Engineers of the Philippines, Inc.

FROILAN J. SAVET, 55, Filipino
Vice President (since January 1, 2017)
Head, Network Planning and Design
Mr. Savet is a registered ASEAN Chartered Professional Engineer since November 2018 and a Professional Electrical Engineer since March 2015. He is a Senior Institute of Integrated Electrical Engineers (IIEE) Member who served as the 2019 Chairman of the IIEE Professional Training and Development Committee. He earned his Master of Science in Electrical Engineering – Major in Power Systems from the University of the Philippines in October 2003 and a Bachelor of Science degree in Electrical Engineering from Mapua University in May 1990 graduating as a silver medalist, and he ranked second in the April 1992 Electrical Engineering Licensure Examinations. He is a Director of the Distribution Management Committee, Inc. from 2014 to 2019.He is the incumbent Vice Chairman and Committee member of the Third-Party Bids and Awards Committee (TPBAC) administering *MERALCO*'s Competitive Selection Process for its Power Supply Agreements. He is a member of the PRC's Career Progression and Specialization Program-Credit Accumulation and Transfer System (CPSP-CATS) Committee – Board of Electrical Engineering. Most recently, he was elected to Mesala, Inc.'s Board of Trustees as an independent trustee with tenure until May 2023.

JEFFREY O. TARAYAO, 43, Filipino
Vice President (since January 1, 2022)
Chief Corporate Social Responsibility Officer
President, One Meralco Foundation (since June 2011)
Mr. Tarayao has led and managed corporate social responsibility (*"CSR"*), community relations, sustainability and communications programs in the last 20 years. He is a Global Reporting Initiative-certified sustainability reporting specialist. When he joined *MERALCO* in 2011, he led the transformation of its *CSR* and community relations initiatives into a more strategic and business-aligned program. He is currently the private sector representative in the Philippine National Volunteer Services Coordinating Agency, Trustee of the Archdiocese of Manila's Caritas Margins program and a member of the Management Association of the Philippines. He also served in the inaugural board of trustees of the Humanitarian Leadership Academy based in London, United Kingdom from 2016 to

2019 and previously Chaired the League of Corporate Foundations, President of the Coalition for Better Education and Trustee of the International Association of Business Communicators Philippines. In 2011, he was chosen as one of the Asia 21 Fellows of Asia Society, a group of emerging leaders of Asia below 40 and in 2012, one of the 40 under 40 International Development Leaders by the Washington DC-based Development Exchange. Prior to joining *MERALCO*, he served as Head of Community Relations and CSR of Globe Telecom. Tarayao obtained his Master of Sustainable Development degree from Macquarie University in Sydney, Australia in 2018 as an Australia Awards Scholar and completed his undergraduate studies from the University of Santo Tomas, Manila, Philippines where he is also a lecturer on Corporate Social Responsibility and Good Governance in the College of Commerce and Business Administration.

MARIA ZARAH R. VILLANUEVA-CASTRO, 52, Filipino
Vice President (since January 1, 2019)
Head, Corporate Legal Services
Atty. Villanueva-Castro holds a Bachelor of Arts degree major in Political Science from the University of the Philippines and a Bachelor of Laws degree from San Beda University. She is also the Corporate Secretary of One Meralco Foundation, Inc., Comstech Integration Alliance, Inc., Meralco Pension Fund, Meralco Employees Fund for Charity, Inc., Pure Meridian Hydropower Corporation, Inc. and Meralco Employees Savings and Loan Association. She is also a professor of law and bar review lecturer for Commercial Laws.

AGAPITO R. ZALDARRIAGA, 53, Filipino
Vice President (since December 1, 2020)
Head, Corporate Communications
Mr. Zaldarriaga is the Head of Corporate Communications since December 1, 2020. He served as the Head of Public Information Office under Corporate Communications group of *MERALCO* from 2016 to 2020. He is currently the Chairman of the International Association of Business and Communications of the Philippines since 2018 and served as its president from 2016 to 2018. He earned his Bachelor's Degree in Asian Studies in 1985 from the De La Salle University.

MA. CYNTHIA C. SOLUREN, 58, Filipino
Senior Assistant Vice President (since January 1, 2018)
Head, Treasury for Distribution Utility
Ms. Soluren is the Treasurer of Meralco Financial Services Corporation and Comstech Integration Alliance Inc. She has been a Trustee of the Meralco Savings and Loan Association Inc. ("*MESALA*") since 2013 and a former President of *MESALA*. Ms. Soluren holds a Bachelor of Science degree in Statistics and a Masters degree in Business Administration from the University of the Philippines.

Term of Office

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

Nominees

The members of the *BOD* of *MERALCO* are elected from a Final List of Candidates qualified by its Nomination and Governance Committee. The Final List of Candidates is determined after pre-screening and evaluation of qualifications of the nominees nominated by stockholders of record. The

Nomination and Governance Committee is composed of Pedro Emilio O. Roxas, as Chairman, and Lydia B. Echauz, Frederick D. Go, Anabelle L. Chua, Jose Ma. K. Lim and James L. Go as members. The candidates for directors for the ensuing calendar year are:

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

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

Name of Nominee	Nominated By	Relationship	Date of First Appointment
Artemio V. Panganiban	Jennifer S. Gutierez	None	May 27, 2008
Pedro Emilio O. Roxas	Jennifer S. Gutierez	None	May 25, 2010
Lydia B. Echauz	Jennifer S. Gutierez	None	May 25, 2021

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

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

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

Meritorious Justification

The proposed retention of Retired Chief Justice Artemio Panganiban and Mr. Pedro Emilio Roxas as independent directors should be viewed in light of the continuing economic challenges brought about by the COVID-19 Pandemic.

McKinsey and Company, (a global management consulting firm that is a trusted advisor to the world's leading businesses, governments and institutions) stated (in an article dated March 7, 2023) that looking ahead into 2023, the economic forecast for the Philippines remains a moving target. After a

record 10% contraction in 2020, the country may bounce back in 2023, though it will hardly rise above preCOVID-19 levels. Mc Kinsey further concludes that key challenges face the country: significantly high unemployment numbers; a high inflation rate (forecast to reach 5.1% in 2023*);* rising policy rates; import and export bottlenecks; and the declining strength of the Philippine peso against the American dollar.

Specifically in the energy sector, Mc Kinsey observed that there was a contraction of 4.8% in 2022. Although the sector is expected to rebound to 5.5% in 2023, more needs to be done to ensure that the growth target can be met given looming supply constraints and while accelerating the transition to green energy. Due to a growing population, an economy coupled with the depletion of domestic gas from the Malampaya gas field, and a heavy reliance on imported fuel, a power supply shortage is expected closer to 2024 to 2025. This will put sustained upward pressure on prices and an urgency to bring greenfield capacity online.

This means that the supply-demand balance will remain tight, with clear downside risks. Threats to the energy supply include rising oil and gas prices, supply chain disruptions, and currency depreciation.

Given such uncertainty, *MERALCO* and its stakeholders will surely benefit from stability in the Board brought about in part by Retired Chief Justice Panganiban's and Mr. Roxas' deep experience and knowledge of the company that will enable them to continue to provide steady guidance and meaningful participation towards the crafting of policies and strategies to immediately address these operational, legal and regulatory risks[1].

Retired Chief Justice Artemio V. Panganiban

Retired Chief Justice Panganiban has been a beacon of integrity[2] and independence in the *MERALCO* Board. He distinguished himself as a legal luminary whose wealth of expertise and experience[3] in the energy industry critically contributed to the Company's continuing success despite the challenges and risks brought about by the COVID-19 global pandemic. As the shareholders' representative to the Board, he freely shared his measured opinions on relevant issues raised during meetings, encouraged critical discussion, and fostered sound resolutions toward the attainment of the Company's strategic objectives while promoting the best interest of all stakeholders.

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

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

Ret. Chief Justice Panganiban also played a significant role in the Risk Management and Related Party Transactions Committees, ensuring that all related party transactions (RPTs) of the Company are done in fair and at arm's-length terms, to the benefit and best interest of the Company and its shareholders. Said committees of the Board are also tasked with overseeing the Enterprise-Wide Risk Management

framework, through the assessment of top risks and review of the effectiveness of risk mitigation strategies and treatment plans developed by management.

Mr. Pedro Emilio O. Roxas

Mr. Pedro Emilio Roxas has been the Board's governance champion. Being at the forefront in promoting best governance practices[4] in the Board, he provided indispensable support to the Company towards achieving its long-term strategic goals and objectives while ensuring that it fully commits to its environmental, social, and civic responsibilities. His wealth of expertise and experience[5] enabled him to provide significant contributions to the Board in the areas of business, finance, governance, and operations.

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

Similarly, in December 2022, *MERALCO* once again received an ASEAN Asset Class Award from the Securities and Exchange Commission (SEC) and the Institute of Corporate Directors (ICD) for being recognized as one of the top companies in the region with sterling 2021 ACGS assessment results. *MERALCO* also garnered a Three-Golden Arrow Award in the ICD's Golden Arrow Awards based on the 2021 ACGS assessment.

The foregoing constitutes meritorious justification to allow the nominations of both Retired Chief Justice Panganiban and Mr. Roxas as *ID*s for 2023-2024 to be submitted to the stockholders for consideration on May 30, 2023.

[1] The following is the material legal proceeding in 2022 and still pending in 2023 involving the Company:

- In the Matter of the Application for Approval of the Annual Revenue Requirement and Performance Incentive Scheme for the Fifth Regulatory Period (2023 to 2026) in Accordance with the Provisions of the Rules for Setting Distribution Wheeling Rates (RDWR), As Amended, With Prayer for Provisional Authority, Manila Electric Company, Applicant. ERC Case No. 2022-029 MC15 RC (Docketed on March 16, 2022)

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

- THE RENAISSANCE JURIST OF THE 21st CENTURY given by the Supreme Court of the Philippines during his retirement ceremonies on December 6, 2006
- SILVER JUBILEE AWARDEE, Legal Management Council of the Philippines, 1990
- OUTSTANDING MANILAN FOR 1991 given by the City of Manila
- MOST OUTSTANDING LAW ALUMNUS FOR 1988 (sole awardee) given by the Far Eastern University Law Alumni Association on December 16, 1988
- MOST OUTSTANDING PRACTISING LAWYER given by the Consumers' Union of the Philippines on March 16, 1994
- MOST DISTINGUISHED ALUMNUS in the field of LAW given by the FEU ADVOCATE, official student newspaper of Far Eastern University, 1990
- MOST OUTSTANDING SILVER JUBILARIAN, Mapa High School, 1979
- BLUE FALCON Awardee, Mapa High School Alumni Association, 1993
- GOLDEN HELM AWARD from the Senate of West Berlin and the Int'l. Association of Helmsmen, Berlin (1984)
- MOST OUTSTANDING TOURISM PERSONALITY AWARD given by the Skal Club of Makati (1986); FOUNDER'S AWARD, Philippine Travel Agencies Association (1990)
- PRESIDENTIAL GAWAD AWARD given by the Pamantasan ng Lungsod ng Maynila (City University of Manila), 1995
- DR.NICANOR REYES, SR. MEDAL OF MERIT given by Far Eastern University, May 1, 1998
- MEDAL OF HONOR, Angeles University Foundation, 1999
- EMINENT AND DISTINGUISHED JURIST AWARD given by the Consumers' Union of the Philippines, 2002

- DISTINGUISHED SERVICE CROSS, Far Eastern University, 1998
- DIAMOND JUBILEE AWARD, Far Eastern University, 2003
- ORDER OF THE EASTERN STAR, Far Eastern University, 2006
- LIFETIME ACHIEVEMENT AWARD, FEU Law Alumni Association, 2006
- NOBLESSE OBLIGE AWARD, Pasig Catholic College, 2007
- AWARD OF HONOR, Philippine Bar Association, 2007
- MOST OUTSTANDING KAPAMPANGAN given by the Province of Pampanga, 2010
- RULE OF LAW AWARD given by the Chief Justice Claudio Teehankee Foundation on April 18, 2013
- CERTIFICATE OF APPRECIATION, Supreme Court of the Phil and Society for Judicial Excellence, October 20, 2016
- DIAMOND JUBILEE AWARD, as the most outstanding alumnus during the last 60 years given by the Far Eastern University Law Alumni Association, at Conrad Hotel, Pasay City, November 24, 2018
- ROTARY CLUB OF MANILA (RCM) LEADERSHIP AWARD, for being the only RCM President to become Chief Justice, given at Philippine International Convention Center, Pasay City, June 21, 2019

[3] Membership in Boards of Listed and Non-Listed Companies involved in Energy:
- Petron Corporation
- Metro Pacific Investments Corporation
- TeaM Energy Corporation

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

[5] Membership in Boards of Listed and Non-Listed Companies:
- Roxas and Company, Inc.
- Roxas Holdings, Inc.
- Cemex Holdings Inc.
- Metro Pacific Investments Corporation
- Roxaco Land Corporation
- Club Punta Fuego, Inc.
- Brightnote Assets Corporation
- Fundacion Santiago, Inc.

- MAPFRE Insular Insurance Corporation

Attendance of Directors in Board and Committee Meetings

Below is the record of attendance of the directors in 2022:

2022 ASM and Board Meeting Attendance			
Director	**Designation**	**31-May-22**	**Board Meetings / Organizational Meeting**
		Annual Stockholders' Meeting	
Manuel V. Pangilinan	Chairman / Non-Executive Director	Present	13/13
Ray C. Espinosa[1]	Executive Director	Present	13/13
Anabelle L. Chua	Non-Executive Director	Present	13/13
James L. Go	Non-Executive Director	Present	11/13
Frederick D. Go	Non-Executive Director	Present	13/13
Lance Y. Gokongwei	Vice Chairman / Non-Executive	Present	13/13
Victorico P. Vargas	Non-Executive Director	Present	13/13
Lydia B. Echauz	Independent Director	Present	13/13
Jose Ma. K. Lim	Non-Executive Director	Present	13/13
Artemio V. Panganiban	Lead Independent Director	Present	13/13
Pedro Emilio O. Roxas	Independent Director	Present	13/13
[1] President and Chief Executive Officer			

2022 Board Committee Meeting Attendance								
	Finance	**Audit**	**Risk Management**	**Related Party Transactions**	**Nomination and Governance**	**Remuneration and Leadership Development**	**Executive Committee**	**Sustainability**
Manuel V. Pangilinan[1]	N/A	N/A	N/A	N/A	N/A	3/3	4/5	-
Ray C. Espinosa	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Anabelle L. Chua[2]	12/12	7/7	2/2	2/2	4/4	N/A	N/A	N/A
James L. Go	11/12	6/7	2/2	2/2	4/4	N/A	5/5	N/A
Frederick D. Go	N/A	7/7	2/2	2/2	4/4	N/A	N/A	-
Lance Y. Gokongwei	9/12	N/A	N/A	N/A	N/A	3/3	5/5	-
Lydia B. Echauz[3]	12/12	7/7	N/A	N/A	4/4	N/A	N/A	N/A
Jose Ma. K. Lim[4]	1/1	7/7	2/2	2/2	4/4	N/A	5/5	-
Artemio V. Panganiban[5]	N/A	7/7	2/2	2/2	N/A	N/A	5/5	N/A
Pedro Emilio O. Roxas[6]	12/12	7/7	2/2	2/2	4/4	3/3	N/A	-
Victorico P. Vargas	12/12	N/A	N/A	N/A	N/A	3/3	N/A	N/A

[1] Chairman, Executive Committee, Remuneration and Leadership Development Committee, and Sustainability Committee

[2] Chairman, Finance Committee – until November 27, 2022.

[3] Independent Director

[4] Mr. Jose Ma. K. Lim was appointed as new member and Chairman of the Finance Committee in the November 28, 2022 Board meeting; Chairman, Risk Management Committee

[5] Chairman, Audit Committee; Lead Independent Director

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

The Board recognizes the importance of a regular performance assessment, individually and collectively as part of their accountability. Assessments are conducted annually to evaluate their specific and overall performance for the past calendar year. The Board evaluated their individual and collective performances regarding the Board and its committees' structures, processes and responsibilities. The assessment likewise identified the training and skills development program needed by the Board. The Board also reviewed the performance of the President and CEO based on

his leadership, working relations with the Board, Management, and communication. Four (4) assessment instruments with corresponding evaluation criteria were accomplished by the directors, namely the Board Self-Assessment, General Board Committee Assessment, Board Committee Self-Assessment, and the President and CEO Performance Assessment. The assessment criteria or metrics include board structure and qualification, board duties and responsibilities, duties and responsibilities as an individual director, and board committee functions and over-all performance vis-à-vis the respective charters. The aggregated results are presented to the Board during meeting immediately following the end of the assessment process. Every three years, the assessments are supported by an external facilitator. In 2023, the Company engaged the services of the Good Governance Advocates and Practitioners of the Philippines ("*GGAPP*") as external facilitator in the evaluation of the 2022 performance of the board, board committees, the Chairman, the CEO, and other key officers.

Significant Employees

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

Family Relationships

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

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

Involvement in Certain Legal Proceedings

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

Certain Relationships and Related Transactions

Except with respect to the Related Party Transactions as discussed in Note 23 to the consolidated financial statements as at December 31, 2022 and 2021 and for each of the three (3) years ended December 31, 2022, there was no transaction during the last three (3) years involving *MERALCO* in which any of its directors or executive officers, any nominee for election as director, or security holder owning 10% or more of *MERALCO's* total outstanding shares and members of their immediate family had a material interest.

Resignation of Directors

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

Compensation of Directors and Officers

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

NAME	YEAR	SALARIES[1]	BONUS[2]	OTHER ANNUAL COMPENSATION[3]
		Amounts in Millions		
Chief Executive Officer (*CEO)* and four (4) most highly compensated executive officers[4]	Projected 2023	₱137	₱428	₱18
	2022	135	84	19
	2021	132	75	16
All other key officers, other officers and directors as a group (excluding the *CEO* and four most highly compensated executive officers)	Projected 2023	277	554	37
	2022	247	130	35
	2021	216	107	27

[1] Basic salaries and allowances.
[2] Includes government-mandated payout and variable pay
[3] Commutation of unused leave benefits.
[4] Comprised of the following: Ray C. Espinosa, President and CEO; Betty C. Siy-Yap, Senior Vice President and Chief Finance Officer; William S. Pamintuan, Senior Vice President, Chief Legal Counsel, Assistant Corporate Secretary, Compliance Officer and Head, Legal and Head, Corporate Governance and Chief Data Protection Officer; Ronnie L. Aperocho, Senior Vice President and Head, Networks and President and Chief Executive Officer, MIESCOR; Edgardo V. Carasig, First Vice President and Head, Human Resources and Corporate Services.

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

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

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

Below are the details of the remuneration paid to the directors in 2022:

	Remuneration for Board Meetings Attended in 2022	Remuneration for Committee Meetings Attended in 2022	TOTAL
EXECUTIVE DIRECTOR			
Ray C. Espinosa	₱1,680,000	₱–	₱1,680,000
NON-EXECUTIVE DIRECTOR			
Manuel V. Pangilinan	1,680,000	168,000	1,848,000
Lance Y. Gokongwei	1,680,000	408,000	2,088,000
Anabelle L. Chua	1,680,000	648,000	2,328,000
James L. Go	1,400,000	720,000	2,120,000
Frederick D. Go	1,680,000	360,000	2,040,000
Jose Ma. K. Lim	1,680,000	504,000	2,184,000
Victorico P. Vargas	1,680,000	360,000	2,040,000
INDEPENDENT DIRECTORS			
Lydia B. Echauz	1,680,000	552,000	2,232,000
Artemio V. Panganiban	1,680,000	384,000	2,064,000
Pedro Emilio O. Roxas	1,680,000	720,000	2,400,000
TOTAL INDEPENDENT DIRECTORS	**5,040,000**	**1,656,000**	**6,696,000**
GRAND TOTAL	**₱18,200,000**	**₱4,824,000**	**₱23,024,000**

The Directors and Officers are covered by a Casualty Line Insurance Policy effective until June 27, 2023. The policy covers Company Securities, Company Employment Practices Breach, Regulatory Crisis Event Costs, Investigation Costs, Public Relations Expenses, Investigation Costs for Derivative Demands, Tax Liability and other additional limits such as Bodily Injury and Property Damage Defence Costs, Health and Safety Costs, Gross Negligence Manslaughter Defence Costs and Environmental Violation (Defence Costs Including Civil and admin Fines).

Independent Public Accountants

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

The terms of engagement, scope of services and fees of the external auditors were reviewed and approved by the Audit Committee. The Audit Committee is composed of six (6) members and chaired by lead independent director, Retired Chief Justice Artemio V. Panganiban. The other

members of the committee are independent directors Pedro Emilio O. Roxas and Lydia B. Echauz, directors Jose Ma. K. Lim, James L. Go, Frederick D. Go and Anabelle L. Chua.

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

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

Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

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

The External Auditors

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

(a) Audit and Audit-Related Fees

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

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

(b) Tax Fees

Not applicable.

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

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

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

Not applicable.

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

Not applicable.

OTHER MATTERS

Action with Respect to Reports

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

1. Minutes of the Annual Stockholders' Meeting held on May 31, 2022
    - Minutes of the annual meeting of stockholders held on May 25, 2021
    - Report of the President and Chief Executive Officer
    - Approval of the 2021 audited consolidated financial statements
    - Ratification of acts of the Board and Management
    - Amendment of Article I Sections 1, 2, 3, 5 and 7 of the Company's By-Laws
    - Election of Directors for the ensuing year
    - Appointment of external auditors
2. Report of the President and Chief Executive Officer
3. Approval of the 2022 audited consolidated financial statements
4. Ratification of Acts of the Board and Management during the year
    - Refer to attached Annex B on the List of the Acts of the Board and Management for Ratification
5. Amendment of Article I Section 2 and Article II Section 6 of the Company's By-Laws

Amendment of Article I Section 2 and Article II Section 6 of the Company's By-Laws - A resolution approving the amendment will be presented to the stockholders for approval by the affirmative vote of the stockholders representing at least a majority of the outstanding capital stock.

"RESOLVED, that the Stockholders of the Corporation hereby approve the amendment of Article I Section 2 and Article II Section 6 of the Company's By-Laws quoted below:

ARTICLE I
MEETINGS OF STOCKHOLDERS

Section 2. SPECIAL MEETINGS. – Special meetings of the stockholders may be called by the Chairman of the Board or by order of the Board of Directors whenever he or they may deem it necessary, and shall be so called whenever persons holding of record at least **ten percent (10%) or more** of **the** outstanding **capital** stock of the Company entitled to vote shall in writing request the same.

ARTICLE II
BOARD OF DIRECTORS

Section 6. VACANCIES. – If any vacancy shall occur among the directors **other than by removal or by expiration of term**, such vacancy may be filled, pending action by the stockholders, at any regular or special meeting of the Board of Directors, by vote of a majority of all the remaining directors.

6. Election of directors for the ensuing year

7. Appointment of external auditors

Amendments of Charter, By-Laws and Other Documents

The amendments to the Company's By-Laws on Articles I and II regarding the meeting of stockholders and Board of Directors were proposed to comply with SEC Memorandum Circular 7 Series of 2021 and Section 28 of the Revised Corporation Code respectively.

Voting Procedures

(a) Each stockholder shall be entitled to one vote for each share.

(b) All items in the agenda for approval/ratification of the stockholders require the affirmative vote of at least a majority of the stockholders entitled to vote.

(c) In the election of directors, each stockholder entitled to vote may cumulate and distribute his votes in accordance with the Corporation Code of the Philippines.

(d) Voting and counting of votes shall be done through the Company's Stockholders Electronic Registration and Voting Express ("SERVE") platform found at https://company.meralco.com.ph/corporate-governance/SERVE (Please refer to attached Annex C on the Requirements And Procedure For Electronic Voting In Absentia and Participation Via Remote Communication for more details.) All votes will be counted and tabulated by the *SERVE* and validated by the Corporate Secretary and Auditors. Inspectors from an independent third party appointed by the Board will also be present to validate the votes. The Corporate Secretary shall report the results of voting during the meeting.

MANAGEMENT REPORT

Business and General Information

1) **Business Development**

The businesses of Manila Electric Company ("*MERALCO*") and its subsidiaries (the "*MERALCO Group*") consist of the unregulated and regulated segments of the energy supply chain; engineering design services; construction and consulting services; payment fulfilment and bills collection services; after-the-meter and energy management services; and telecommunication and information technology services. MERALCO was registered on May 7, 1919.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

MGen's subsidiaries and affiliates are as follows:

A. Operational Projects:
   - San Buenaventura Power Ltd. Co.'s ("SBPL"):
     - SBPL owns a 500 MW (gross) supercritical coal-fired power plant in Mauban, Quezon which started commercial operations on September 26, 2019. The Power Supply Agreement ("*PSA*") with Manila Electric Corporation was approved by the Energy Regulatory Commission on May 19, 2015.

     - The power plant, which provides baseload power supply to electricity consumers in Luzon, is a Board of Investments ("BOI") registered pioneer project that utilizes state-of-the-art supercritical technology, which is more fuel efficient compared to coal plants currently in operation in the Philippines.

     - SBPL is a partnership between MGen and New Growth B.V. of Electricity Generating Public Company Limited ("EGCO Group") of Thailand with MGen owning a 51% stake while EGCO owning 49%.

B. Investments:
   - PacificLight Power Pte. Ltd. ("PLP"):
     - PLP owns a 2 x 400 MW combined cycle turbine power plant mainly fueled by liquefied natural gas ("LNG") in Jurong Island, Singapore and has been operating since February 2014.

     - It is the largest Clean Development Mechanism ("CDM") project in Singapore registered under the United Nations Framework Convention on Climate Change.

     - MGen effectively holds 58% equity interest in PLP.
       - PLP is 70% owned by FPM Power Holdings Ltd. ("FPM"). The remaining 30% interest is directly held by MPG Asia Limited, a wholly owned subsidiary of MGen. FPM is a 60:40 joint venture between First Pacific Company Ltd and MGen.

- Global Business Power Corporation ("GBP"):
  - GBP with a total gross capacity of 1,091MW, is one of the leading independent power producers in Visayas and Mindanao. On March 31, 2021, MGen completed the acquisition of all shareholdings in GBP.

  - Subsidiaries and affiliates:
    - Cebu Energy Development Corporation ("CEDC") owns and operates a 246MW clean coal-fired power plant located in Toledo City, Cebu. CEDC is 44% owned by Abovant Holdings, Inc. and 56% owned by Global Formosa Power Holdings, Inc.—a corporation that is 93.2% owned by GBP.

    - Toledo Power Co. ("TPC") owns and operates 60MW and 82MW coal-fired power plants in Daanlungsod, as well as a 40MW diesel-fired power plant in Carmen – all in Toledo City, Cebu. It is 100% beneficially owned by GBP.

    - Panay Energy Development Corporation ("PEDC") owns and operates 164MW and 150MW clean coal-fired power plants located in Iloilo City, Iloilo. PEDC is 100% owned by Panay Power Holdings Corporation—a corporation that is 89.3% owned by GBP.

    - Panay Power Corporation ("PPC") owns and operates four diesel-fired power plants. In Iloilo City, it has a 75MW plant and a 20 MW plant. It also has a 7.5MW plant and a 5MW plant in Nabas and New Washington, Aklan. PPC is wholly owned by Panay Power Holdings Corporation—a corporation that is 89.3% owned by GBP.

    - GBH Power Resources, Inc. ("GPRI") owns a 7.5MW diesel-fired plant in Pinamalayan, Oriental Mindoro. At present, it is operating for purposes of plant preservation. It is 100% owned by GBP.

    - Global Energy Supply Corporation ("GESC") is a Retail Electricity Supplier (RES) licensed by the ERC and serves as GBP's RES arm. It is 100% owned by GBP.

    - Global Trade Energy Resources ("GTERC") is primarily engaged in trading thermal coal and consumable commodities for wholesale retail, as well as chartering freight barges and vessels. It is 100% owned by GBP.

    - Alsons Thermal Energy Corporation ("ATEC") is a Mindanao-based power generation holding company that has 75% equity interest in Sarangani Energy Corporation ("SEC"). SEC owns and operates a 237MW coal-fired power plant in Maasim, Sarangani. ATEC also has 100% ownership in San Ramon Power, Inc. ("SRPI"). SRPI is developing a 120MW coal-fired power plant in Zamboanga. GBP owns a 50% minus 1 stake in ATEC.

- MGEN Renewable Energy, Inc. ("MGreen")
  - MGen incorporated MGreen on June 6, 2019 as MGen's vehicle for its investments in renewable power generation projects. MGreen is 100% owned by MGen.

  - Subsidiaries and affiliates:
    - PowerSource First Bulacan Solar, Inc. ("PFBSI") owns a 55MWac solar power plant in San Miguel, Bulacan. It is a joint venture between MGreen (60%) and PowerSource

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

- PH Renewables, Inc. ("PHRI") is developing a 75MWac solar plant in Baras, Rizal. Target commercial operations is by first quarter of 2023. PHRI is 100% owned by CACI Power Corporation, a corporation that is 60% owned by MGreen and 40% owned by Mitsui & Co., a subsidiary of Mit-Renewables Philippine Corporation (Mit-Renewables). PHRI was incorporated on December 10, 2018.

- Nuevo Solar Energy Corporation ("NSEC") owns a 68MWac solar plant in Currimao, Ilocos Norte, which is set to commence commercial operations by first quarter of 2023. NSEC is 50% owned by MGreen and 50% owned by Pasuquin Energy Holdings, Inc.

- Nortesol III, Inc. ("Nortesol") is engaged in the development, construction, and operation of power plant and related facilities using renewable energy system and hybrid energy system with target capacity of 110 MW dc/90 MWac. It is 70% owned by MGreen. Nortesol is awaiting the issuance of the leasing policy by the Laguna Lake Development Authority.

- Lagunasol Corporation ("LagunaSol") is engaged in the development, construction, and operation of a power plant and related facilities using solar energy. It was incorporated on September 24, 2020 and is 100% owned by MGreen.

C. Development Projects:

- Atimonan One Energy, Inc. ("A1E"):
  - A1E is MGen's wholly owned subsidiary developing a 4 x 600 MW (net) liquefied-natural gas ("*LNG*") power plant in Atimonan, Quezon.

  - The Department of Energy ("DOE") issued A1E a Certificate of Energy Project of National Significance ("CEPNS") for commerciality under Executive Order No. 30 – a key recognition of the project's importance to the country's future energy supply. Transmission right-of-way ("ROW") acquisition continues to progress well and is almost fully secured.

  - The project has secured an Environmental Compliance Certificate ("ECC") by the Department of Environmental and Natural Resources ("DENR"), received a land use conversion for the project site, and gained full control of the project area.

- Redondo Peninsula Energy, Inc. ("RP Energy"):
  - RP Energy is 47% owned by MGen, 25% owned by Therma Power, Inc., 25% owned by Taiwan Cogeneration International Corporation (Philippine Branch Office), and 3% owned by Meralco Pension Fund. (25%).

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

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

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

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

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

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

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

2) **Business of Issuer**

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

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

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

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

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

Franchise and Concession Agreements

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

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

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

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

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

Retail Competition and Open Access ("RCOA")

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

On March 31, 2014, the *ERC* issued a resolution on the Withdrawal of the Rules on Customer Switching and the Retention of the Code of Conduct for Competitive Retail Market Participants. On the same date, *ERC* also issued a resolution adopting the Rules on the Establishment of Customer Information by the Central Registration Body ("*CRB*") and Reportorial Requirements, mandating all *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 Department Circular No. DC2015-06-0010, "Providing Policies to Facilitate the Full Implementation of *RCOA* in the Philippine Electric Power Industry". The Circular essentially provided for mandatory contestability.

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

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

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

- Provided for mandatory contestability. Failure of a contestable customer to switch to *RES* upon date of mandatory contestability (December 26, 2016 for those with average demand of at least one (1) *MW* and June 26, 2017 for at least 750 MW) shall result in the physical disconnection from the *DU* system unless it is served by the supplier of last resort ("*SOLR*"), or, if applicable, procures power from the *WESM*;

- Prohibits *DU*s from engaging in the supply of electricity to the contestable market except in its capacity as a *SOLR*;

- Mandates Local *RES*s to wind down their supply businesses within a period of three (3) years;

- 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,

- 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. The *ERC* has yet to respond to MERALCO's letter.

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

Government Approval of Principal Products or Services

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

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

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

Government Approval and Regulation

Energy Regulatory Agency

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

Costs and Effects of Compliance with OSH and Environmental Laws

Organizational Safety

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

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

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

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

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

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

Environment Management

It is mandatory to keep pace with all the requirements of the Department of Environment and Natural Resources - Environmental Management Bureau ("*DENR-EMB*") and Laguna Lake Development Authority ("*LLDA*") as failing to understand and comply with changes in their requirements can result to violations and monetary fines. For 2022, *MERALCO* secured a total of 323 permits (59 newly acquired, 264 renewed/amended), which include Certificate of Non-Coverage ("*CNC*") for eight (8) new Substations and submitted a total of 1,238 environmental monitoring reports, which is 14% higher than the 1,090 reports submitted for 2021. The total costs incurred in 2022 for securing environmental permits amounted to Php 3,440.584 including Php 1,400,000 for the amendment of Environmental Compliance Certificates ("*ECC*s") for eight (8) major operating facilities.

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

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

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

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

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

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

COVID-19 Risk and Other Contagious Diseases

On the risk of COVID-19 and other contagious diseases:

- Business and operational disruption due to COVID-19 is low.
    - Employees are all vaccinated, this significantly mitigates the risk of infection among employees
    - More stringent health protocols implemented during the peak of covid-19 infections are still being observed
    - Daily health monitoring is still in place to keep tract of employees' health status and ensure that appropriate measures are taken, if necessary
- Business Continuity Plans are in place to address the risk of infectious diseases affecting business operations

Disaster Resiliency

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

As of December 2022, a total of 43 *MERALCO* Rescue members, 14 emergency vehicles, and various emergency equipment were available and ready for deployment on any emergencies. Two webinars and twelve trainings on emergency preparedness and response were conducted for skills and knowledge enhancement: Fire Safety Webinar (BFP), and Weather Webinar (Philippine Atmospheric, Geophysical and Astronomical Services Administration), Crisis Management (BSI

Philippines), Fire Truck Operations Training (Rosenbauer), Water Safety and Rescue Boat Operation Training (Pasig DRRMO), Basic Incident Command System (OCD), Emergency Operations Center (OCD), High Angle Rescue (PEME Consultancy, Inc.), BCM Practitioner (APEX Global), and some internal trainings conducted by the *MERALCO* Rescue members. Overall, there is a total of 1,296 participants.

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

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

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

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

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

***Tax Reform for Acceleration and Inclusion* ("*TRAIN*") Law**

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

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

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

Corporate Recovery and Tax Incentives for Enterprises Act ("CREATE")

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

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

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

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

Number of Employees

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

Properties

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

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

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

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

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

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

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

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

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

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

The *MERALCO* Group also has various lease contracts as lessee for periods ranging from one (1) year to 30 years covering certain office spaces, payment offices and substation sites and towers. The *MERALCO* Group incurred rent expense of ₱790 million and ₱598 million for the years ended December 31, 2022 and 2021, respectively.

The *MERALCO* Group has a *BOD*-approved annual capital expenditure budget which mainly represents planned expenditures for the electric capital projects of the power distribution business,

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

Legal Proceedings

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

MERALCO prayed that a Decision be rendered:

a. Approving *MERALCO*'s proposed mechanism to address the issue of the rates governing the lapsed period from July 2015 to November 2020 through the true-up mechanism between *MERALCO*'s *AWAT* and *IAR*;

b. Confirming *MERALCO*'s resulting calculation of the total amount to be refunded from its customers in the total amount of ₱13.886 million;

c. Approving *MERALCO*'s proposed refund scheme and refund period, within 24 months or until fully refunded, to its customers;

d. Declaring all issues relating to *MERALCO*'s lapsed period (and until a new rate has been determined by the *ERC* for the next regulatory period), as resolved, closed and terminated with prejudice.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In an Order dated February 2, 2017, the *ERC* denied the motion to dismiss and asserted jurisdiction over the Complaint. *MERALCO* filed its *MR* to the Order on February 23, 2017. In an Order dated June 20, 2017, the *ERC* denied the *MR*. On September 19, 2017, *MERALCO* filed a Petition for Certiorari with the *CA*. In a Resolution dated October 2, 2017, the *CA* required respondents to file their Comment on the Petition within 10 days and held in abeyance its resolution on the prayer for injunctive relief until the comments have been filed. *MERALCO* was likewise given five (5) days to file its reply. In a Manifestation dated October 23, 2017, the *ERC* stated that it is a nominal party in the case as the quasi-judicial 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 a January 28, 2019 Resolution, the *CA* denied the motions for reconsideration filed by all of the parties. While it sustained its finding that the *PCC* now holds original, exclusive, and primary jurisdiction over all competition-related cases, the *CA* reiterated its view that the *PCA* has no retroactive effect. The ERC elevated the CA Decision to the SC where the petition remains pending.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

14. ***In the Matter of the Application for Authority to Implement the Proposed Capital Expenditure (CAPEX) Program for RY 2016, with Prayer for Provisional Authority, Manila Electric Company, Applicant***
ERC Case No. 2015-016 RC
(Filed on February 9, 2015)

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

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

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

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

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

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

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

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

pending before the *ERC*. On July 25, 2016, *MERALCO* has filed its opposition to the Motion for Reconsideration. The *ERC* has yet to rule on the Motion for Reconsideration.

15. ***In the Matter of the Application for Authority to Implement the Proposed Capital Expenditure (CAPEX) Program for RY 2017, with Prayer for Provisional Authority, Manila Electric Company, Applicant***
ERC Case No. 2016-017 RC
(Filed on March 8, 2016)

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

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

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

16. ***In the Matter of the Application for Approval of Emergency and/or Urgent Major Capital Expenditure (CAPEX) Projects, Manila Electric Company, Applicant***
ERC Case No. 2016-161 RC
(Filed on August 15, 2016)

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

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

(Filed on April 3, 2017)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

PCCI, et. al. v. DOE and ERC
G.R. No. 228588

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

On November 29, 2017, the *DOE* issued two (2) *DOE* Circulars, namely: DC 2017-12-0013, entitled, Providing Policies on the Implementation of Retail Competition and Open Access ("*RCOA*") for Contestable Customers in the Philippines Electric Power Industry and DC 2017-12-0014, entitled

Providing Policies on the Implementation of Retail Competition and Open Access (RCOA) for Retail Electricity Suppliers (RES) in the Philippine Electric Power Industry. The *DOE* Circulars became effective on December 24, 2017.

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

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

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

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

In a Notice dated November 15, 2016, the Honorable Commission approved the draft "Regulatory Asset Base ("*RAB*") Roll Forward Handbook for Privately Owned Electricity Distribution Utilities (DUs)" (RAB Handbook) for posting in its website. All interested parties were given until December 19, 2016 to submit their respective comments to the draft *RAB* Handbook. Thereafter, during the public consultation on January 9, 2017, the parties were given until February 9, 2017 to file their comments to the draft Handbook. In an Omnibus Motion filed on February 9, 2017, *MERALCO* submitted its initial comments to the draft *RAB* Handbook but moved for the deferment of the proceedings until the *MSK* Petition has been resolved. The *ERC* has yet to act on *MERALCO*'s Omnibus Motion.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

29. ***In the Matter of Alleged Violation of the Advisories issued by the Energy Regulatory Commission (ERC) during the Enhanced Community Quarantine (ECQ) and Modified Enhanced Community Quarantine (MECQ).***
ERC Case No. 2020-001 SC
Energy Regulatory Commission
Show Cause Order received June 2, 2020

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

30. ***In Re: Non-Compliance to the Directive to Submit Data on the Validation of Actual/Historical Expenditure***
ERC Case No. 2020-106 SC
Energy Regulatory Commission
Show Cause Order received December 15, 2020

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

On August 4, 2020, *MERALCO* received a letter dated July 30, 2020 from the *ERC* granting *MERALCO*'s request for extension to defer its submission, but only until August 2020, or 27 days from its receipt of the letter, without further extension. Unfortunately, despite exerting its best efforts, *MERALCO* was only able submit its partial but substantial compliance through a letter dated August 31, 2020, which was sent by electronic mail on September 1, 2020, given the magnitude of the detailed information required. As such, *MERALCO* could only submit information covering the Third Regulatory Period as well as other system statistics. However, *MERALCO* undertook to submit the remaining information within the next three (3) months. On November 2020, the ERC sent a letter dated 29 October 2020 inviting *MERALCO* and its concerned officers to 4, a virtual clarificatory meeting to clarify *MERALCO*'s submission and discuss the Honorable Commission's initial review thereon on November 23, 2020. Similarly, the Honorable Commission informed *MERALCO* that it shall allow the submission of additional information as required during the meeting as well as answers to the clarificatory questions no later than five (5) business days from the date of the clarificatory meeting.

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

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

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

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

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

Financial Highlights and Key Performance Indicators
(amounts in million, except earnings per share,
operational data and system loss)

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

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

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

[1] Reported net income, adjusted to exclude the effect of foreign exchange gains or losses, impairment charges, mark-to-market adjustments and other one-time, exceptional transactions.
[2] Core net income divided by the number of common shares outstanding.

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

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

OVERVIEW

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

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

- Power

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

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

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

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

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

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

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

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

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

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

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

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

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

- Other Services

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

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

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

BUSINESS SEGMENTS	
Power	**Other Services**
Electricity distribution ● *MERALCO* ● *Clark Electric* ● *Shin Clark* Power generation ● *MGen* and its subsidiaries *RES* ● *MERALCO* through *MPower* business unit ● *Clark Electric* through *Cogent Energy* business unit ● *Clarion* ● *GESC* ● *MeridianX* ● *Phoenix Power* ● *Vantage*	● *CIS Group* ● *Comstech* ● *e-MVI Group* ● *eSakay* ● *Finserve* ● *LOIL* ● *MIESCOR Group* ● *MServ* ● *Spectrum*

RESULTS OF OPERATIONS

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

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

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

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

2022 compared with 2021

REVENUES

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

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

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

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

Power

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

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

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

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

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

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

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

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

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

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

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

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

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

Other Services

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

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

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

COSTS AND EXPENSES

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

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

Power

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

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

Purchased power accounted for 81% and 79% of the total costs and expenses for the years ended December 31, 2022 and 2021, respectively. A significant portion of the electricity distributed by *MERALCO* and *Clark Electric* are contracted through *PSAs* with generators and long-term Power Purchase Agreements *("PPA")* with Independent Power Producers ("*IPP*"), with any uncontracted volume sourced from the Wholesale Electricity Spot Market ("*WESM*").

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

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

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

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

Other Services

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

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

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

OTHER INCOME (EXPENSES)

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

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

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

Power

Other income (expenses) of power segment consist of:

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

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

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

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

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

NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

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

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

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31, 2022	December 31, 2021 (As restated)*	Increase (Decrease) Amount	Increase (Decrease) %
		(Amounts in millions)		
ASSETS				
Noncurrent Assets				
Utility plant, generation plant and others	**₱243,323**	₱225,326	₱17,997	8
Investments in associates and interests in joint ventures	**31,888**	23,317	8,571	37
Investment properties	**1,495**	1,496	(1)	–
Intangible assets	**21,691**	15,054	6,637	44
Deferred tax assets - net	**22,657**	27,143	(4,486)	(17)
Financial and other noncurrent assets	**43,920**	53,125	(9,205)	(17)
Total Noncurrent Assets	**364,974**	345,461	19,513	6
Current Assets				
Cash and cash equivalents	**55,832**	55,007	825	1
Trade and other receivables	**54,683**	45,013	9,670	21
Inventories	**10,629**	9,817	812	8
Financial and other current assets	**33,143**	28,317	4,826	17
Total Current Assets	**154,287**	138,154	16,133	12
Total Assets	**₱519,261**	₱483,615	₱35,646	7
EQUITY AND LIABILITIES				
Equity attributable to equity holders of the parent	**₱109,664**	₱95,204	₱14,460	15
Non-controlling interests	**14,445**	10,124	4,321	43
Total Equity	**124,109**	105,328	18,781	18
LIABILITIES				
Noncurrent Liabilities				
Interest-bearing long-term financial liabilities - net of current portion	**68,757**	52,720	16,037	30
Customers' deposits - net of current portion	**31,590**	30,901	689	2
Long-term employee benefits	**2,893**	10,257	(7,364)	(72)
Provisions	**12,657**	13,554	(897)	(7)
Refundable service extension costs - net of current portion	**4,653**	5,334	(681)	(13)
Deferred tax liabilities - net	**5,427**	5,959	(532)	(9)
Other noncurrent liabilities	**63,450**	97,981	(34,531)	(35)
Total Noncurrent Liabilities	**189,427**	216,706	(27,279)	(13)

	December 31, 2022	December 31, 2021 (As restated)*	Increase (Decrease) Amount	%
		(Amounts in millions)		
Current Liabilities				
Notes payable	**29,491**	28,834	657	2
Trade payables and other current liabilities	**163,902**	119,067	44,835	38
Customers' refund	**2,905**	2,929	(24)	(1)
Income tax payable	**92**	1,637	(1,545)	(94)
Current portion of long-term employee benefits	**3,750**	–	3,750	–
Current portion of interest-bearing long-term financial liabilities	**5,585**	9,114	(3,529)	(39)
Total Current Liabilities	**205,725**	161,581	44,144	27
Total Liabilities	**395,152**	378,287	16,865	4
Total Liabilities and Equity	**₱519,261**	₱483,615	₱35,646	7

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

Utility Plant, Generation Plant and Others

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

Investments in Associates and Interests in Joint Ventures

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

Intangible Assets

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

Financial and Other Noncurrent Assets

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

Trade and Other Receivables

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

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

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

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

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

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

2021 compared with 2020

REVENUES

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

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

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

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

Power

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

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

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

MERALCO's 12-month moving average system loss ("*SL*") rate was at 5.64% as at December 31, 2021, higher than that as of December 31, 2020 mainly due to the shift in customer

mix to residential customers which have higher technical losses as power is served at the secondary voltage level. *Clark Electric*'s 12-month moving average *SL* rate was at 2.16%, 0.03 percentage point higher than last year.

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

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

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

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

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

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

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

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

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

Other Services

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

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

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

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

COSTS AND EXPENSES

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

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

Power

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

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

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

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

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

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

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

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

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

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

Other Services

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

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

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

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

OTHER INCOME (EXPENSES)

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

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

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

yield from investments and higher interest and other financial charges.

Power

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

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

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

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

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

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

NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

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

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

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2020 compared with 2019

REVENUES

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

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

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

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

Power

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

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

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

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

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

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

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

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

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

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

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

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

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

Other Services

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

COSTS AND EXPENSES

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

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

Power

The details of costs and expenses are summarized below:

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

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

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

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

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

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

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

Other Services

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

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

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

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

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

OTHER INCOME (EXPENSE)

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

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

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

Power

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

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

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

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

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

NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

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

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

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

LIQUIDITY AND CAPITAL RESOURCES

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

	For the Years Ended December 31		
	2022	**2021**	**2020**
		(Amounts in millions)	
Cash Flows			
Net cash provided by operating activities	₱25,182	₱43,181	₱29,872
Net cash provided by (used in) investing activities	(22,081)	(49,467)	2,776
Net cash provided by (used in) financing activities	2,273	10,861	(20,291)
Net increase in cash and cash equivalents	825	4,575	12,357
Capital Expenditures	42,196	27,236	20,558

	2022	**2021**
	(Amounts in millions)	
Capitalization		
Interest-bearing long-term financial liabilities		
Current	₱5,585	₱9,114
Noncurrent	68,757	52,720
Notes payable	29,491	28,834
Equity attributable to equity holders of the parent	109,664	95,204
Other Selected Financial Data		
Total assets	519,261	483,615
Utility plant, generation plant and others	243,323	225,326
Cash and cash equivalents	55,832	55,007

Debt Financing

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

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

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

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

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

Equity Financing

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

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

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

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

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

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

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

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

RISK FACTORS

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

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

Regulated Rates and Cost Recoveries

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

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

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

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

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

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

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

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

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

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

Distribution Rate True-Up ("DRTU") Applications

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

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

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

Regulatory Reset Process Application

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

CAPEX for 4th RP, RY 2020 to RY 2022

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

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

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

3rd and 4th RP PBR Reset for Clark Electric

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

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

Recovery of Development Investments, New Businesses and Significant Capital Expenditures

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

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

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

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

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

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

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

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

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

Sales Volume and Philippine Economic Conditions

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

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

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

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

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

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

Power Supply and Demand Management

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

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

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

	2022	2021	2020
		(Amounts in millions)	
FGPC and FGP Corp. ("*FGP*")	**₱76,145**	₱51,164	₱43,659
NGCP	**43,356**	34,539	37,230
IEMOP	**40,655**	21,721	14,523
QPPL	**28,793**	16,289	13,990
SBPL	**26,795**	15,973	12,902
South Premiere Power Corporation ("*SPPC*")	**25,679**	25,643	24,166
San Miguel Energy Corporation ("*SMEC*")	**21,625**	15,535	16,639
Masinloc Power Partners Co. Ltd. ("*MPPCL*")	**18,712**	8,522	8,056
First NatGas Power Corp. ("*FNPC*")	**14,971**	9,309	8,456
AC Energy Philippines, Inc. ("*AC Energy*")	**10,562**	10,790	9,023
Therma Luzon, Inc. ("*TLI*")	**4,161**	2,219	7,033
Southwest Luzon Power Generation Corporation	**2,672**	1,982	34
First Gen Hydro Power Corporation ("*FGHPC*")	**1,378**	2,507	723
Energy Development Corporation ("*EDC*")	**1,015**	–	–
PEDC	**969**	2,264	1,812
Sem-Calaca Power Corporation ("*Sem-Calaca*")	**644**	4,933	3,650

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

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

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

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

Competition

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

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

ELECTRIC POWER INDUSTRY DEVELOPMENTS AND UPDATES

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

OTHER QUANTITATIVE AND QUALITATIVE DISCLOSURES

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

Not Applicable

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

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

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

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

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

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

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

The mediation resulted in the signing of a Settlement Agreement ("*SA*") between the parties on July 15, 2003. The *SA* was approved by the respective *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. Power Sector Assets and Liabilities Management Corporation ("*PSALM*") likewise filed its comment to the Petition. In a Resolution dated July 8, 2015, the *SC* resolved to serve anew its Resolutions requiring *NPC* to comment on the Petition. In compliance, *NPC* submitted its Comment dated September 8, 2015. *MERALCO* submitted its Motion for Leave to File and to Admit Attached Reply on October 12, 2015. Pursuant to the *SC* Resolution dated November 11, 2015, the *OSG* filed a Consolidated Reply to the comments filed by *NPC*, *MERALCO* and *PSALM*. *MERALCO* then filed a Motion for Leave to File and to Admit the Attached Rejoinder. The parties have filed their respective memoranda. In a Resolution dated September 28, 2022, the *SC* denied the Petition filed by the *OSG* and affirmed the validity of the Settlement Agreement. The implementation of the *SA* is subject to the approval of the *ERC*.

2. Sucat-Araneta-Balintawak Transmission Line

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

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

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

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

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

3. *RPT* Assessments

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

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

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

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

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

4. *LFT* Assessments of Municipalities

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

5. *SC* Decision on Unbundling Rate Case

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

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

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

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

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

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

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

On October 11, 2016, *MERALCO* received a Petition for Review on Certiorari filed by the intervenors before the *SC* appealing the dismissal of its Petition. *MERALCO*, *COA* and the *ERC* have filed their respective comments to the Petition. On June 22, 2017, *MERALCO* received the Motion for Leave to Intervene and Admit Comment-in-Intervention filed by other *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 from finality of the Decision, (1) the valuation of the *RAB* of *MERALCO*; and (2) the parameters whether expenses that are not directly and entirely related to the operation of a distribution utility shall be passed on wholly or partially to consumers.

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

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

2022 Capital Expenditure Requirements (*in millions)*

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

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

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

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

1. Retail Competition

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

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

1. Provided for mandatory contestability. Failure of a contestable customer to switch to *RES* upon date of mandatory contestability (December 26, 2016 for those with average demand of at least
one (1) *MW* and June 26, 2017 for at least 750 *MW*) shall result in the physical disconnection from the *DU* system unless it is served by the supplier of last resort ("*SoLR*"), or, if applicable, procures power from the *WESM*;

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

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

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

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

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

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

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

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

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

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

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

MERALCO the equivalent amount of ₱73.9 million per month until the over-recoveries are fully refunded. In the said Order, the *ERC* likewise determined that the amount to be collected from the successor generating companies ("*SGC*s") is ₱4.7 billion. Additionally, *MERALCO* was directed to file a petition against the following *SGC*s: *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 *SGC*s.

In an Order dated July 1, 2013, the *ERC* issued the following clarifications/resolutions: (i) *SPPC* should be included as one of the *SGC*s 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 *SGC*s 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 *SGC*s: *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 27, 2023, *MERALCO*'s Manifestation with Motion is pending resolution by the *ERC*.

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

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

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

On August 29, 2013, *MERALCO* filed a Petition for Dispute Resolution against *SPPC*, *MPPCL*, *APRI*, *TLI*, *SMEC* and *Sem-Calaca.* Said Petition seeks the following: 1) refund of the 2.98% transmission line losses in the amount of ₱5.4 billion, inclusive of the ₱758 million line loss for the period September 2012 to June 25, 2013, from said *SGC*s; 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 *SGC*s, 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 *SGC*s' Joint Motion to Dismiss. On October 7, 2013, *MERALCO* filed its Comment on the said Joint Motion.

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

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

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

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

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

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

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

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

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

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

On March 3, 2014, the *ERC* issued an Order voiding the Luzon *WESM* prices during the November and December 2013 supply months on the basis of the preliminary findings of its Investigating Unit ("*IU*") that these are not reasonable, rational and competitive, and imposing the use of regulated rates for the said period. *PEMC* was given seven (7) days upon receipt of the Order to calculate these regulated prices and implement the same in the revised *WESM* bills of the concerned *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 a Resolution dated November 4, 2020, the *SC* consolidated *ERC*'s and *MERALCO*'s petitions and transferred *MERALCO*'s petition to the member-in-charge of *ERC*'s petition which was the lower-numbered case. The petitions filed by the consumers were denied by the *SC*.

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

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

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

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

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

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

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

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

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

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

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

In an Order dated February 2, 2017, the *ERC* denied the motion to dismiss and asserted jurisdiction over the Complaint. *MERALCO* filed its *MR* to the Order on February 23, 2017. In an Order dated June 20, 2017, the *ERC* denied the *MR*. On September 19, 2017, *MERALCO* filed a Petition for Certiorari with the *CA*. In a Resolution dated October 2, 2017, the *CA* required respondents to file their Comment on the Petition within 10 days and held in abeyance its resolution on the prayer for injunctive relief until the comments have been filed. *MERALCO* was likewise given five (5) days to file its reply. In a Manifestation dated October 23, 2017, the *ERC* stated that it is a nominal party in the case as the quasi-judicial 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, TMO* and *APRI* have all filed their respective manifestations before the *SC*. In a Resolution dated September 29, 2021, the *SC* affirmed the *CA* in that the *ERC* had jurisdiction over these cases as they were filed before the enactment of the *PCA*. However, the *SC* did not rule on whether the *PCC* and the *ERC* now have concurrent jurisdiction as these issues were not fully litigated.

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

7. Ombudsman Case Against Directors

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

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

8. *SC Decision on the ₱0.167 per kWh Refund*

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

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

9. *Overpayment of Income Tax related to SC Refund*

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

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

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

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

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

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

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

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

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

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

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

Seasonality of Operations and Growth Drivers

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

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

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

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

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

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

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

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

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

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

Financial Highlights and Ratios[1] of Major Subsidiaries
As at and for the Year Ended December 31, 2022 and 2021
(Amounts in million pesos except for financial ratios and % change)

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

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

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

ANNEX – Aging of Trade and Other Receivables

As at December 31, 2022

(Amounts in millions)

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

MARKET INFORMATION

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

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

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

Holders

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

Top 20 Stockholders as of March 31, 2023

	STOCKHOLDER NAME	NUMBER OF SHARES	PERCENT
1	Beacon Electric Asset Holdings, Inc.	394,059,235.00	34.96%
2	JG Summit Holdings, Inc.	297,189,397.00	26.37%
3	PCD Nominee Corporation - Filipino	154,532,414.00	13.71%
4	Metro Pacific Investments Corporation	140,906,807.00	12.50%
5	PCD Nominee Corporation - Non-Filipino	56,816,365.00	5.04%
6	First Philippine Holdings Corporation	44,382,436.00	3.94%
7	Mantes Corporation	2,486,427.00	0.22%
8	Lucio W. Yan	403,208.00	0.04%
9	Charlotte Cua Cheng	314,534.00	0.03%
10	Albert Ferreros Del Rosario and/or Margaret Gretchen De Venecia Del Rosario	291,140.00	0.03%
11	Avesco Marketing Corporation	284,427.00	0.03%
12	B. P. Insurance Agency, Inc.	281,079.00	0.02%
13	Makati Supermarket Corporation	240,308.00	0.02%
14	Albert Ferreros Del Rosario and/or Margaret Gretchen De Venecia Del Rosario	182,500.00	0.02%
15	Laarni Nieman Enriquez	164,388.00	0.01%
16	Jose Ignacio A. Carlos	161,687.00	0.01%
17	Antonino T. Aquino and/or Evelina S. Aquino	133,855.00	0.01%
18	Agikik Corporation	120,100.00	0.01%
19	BP Insurance Agency, Inc.	116,730.00	0.01%
20	Raul Joseph Concepcion	112,431.00	0.01%

Dividends

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

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

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

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

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

Recent Issuance of Securities Constituting an Exempt Transaction

None.

Corporate Social Responsibility

The year 2022 is considered a year of recovery from the pandemic for many households, but most specially to marginalized communities. While the past two years, a considerable pandemic response program was implemented for *MERALCO*'s social responsibility initiatives, the return and expansion of *MERALCO*'s flagship corporate social responsibility initiatives – community electrification, environmental sustainability and community relations proved to be meaningful and significant platforms for the community's recovery. The Company's focus on providing electricity access to unenergized families, remote, off-grid public schools, livelihood centers, health centers, and helping restore power in communities affected by calamities enabled their recovery and paved the way for productivity.

Driven by its corporate value of "*malasakit"* (solicitude), *MERALCO* not only provided excellent service and reliable power to its customers, but also implemented social development programs that resulted in meaningful impact on people, prosperity, and the planet.

Energy For Productivity

Through the household electrification advocacy, *MERALCO* assisted 6,376 low-income families in its franchise area to obtain access to the distribution grid. The 12-year old advocacy brings together *MERALCO*'s business centers and network sectors, the local government, the beneficiaries, and its corporate foundation, One Meralco Foundation ("*OMF*") to collectively resolve technical, legal, and financial hurdles which make electrification challenging in far-flung villages, as well as in informal settlements and relocation sites. Since the program started, *OMF* has energized 69,964 low-income households already.

Outside the grid, *MERALCO* bridges the technology gap in remote, far-flung schools through the school electrification advocacy program. It makes electricity available in remote public schools through solar photovoltaic (PV) technology. In 2022, fourteen island schools from Bohol, Camarines Norte, Albay, Iloilo, and Antique benefited from the program, which brings the total of energized schools to 290 since the program started in 2012.

This success on school electrification is now replicated to the electrification of water access initiatives, rural health centers and barangay health stations as well as agricultural and livelihood facilities and programs. This expansion which was started in 2022 is a concrete expression of the Company's aspiration to contribute to prosperity in underserved communities by utilizing the benefits of electrification. This is also a concrete step by the Company to contribute to inclusive development particularly in remote communities so that the local actors can be active players in the economic and social needs of their own constituencies.

As part of *MERALCO's* advocacy to "spread the light," One Meralco Foundations also distributed 4,102 solar lamps to fisherfolks from Rizal, Romblon, Camarines Norte, Camotes Island in Cebu and Siargao Island; IP families from Bulacan, Bataan, Bukidon, Mindoro and Tarlac: earthquake victims from Abra; soldiers from Sulu; forest rangers from Benguet and Sibuyan Island in Romblon; students from Ifugao and urban farmers from Quezon City. It raised ₱740,913 from *MERALCO* employees and customers to provide solar lamps to the target beneficiaries across the country in 2023.

Reforestation and Biodiversity

Following the success of its pilot reforestation project in San Miguel, Bulacan, *MERALCO* expanded its "One for Trees" program to the rest of the country through partnerships with grassroots peoples' organizations. With new trees numbering to 348,000 planted in 2022, it has partnerships and plantation sites in Siniloan, Laguna (FEED - Fostering Education and Environmental Development), various LGUs in the Province of Bohol (PROCESS BOHOL - Participatory Research, Organization of Communities and Education towards Struggle for Self-Reliance of Bohol), Butuan, Agusan del Norte (BCWD – Butuan City Water District), Kalibo Save the Mangrove Association (KASAMA) and Pangantucan, Bukidnon (XSF – Xavier Science Foundation). It also has reforestation sites in Cebu and Iloilo under the care of *MERALCO* subsidiary, Meralco PowerGen Corporation. To date the program is nurturing more than 1.8 million trees.

Community Relations

Throughout the year, the Company implemented 228 community relations projects in partnership with public schools, local governments, other national government agencies, private organizations, and non-government organizations as well as civil society and peoples' organizations. These projects ranging from computer donations, distribution of school kits and learning materials, multimedia equipment, food and sanitation packs, support to environment initiatives and relief goods post disaster are means to help the priorities of the various communities in need within the *MERALCO* franchise area. Many of these are very strategic to the development of operations of institutions, for example, computer donations to police stations, barangays and other NGO offices enable them to automate their operations and workflows.

In July 2022, OMF implemented its annual back-to-school campaign dubbed as *"Balik Eskwela"*. More than 3,000 public school students from 59 public schools received a specially-designed bag, containing a lunch box set with spoon and fork, a tumbler, washable facemask and hand sanitizer to encourage students to return to classes equipped with their basic needs for protection from the COVID-19 virus. The project was fully funded by employee donations worth ₱1.7M and implementation was led by the same.

The Company was also responsive to the needs of communities affected by calamities in its franchise area and beyond. A total of 17,683 directly affected by fires, floods, and typhoons benefited from its relief operations, which included food and hygiene kits and in a number of occasions, hot meals served immediately in evacuation centers. Outside its franchise area, *MERALCO* lent a hand to provinces hit by Typhoon Odette (Rai) in December 2021 until February 2022. It deployed its power restoration teams and equipment to help local electric distribution utilities immediately repair damaged facilities in Cebu, Bohol, Surigao, and Surigao del Norte. One hundred fifty-five engineers, linemen, and support crew worked with local electric cooperatives to help restore power in the affected areas paving the way for faster recovery from the disaster.

To help local governments address the immediate needs of typhoon victims, the Company also lent 33 generator sets to Bohol, Surigao City, Dinagat, and Surigao del Norte. The typhoon devastated electric distribution lines and left these provinces in total blackout for months. The generator sets were vital in powering up evacuation centers and restoring the water supply, filtration and distribution.

As part of its commitment to support multi-stakeholder disaster resilience and readiness, OMF supported the newly launched PlanSmart Ready to Rebuild web application developed by the Department of Science and Technology (DOST), Philippine Institute of Volcanology and Seismology (PHIVOLCS) in collaboration with the National Disaster Risk Reduction and Management Council (NDRRMC), Office of Civil Defense (OCD), and the World Bank. It is envisioned to revolutionize disaster risk reduction and management planning processes in the country, helping the government to efficiently plan for disasters, work smarter, and rebuild faster. The three-day capacity-building activity was attended by around 70 LGU officers from 16 local governments in the National Capital Region and technical staff working on disaster risk management, planning, and database management and by technical officers from MMDA, DILG, and OCD.

Within the Company, OMF continued its annual program of recognizing the academic excellence of dependents of *MERALCO* rank and file and supervisory employees through the MVP Academic Achievement Awards. The program celebrated its 12th year through a virtual recognition ceremony, honoring 210 awardees and 95 top achievers. It received a record-breaking 966 nominations.

Aligned with the United Nation's Sustainable Development Goal (UN SDG) 5, on Gender Equality and UN SDG 10 on Reduced Inequalities, *MERALCO* and OMF launched two scholarship programs dedicated for women: Program for Women Technicians in partnership with Don Bosco College Canlubang which allows aspiring women to become skilled electrical technicians. There are currently 15 scholars in this initiative. The other program, dubbed as MPowHER is for aspiring women who'd like to pursue a degree on electrical engineering. Eighteen women scholars are now realizing their dreams by studying in MPowHER partner universities like the Nueva Ecija University of Science and Technology, Polytechnic University of the Philippines and the University of the Philippines Diliman and Los Baños.

Similarly, *MERALCO* and One Meralco Foundation also launched the *MERALCO* -Pasig Medical Scholarship Program together with the local government of Pasig and the Ateneo School of Medicine and Public Health which will enable outstanding students from financially challenged families from Pasig City to pursue a joint degree of Doctor of Medicine and Master's in Business Administration beginning academic year 2022-2023. The program covers 100 percent tuition fees, laptop and internet expenses, payments for

books, and other miscellaneous fees. Other recurring fees like uniform and transportation allowances are sponsored by the local government.

MERALCO employees not only pursued excellence at work but also embraced the corporate values of *"malasakit*" and *"bayanihan."* Throughout the year, they contributed to the work of One Meralco Foundation through volunteerism and donations. In 2022, they raised ₱ 2.92 million to fund various OMF initiatives.

One Meralco Foundation was also recognized by esteemed institutions here and abroad such as the International Business Awards, the Philippine Quill Awards by the International Association of Business Communicators-Philippines, and the Anvil Awards by the Public Relations Society of the Philippines. These achievements could not have been made possible without the support of *MERALCO* leaders, advocacy partners, and volunteers, as well as the trust of its stakeholders in the community.

As the country begins to move forward despite the emerging challenges, *MERALCO* remains committed to helping communities particularly the marginalized and underserved communities take the leap onward through electrification and other interventions that enable equitable and inclusive development.

Compliance with Best Practices in Corporate Governance

MERALCO ("Company"), as a Philippine publicly listed company ("*PLC*"), is in full compliance with the rules and regulations of the Securities and Exchange Commission ("*SEC*"), including the Code of Corporate Governance, the Philippine Stock Exchange ("*PSE*"), the Philippine Dealing and Exchange Corporation ("*PDEx*") and all other rules and regulations for the development of the Philippine capital market.

As a testament to the Company's good corporate governance practices, *MERALCO* was awarded with Asset Class Award and Three Golden Arrows respectively by ASEAN Capital Markets Forum ("*ACMF*") and the Institute of Corporate Directors ("*ICD*"), acting as the domestic ranking body of the *ACMF* for the ASEAN Corporate Governance Scorecard ("ACGS"), for the Company's remarkable governance structure, programs, and practices in the 2021 ACGS assessment wherein *MERALCO* attained a score of 100.99.

Pursuant to the governance principle of transparency, *MERALCO* fully complied with the *SEC* and *PSE*'s reportorial requirements on corporate governance, including:

1. The 2022 Certification by the Compliance Officer of *MERALCO*'s full compliance with the Revised Manual of Corporate Governance. No deviations from the Manual transpired.

2. Certification of Board attendance, reports involving financial statements, disclosure of material information and events, clarifications on specific news articles concerning *MERALCO*, and trainings attended by Board members and key officers on corporate governance.

3. Disclosure requirements on direct and indirect ownership of securities under the Securities Regulation Code, and the reporting of trading transactions of directors and concerned officers of *MERALCO* by the Compliance Officer not later than the following day after the required event or transaction. There has been no case of insider trading involving directors and management of *MERALCO.*

The Company continues to strengthen its governance structure, policies, programs and practices, and stakeholder engagement, in accordance with best corporate governance practices aligned with the recommendations under the SEC's 2017 Code of Corporate Governance for Publicly-Listed Companies, the Integrated Annual Corporate Governance Scorecard (I-ACGR) and the ASEAN Corporate Governance Scorecard ("*ACGS*").

A. Governance Structure

The Board of Directors ("*Board"*) is the highest governance body of the Company. The *Board* is composed of directors with collective working knowledge, experience and expertise relevant to power, energy and electric distribution industry/sector. It represents an appropriate mix of competence and expertise in the area of business, finance, operations, regulatory and legal disciplines relevant to the Company's industry, with each director capable of adding value and exercising independent judgment, ensuring that the directors remain qualified for their positions individually and collectively to enable them to fulfill their roles and responsibilities and respond to the needs of the organization.

1. Composition

The *Board* consists of eleven (11) directors, three (3) of whom are independent directors (including 1 female independent director), seven (7) are non-executive directors, and one (1) is an executive director:

Director	Designation
Manuel V. Pangilinan	Chairman Non-Executive Director
Lance Y. Gokongwei	Non-Executive Director
Ray C. Espinosa[1]	Executive Director
James L. Go	Non-Executive Director
Victorico P. Vargas	Non-Executive Director
Jose Ma. K. Lim	Non-Executive Director
Anabelle L. Chua	Non-Executive Director
Frederick D. Go	Non-Executive Director
Artemio V. Panganiban	Lead Independent Director
Pedro Emilio O. Roxas	Independent Director
Lydia B. Echauz	Independent Director
[1] President and CEO	

2. Board Diversity

In line with its commitment to the principles of good corporate governance, the Company adopted a Board Diversity Policy to ensure that the *Board* has an appropriate mix of expertise, experience, independence, and skills that would encourage critical discussion and promote a balanced decision in the attainment of the Company's strategic objectives and sustainable development.

The Board Diversity Policy, in particular, recognizes the important role of women with appropriate and relevant expertise and experience that can contribute to the diversity of perspectives in the *Board*. Under

the Policy, the *Board* shall aim to have at least one (1) female director as its member. Currently, the *Board* has two (2) female directors.

Directors shall be selected from a broad pool of qualified nominees. In order to achieve a diverse board, varied aspects are to be considered as measurable objectives, including, but not limited to: academic, professional and business background, age, gender, and other regulatory requirements. The final composition of the Board shall be grounded on merit and potential contribution of the selected directors to the Company.

Measurable Objectives	**2022 Board**	**Description**	**2021 Board**	**Description**
Gender Diversity	√	Mix of Male and Female Directors 9 male and 2 female directors	√	Mix of Male and Female Directors 9 male and 2 female directors
Racial Diversity	√	Mix of Racial or Ethnic Backgrounds	√	Mix of Racial or Ethnic Backgrounds
Age Diversity	√	Age ranges from 53 to 86 years old	√	Age ranges from 52 to 85 years old
Board Tenure	√	Tenure ranges from 1 to 13 years	√	Tenure ranges from 1 to 12 years
Expertise				
E.1. Industry Expertise	√	Mix of directors siting as members of the BOD in Energy, Electric Retail and Power Generation companies	√	Mix of directors siting as members of the BOD in Energy, Electric Retail and Power Generation companies
E.2. Management or Operations	√	Mix of directors sitting as members of BOD or officers of electric supply, energy, power generation, retail, banking, telecommunications, realty, media, medical, insurance and other companies	√	Mix of directors sitting as members of BOD or officers of electric supply, energy, power generation, retail, banking, telecommunications, realty, media, medical, insurance and other companies
E.3. Financial, Audit, or Risk Management Expertise	√	Mix of directors acting as Chief Risk Management Officer, Member of Philippine Disaster and Risk Foundation, or members of Financial, Audit, or Risk Management committees of other companies	√	Mix of directors acting as Chief Risk Management Officer, Member of Philippine Disaster and Risk Foundation, or members of Financial, Audit, or Risk Management committees of other companies

E.4. Legal or Regulatory Expertise	√	Mix of directors who are lawyers, or with Regulatory Management background, a Former Chief Justice of the Supreme Court of the Philippines, Former Chairperson of the Presidential Electoral Tribunal, Judicial and Bar Council and Philippine Judicial Academy	√	Mix of directors who are lawyers, or with Regulatory Management background, a Former Chief Justice of the Supreme Court of the Philippines, Former Chairperson of the Presidential Electoral Tribunal, Judicial and Bar Council and Philippine Judicial Academy
E.5. Corporate Governance	√	Director with membership in Shareholders Association of the Philippines, Fellowship in ICD, Former Governor of Philippine Stock Exchange,	√	Director with membership in Shareholders Association of the Philippines, Fellowship in ICD, Former Governor of Philippine Stock Exchange,
E.6. Technology or Digital Media Expertise	√	Mix of directors who are likewise directors, advisors or consultants of media, technology or telecommunications companies	√	Mix of directors who are likewise directors, advisors, or consultants of media, technology, or telecommunications companies
E.7. Retail, Sales or Marketing Expertise	√	Mix of directors who are likewise directors, advisors or consultants of media, telecommunications, banking, telecommunications, realty, media, medical, insurance and retail companies	√	Mix of directors who are likewise directors, advisors or consultants of media, telecommunications, banking, telecommunications, realty, media, medical, insurance and retail companies
Professional, Academic or Advocacy Background or Affiliations				
F.1. Academic Institutions	√	Mix of directors who have degrees in Finance and Commerce, Business Management, or who are member of Board of Overseers, Board of Trustees of colleges or business schools, or graduate of International Management Development Program	√	Mix of directors who have degrees in Finance and Commerce, Business Management, or who are member of Board of Overseers, Board of Trustees of colleges or business schools, or graduate of International Management Development Program
F.2. Advocacy Groups or Foundations	√	Directors with membership in environmental and socio-civic	√	Directors with membership in environmental and socio-civic

		advocacy groups and foundations		advocacy groups and foundations
F.3. Professional Organizations	√	Directors with membership in Integrated Bar, Philippine Bar Association, and Inter-Pacific Bar Association, Philippine Stock Exchange	√	Directors with membership in Integrated Bar, Philippine Bar Association, and Inter-Pacific Bar Association, Philippine Stock Exchange

3. Chairman of the Board

The Chairman of the Board, Mr. Manuel V. Pangilinan, serves to represent the interests of all shareholders and stakeholders, and oversees the performance of the Board and its directors. He champions exemplary ethical governance principles for directors, officers, and employees to emulate and espouse.

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

4. Independent Directors

On April 13, 2022, the Nomination and Governance Committee assessed the profiles of the directors and found that the independent, non-executive directors are indeed free of relationships with the Company, its related corporations, its management or substantial shareholders that could interfere, or be reasonably perceived to interfere, with the exercise of directors' independent business judgment. The Nomination and Governance Committee had reviewed the multiple board representations held presently by the directors and assessed that they do not hinder in any way the performance of their duties to the Company.

Given the nomination for election to the Board of Directors of independent directors, Retired Chief Justice Artemio V. Panganiban and Mr. Pedro Emilio O. Roxas after the maximum nine- (9-) year term, the Board provided for the meritorious justification for their retention in accordance with the CG Manual which was consequently approved by the shareholders during the 2022 Annual Stockholders' Meeting.

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

5. Board Committees

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

6. Corporate Secretary and Compliance Officer

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

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

The Board is likewise assisted by Company's Compliance Officer and Senior Vice President, Atty. William S. Pamintuan, who monitors, reviews, evaluates and ensures the full compliance by the corporation, its directors and officers with relevant laws, rules and regulations and all governance issuances of regulatory agencies and report violations thereof to the Board and recommends the imposition of appropriate disciplinary action.

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

B. Nomination and Election

The Company's Nomination and Election Policy sets forth the procedures in the director selection process, including the acceptance of nominations from minority shareholders and the evaluation and screening of nominees vis-à-vis the applicable qualifications and disqualifications set forth in the CG Manual, By-laws and other applicable law, policy or regulation, how the board shortlists candidates, and an assessment of the effectiveness of the Board's processes in the nomination, election or replacement of a director.

The Company uses professional search firms or other external sources of candidates (such as director databases set up by director or shareholder bodies) when searching for candidates to the board of directors/commissioners such as the Institute of Corporate Directors (ICD) to search for candidates to the *Board*. These candidates would be skilled in core competencies such as strategic planning, business expertise, and industry knowledge. The shareholders will then elect the directors during the Annual Stockholders' Meeting (ASM) held every last Tuesday of May.

The Company granted all stockholders, including minority stockholders, the right to nominate directors and propose or inquire on agenda items. The "Call for Nominations" was posted on the Company's website on February 7, 2022 for submission of proposed agenda and nomination of qualified

candidates on or before March 4, 2022. The agenda and nominees were approved by the *Board* during its meeting on February 7, 2022 and March 28, 2022, respectively.

The 2022 ASM was held on Tuesday, May 31, 2022, at 10:00 AM at the *MERALCO* Compound, Ortigas Avenue, Barangay Ugong, Pasig City. In light of the COVID-19 pandemic, the Company conducted its third virtual ASM via live broadcast of the proceedings through the Stockholders Electronic Registration and Voting Express (SERVE).

The Corporate Secretary reported a quorum with the attendance of stockholders who own or hold a total of 902,548,837 shares or approximately 80.08% of the total issued and outstanding shares of the Company. An electronic system facilitated the registration and vote tabulation to ensure accuracy and reliability of information. SERVE was also enhanced to allow the stockholders to attend and actively participate via remote communication and to cast their votes for the agenda items online. Stockholders were given opportunity to propound questions and raise concerns to the Board during the meeting.

The Corporate Secretary explained the vote tabulation procedures to the shareholders and stated that all shareholders were entitled to one vote for one share. Representatives from Reyes Tacandong & Co., an independent third party, validated the voting results for each agenda item. The *Company* also allowed shareholders to freely express their views and raise their questions during the ASM through the SERVE portal.

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

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

C. Board Independence

The Company has no shareholder agreements, by-laws provisions, or other arrangements that constrain the directors' ability to vote independently. Board shall consider designating a lead director among the independent directors if the Chairman of the Board is not independent and if the positions of the Chairman of the Board and Chief Executive Officer are held by one person.

Considering that the Chairman of the Board is not an independent director, the appointment of a Senior or Lead Independent Director was endorsed to, and approved by, the Board of Directors. The Board subsequently appointed Independent Director (ID) Ret. Chief Justice Artemio V. Panganiban as the Lead Independent Director to serve as such until the next Lead ID is appointed. As Lead ID, he has the following functions:

a. To serve an intermediary between the Chairman and the other directors when necessary;
b. To convene and chair meeting of the non-executive directors; and

c. To contribute to the performance evaluation of the Chairman, as required.

The Lead Independent Director does not, however, act as Chairman in the absence of the Chairman, the same having been delegated to the Vice-Chairman.

D. Board Committees

The Board has formed various Board Committees delegated with specific responsibilities. These Committees are established and guided by their respective committee charters. The same is disclosed in the Annual Report and posted in the Company Website.

Currently, there are eight (8) standing Board Committees:

- Executive Committee;
- Nomination and Governance Committee;
- Audit Committee;
- Risk Management Committee;
- Remuneration and Leadership Development Committee;
- Finance Committee;
- Related Party Transactions Committee
- Sustainability Committee

Sustainability Committee was established in 2021 to oversee the development and/or review of the Company's sustainability framework, agenda and policy in alignment with the Company's business philosophy and strategies.

E. Continuing Education for the Board and Senior Management

Corporate governance education continues with orientations and trainings for the *Board* and *Senior Management*. The *Board* keeps abreast with the latest developments in the corporate governance regulatory landscape and implements a policy on orientation and continuing training for all directors and key officers, including an annual CG training with SEC-Accredited providers, in accordance with the Board Charter and the MCG.

The Company has a policy that encourages directors to attend annual continuing training programs. In fulfillment of such policy and the requirements of the Company's MCG, the ERC Resolution No. 1, Series of 2004, and the SEC Memo Circular No. 20, Series of 2013, the Directors, together with the Senior Management, attended via online platform the MVP Group Annual Corporate Governance Enhancement Session (ACGES) on September 22, 2022, entitled "The Metaverse and How it will Transform Business & Human Interaction" by Mr. Matthew Ball and "Proof of Learn: A Philippine Perspective to the Metaverse" by Ms. Sheila Lirio Marcelo. This session covered four (4) hours of governance training and was accredited by the SEC.

2022 ATTENDANCE TO CORPORATE GOVERNANCE TRAINING AND CONTINUING EDUCATION PROGRAMS		
Director	**Program**	**Resource Person/ Name of Training Institution**
Manuel V. Pangilinan **Anabelle L. Chua** **Ray C. Espinosa** **Frederick D. Go** **Jose Ma. K. Lim** **Victorico P. Vargas** **Retired Chief Justice Artemio V. Panganiban** **Lydia B. Echauz** **Pedro Emilio O. Roxas**	MVP Group Annual Corporate Governance Enhancement Session: "The Metaverse and How it will Transform Business & Human Interaction" and "Proof of Learn: A Philippine Perspective to the Metaverse"	Mr. Matthew Ball Ms. Sheila Lirio Marcelo
Frederick D. Go	MVP Group Annual Corporate Governance Enhancement Session: "The Metaverse and How it will Transform Business & Human Interaction" and "Proof of Learn: A Philippine Perspective to the Metaverse" Sustainability Masterclass	Mr. Matthew Ball Ms. Sheila Lirio-Marcelo JGS Executive Development Program
Lance Y. Gokongwei	Sustainability Masterclass Unbox Extra: The Gokongwei Group Innovation Festival	JGS Executive Development Program JG Summit Digital Transformation
James L. Go	Sustainability Masterclass *SEC Granted Mr. James L. Go a permanent exemption from the corporate governance training requirement in its en banc meeting on November 10, 2015.*	JGS Executive Development Program

F. Succession Planning

Together with the Board, the Nomination and Governance Committee (Nom&Gov) is responsible for recommending a succession planning program for its members while the Remuneration and Leadership Development Committee (RLDC) is responsible for overall guidance and direction on succession planning and leadership development of the President and CEO and Senior Management. The Committee, working closely with the head of Human Resources (HR), drives the strategy for succession planning, leadership development, and talent management. The HR head develops and implements the processes and the tools to ensure robust pools of succession candidates for the President and CEO, senior management, middle management and first line management.

Talent Management and Succession Planning Programs are top priorities in the Human Resources (HR) agenda by ensuring that the right leaders and talents are in place to drive our business plans. Progressive talent management assessment tools and methodologies were used to identify, assess, and develop leaders for critical positions.

Presently, the succession plan covers the top 666 leaders of the Company. The succession planning process involves the assessment of the Company's leaders' career aspirations, strengths, and development needs. A key feature of the Company's succession planning process is the talent review conducted at the senior management level and at various levels of the organization. The senior management talent review has resulted in a pool of about of 20 candidates who, subject to realization of their development plans, could become management committee members within the next five (5) years.

G. Retirement Policy

The Board adopts a policy on the retirement for directors and key officers. The Remuneration and Leadership Development Committee assists the Board in the development of the Company's overall performance management, compensation, retirement and leadership development policies and programs based on the Company-approved philosophy and budget.

H. Remuneration

The Board ensures that the remuneration of directors and officers is consistent with the Company's culture, strategy, and the business environment in which it operates and aligned with the long-term interest of the Company. The Company adopts a remuneration policy comprised of fixed and variable components in the form of base salary and variable bonus linked to the Company's and the individual's performance. Compensation packages and revisions of key Management's remuneration are subject to the review and approval of the Remuneration and Leadership Development Committee.

The Remuneration and Leadership Development Committee recommends to the Board, for the approval of the shareholders, a framework of remuneration for directors and Management, including the President and CEO. For the President and CEO, and Management, the framework takes into account all aspects of executive remuneration including salaries, allowances, bonuses, and benefits in kind. The

framework is benchmarked against pay and employment conditions within the industry and it links rewards to corporate and individual performance.

In particular, the Company compensates employees based on Company, team, and individual performance to help achieve corporate goals and targets and provides for long term incentives such as deferred bonus or pay based on *MERALCO* Group's achievement of specified level of consolidated core net income approved by the Board and determined on an aggregate basis for a three-year period as well as executives' attainment of a minimum level of performance rating, essentially partaking the nature of deferred bonus.

I. Board, Committee, Chairman, and CEO Assessment

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

The *Board* conducted the performance assessment on March 10, 2022 wherein directors were given opportunity to give their opinions and suggestions or identify special issues of interest about their performance or different aspects of the Company's operation.

The *Board* also conducts an annual assessment of the President & CEO's leadership, working relations with the Board, communication and working relations with Management. The Remuneration and Leadership Development Committee exercises functional oversight in the development and administration of leadership development/succession planning and retention programs for executives and officers such as heads of the other control functions (Chief Risk Officer, Chief Compliance Officer and Chief Audit Executive) which include career development, promotions, and performance evaluation.

Every three years, the assessments are supported by an external facilitator. The Company engaged the services of the Good Governance Advocates and Practitioners of the Philippines (GGAPP) for the evaluation of the 2019 Board, Committee, and CEO performance assessment. The Company has again secured GGAPP for the board evaluation process of its performance for year 2022.

Assessment Forms
1. **Board Self-Assessment** - each director assessed the board performance individually and as a whole based on the following categories: Board structure and qualifications, Board duties and responsibilities, and Duties and responsibilities as an individual director
2. **General Board Committee Performance Assessment –** each director assessed the overall performance of the following committees, based on the provisions of the Board Committee Charters.
3. **Board Committee Self-Assessment –** each committee member assessed his committee's performance vis-à-vis the respective charters and SEC's Guidelines for the Assessment of the Performance of Audit Committee of Companies Listed on the Exchange.
4. **President and CEO Performance Assessment –** each director assessed the President & CEO's leadership, working relations with the Board, communication and working relations with Management.

J. Continuing Policy Formulation

With the establishment of a Corporate Governance Office ("*CGO*") in *MERALCO* in 2010, corporate governance policies and programs were adopted by the Board and implemented in the Company to such as the Manual of Corporate Governance, Revised Code of Ethics, Policy on Blackout Period/Restriction on Trading of Shares, Policy on Solicitation and Acceptance of Gifts, "Be Right" Open Communication (integrated whistle-blowing) Policy, Conflict of Interest Policy, Related Party Transactions Policy, Suppliers Business Conduct Policy, Human Rights Policy, Anti-Bribery and and Social Media Policy, among others. In compliance with the recommendations under the *I-ACGR*, *MERALCO* adopted an Anti-Bribery and Corruption Policy which formalizes its stand against corrupt practices and specifies in detail the prohibition against corporate gift-giving to public and private individuals or entities that constitutes bribery or corruption. The Board also adopted and made available, at the option of a shareholder, an established Alternative Dispute Resolution ("*ADR*") mechanism to resolve intra-corporate disputes in an amicable and effective manner as provided in the Revised Manual of Corporate Governance.

The Company, through its Board of Directors, annually reviews, confirms and/or updates the vision, mission, and corporate strategic objectives of the Company. In 2021, the Board reviewed and updated its vision, mission and value statements to align with the Company's current strategic imperatives and initiatives:

> VISION: To be a world-class energy solutions provider, powering our nation and empowering our people today and for generations to come.
>
> MISSION: To provide our customers the best value energy solutions—reliably, affordably, superbly, and sustainably.
>
> CORE VALUES: Excellence, Customer Centricity, Sustainability, Integrity, Innovation, *Malasakit,* and *Bayanihan.*

The Company likewise identified the following strategic objectives to ensure that its obligations to shareholders and to all stakeholders are understood and met:

1. Revenue enhancement and expansion;
2. Customer-centricity;
3. Digital Transformation; and
4. Sustainability.

Furthermore, to reinforce board independence and pursuant to the recommendation under ASEAN Corporate Governance Scorecard and the *SEC*'s Code of Corporate Governance for *PLC*s, the Board appointed Independent Director ("*ID"*), Retired Chief Justice Artemio V. Panganiban, as the Lead Independent Director. In 2021, the shareholders of the Company elected its first lady independent director, Ms. Lydia Echauz. The Charter of the Board of Directors was also drafted to sets the Board's purposes, authority, duties, and responsibilities, structure and procedures. The Board Charter also included the provision for guidelines on Board Meetings through Teleconferencing and Videoconferencing.

Following developments in governance policies and practices that are aligned with the recommendations under the Code of Corporate Governance for *PLC*s, the *I-ACGR*, and the ASEAN Corporate Governance Scorecard, *MERALCO* also introduced amendments to existing policies such as the Related Party Transactions (RPT) Policy. Amendment of the Related Party Transactions Policy was made to include the defined thresholds for disclosure and approval of related party transactions and the treatment for de minimis transactions and incorporated provisions that seek to comply with the SEC Rules on Material RPTs for Publicly-listed Companies. Existing governance policies of the Company are also continuously reviewed to align with developments in regulations and governance best practices.

K. Management and Employee Performance Management

The Board has established an effective performance management framework that ensures that the performance of Management and employees is at par with the standards set by the Board and Senior Management.

The achievement of financial and non-financial indicators is reflected in management performance assessment which drives the Company's merit and incentive pay programs.

PERFORMANCE INDICATORS	
Financial	**Non-Financial**
Measures reflecting the financial results and financial position of the Company to the shareholders, such as revenues, consolidated core net income, reported net income, EBITDA, cash and cash equivalents, debt and stockholders' equity, dividend payouts, etc.	▪ **S-Factor Indicators** - **System Loss (SL)** - **System Average Interruption Frequency Index (SAIFI)** - **System Average Interruption Duration Index (SAIDI)** - **Momentary Average Interruption Frequency Index (MAIFI)** - **Time to Process Applications (TPA)** - **Time to Connect Premises (TCP)** - **Call Center Performance (CCP)** ▪ **Guaranteed Service Level (GSL) Metrics**

The Company's performance management process for employees assesses employee performance on the basis of: 1) actual vs. desired results; and 2) how results were delivered in light of corporate core values. Specifically, the annual performance of Management and employees is assessed through the achievement of the *Company's* Goals and Initiatives (GAINs) indicators.

Performance of the Management and employees is evaluated on a biennial basis based on two critical factors:

GOALS & INITIATIVES (GAINs) – measures the employee's work accomplishments during the performance period (i.e., individual goals vs. actual work accomplishments); and

VALUES & BEHAVIOR (V&B) – measures how well the employee met expectations based on the behavioral manifestations of the seven Corporate Values, namely: Customer Service, Performance, Accountability/Empowerment, Integrity/Transparency, Teamwork/ Collegiality, Malasakit and Makabayan

L. Internal Control and Audit

Audit Committee

The Board is supported by an Audit Committee (AuditCom) to strengthen its oversight capability over the Company's financial reporting, internal control system, internal and external audit processes, and compliance with applicable laws and regulations.

The AuditCom has the power to 1. review with Management and the external auditors the results of the audit of the financial statements and evaluation of internal accounting controls; 2. review and evaluate procedures and criteria for the selection, appointment, annual performance evaluation and if appropriate, termination of services of the external auditors and recommend to the Board for approval, the appointment, reappointment or removal of the external auditors, duly accredited by the SEC and ratified by the shareholders; and 3. Monitor compliance and adherence by the Company with all applicable laws and regulations pursuant to which the Company conducts its operations and business activities.

The Audit Committee, which is composed of non-executive directors undertakes executive sessions with the Chief Audit Executive (CAE) and the External Auditors without the presence of Management. The conduct of executive session with the external auditors and the chief audit executive at least once a year is provided for in the charter of the Audit Committee. On 08 December 2022, the Audit Committee held separate executive session with the engagement partner of the external auditors, SGV, including the private session of the Audit Committee Chair with the Chief Audit Executive. The agenda in these meetings involved matters the Audit Committee and the auditors believe should be discussed without the presence of the executive director or officers from management.

Internal Audit

The Company has in place an in-house independent internal audit function. *MERALCO* Internal Audit adopts a risk-based audit approach in formulating the annual audit plan and strategy that aligns to the key strategies and risks across the Group's business and is reassessed quarterly to consider business changes and emerging risks. This plan is developed in coordination with the relevant business units and subsidiaries and reviewed and approved by the AuditCom.

The assurance and control advisory reviews are aimed at assisting the Board through the AuditCom in promoting sound enterprise risk management, robust internal controls, and good corporate governance. Design and operating effectiveness of controls that govern the key business processes, systems and risk areas at the Distribution Utility and subsidiaries are evaluated particularly on financial reporting, operations, information technology systems reviews, cybersecurity, data privacy, sustainability, revenue assurance, legal and regulatory compliance, and subsidiary oversight. This provides an independent assurance to the Audit Committee on the adequacy and effectiveness of the governance, risk management, internal controls, and compliance systems.

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

A Certification attestation of the Internal Controls is issued bi-annually as a result of the combined risk and control assessment of the Management and Internal Audit including the scope of audit review for the financial year.

MERALCO's Internal Audit (IA) is headed by the Group Chief Audit Executive and First Vice President, Ms. Melanie T. Oteyza, who reports functionally to the AuditCom and administratively to the President and CEO, as outlined in the Company's Internal Audit Charter. The appointment and removal of the Chief Audit Executive require the approval of the AuditCom.

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

MERALCO Internal Audit recruits and employs suitable and qualified professional staff with the requisite skillsets, competencies, and experience. Relevant trainings and continuing professional development are provided to its staff to ensure that internal audits are performed effectively and that the team possess the technical knowledge needed for the job and to remain relevant and value-adding to the organization.

MERALCO Internal Audit also provide a confirmation of their independence to the Audit Committee on an annual basis.

External Audit

The Company's external auditor, SGV was evaluated, nominated, and recommended for appointment including its audit fees by the AuditCom, and such recommendation was approved by the Board. The re- appointment of SGV was thereafter confirmed by the shareholders in the ASM held on May 31, 2022. In 2022, the fees paid to the external auditor for non-audit services do not outweigh the fees paid for audit services.

CONSOLIDATED EXTERNAL AUDITOR'S FEES* (in million PhP)		
	2022	**2021**
Financial Statements Audit*	₱19.0	₱18.1
Audit of financial statements in accordance with the requirements of the Business Separation and Unbundling Plan of the ERC and Audit of universal charge reports as required by PSALM	0.7	0.7
Note: The fees for non-audit services did not exceed those for audit services.		

Confirmation on Adequacy of Internal Controls

For the year ended December 31, 2022, Management, through the CEO and Chief Audit Executive, has reviewed the adequacy and effectiveness of the overall internal control system of *MERALCO* and its subsidiaries. The review covered material controls, including financial, operational and compliance controls.

The approach adopted to support this year-end assessment on the adequacy of the *MERALCO* Group's system of internal control was based on the results of the Risks and Controls Self-Assessment of Management and the various audits undertaken by Internal Audit within the *MERALCO* Group of companies as of December 31, 2022. Control issues have been disclosed by Management and validated by Internal Audit to provide reasonable level of assurance. While this approach covers a large part of the Company's internal control systems, it is not intended to cover all areas of the Company, nor all possible areas of risk.

Based on the results of Management's Control Self-Assessments and the Internal Audit's review of key business processes focusing on identified or potential areas of business risks, Management confirms that the *MERALCO* Group's systems of internal control are in place and functioning. There are no major internal control issues that have not been acted upon by management as of December 31, 2022.

M. Risk Management

MERALCO has a robust Enterprise Risk Management ("*ERM*") framework to monitor and manage its strategic, regulatory, operational and financial risks. The Company adopted ISO 31000 as its model for *ERM* framework. The Enterprise Risk Management Manual was approved and adopted by the Company to provide the methodology and processes for risk management including:

- identification, assessment, evaluation and mitigation of risks or exploitation of opportunities;
- definition of management responsibilities and accountabilities; and
- escalation and reporting of company's key enterprise risks

The risk management strategies were shown to be effective in the light of the operational and regulatory challenges brought about by the COVID-19 pandemic. These were detailed in the Annual Report, The Board, through the Risk Management Committee, oversees the Enterprise-Wide Risk Management framework, identifies and assesses top risks and reviews the effectiveness of risk mitigation strategies and

treatment plans developed by management, particularly in the Message of the Chairman of the Board and President and CEO. The *ERM* framework helps manage risks by influencing and collaborating with internal organizations and external stakeholders to identify best practices, controls and process improvement opportunities to address risks.

ERM initiates the annual enterprise-wide assessment of the Company's top risks. Risk assessment is conducted to substantiate existing and emerging risks brought about by changes in regulations, market structure developments, technological/operational issues and external forces, including changes in weather patterns, customer satisfaction measures and evolving environmental sustainability issues. Top risks are quantified, and designated risk owners are asked to develop risk treatment and mitigation plans to address potential issues. The results are presented and vetted with the One Meralco Risk Management Committee and the Risk Management Committee of the Board.

IT Governance

The Board, through its Risk Management Committee, oversees the governance process around IT issues including disruption, cyber security, disaster recovery, to ensure that all key risks are identified, managed and reported to the board.

Management is accountable to the Board for the Company's information security governance. Management provides the strategic direction and adequate resources to manage appropriately the information security risks of the organization. Management reviews and approves the information security policies ensuring that the implementation of ISMS requirements is coordinated and integrated in the relevant processes across the organization, and adequate resources are in place and establishes clear assignment and designation of authority for the information security roles and responsibilities across line organizations.

The Company adopts an Information Security Policy which guides the *MERALCO* workforce in supporting this company thrust and in managing and protecting the Company's information assets, forming the basis of information security plans and initiatives in *MERALCO*. The policy provides mechanisms to help identify weaknesses, protect from possible threats, detect attacks, respond and recover during incidents that will compromise the security of information assets and critical infrastructure.

The Policy consists of fourteen (14) parts as adopted from the ISO 27001 standard:

- *Security Policy* to provide reasonable protection for information confidentiality and integrity, ensure availability of information assets, and address disruption and cybersecurity issues.
- *Organizational Security framework* that defines the roles, responsibilities, processes, and methodologies to initiate, control, and manage the implementation of information security across the Company, including correlation with external parties.
- *Mobility and Teleworking Security* for the protection of information assets accessed, processed, transmitted, and stored using mobile devices.
- *Human Resource Security* where all users and custodians are made aware of security threats and concerns on information assets, and are equipped to support the organizational security policy in the conduct of their normal work.

- *Asset Classification and Control* where information assets have designated custodians and are appropriately classified according to their sensitivity and criticality to the business of the Company, to ensure that the information assets receive an appropriate level of protection.
- *Access Control* where access and use of information assets are controlled, authorized, monitored, and restricted to persons with a legitimate business need.
- *Physical and Environmental Security* where information assets are provided with suitable physical protection to prevent unauthorized access, compromise, damage, theft, and interruption to business activities.
- *Communications Security* are in place for the protection of information in networks and its supporting information processing facilities during transfer within the organization and with any external entity.
- *Operations Security* being performed to ensure information assets and critical infrastructure are protected against malware and loss of data, ensuring events are recorded, and maintaining its integrity to prevent any exploitation of vulnerabilities.
- *Cryptography* ensuring proper and effective use of encryption of data and key management to protect the confidentiality, authenticity, and/or integrity of information.
- *Supplier Relationship Security* being exercised for the protection of the organization's information assets which are accessible by suppliers, maintaining an agreed level of information security and service delivery in line with supplier agreements.
- *System Acquisition, Development, and Maintenance* providing for appropriate security controls and audit trails being integrated in business process management and application systems management to prevent loss, unauthorized alteration, destruction, or misuse of data.
- *Information Security Incident Management* in responding immediately to address security incidents, preventing further damage, ensuring proper communication is in place, and most importantly, determining their root cause and implementing appropriate corrective actions to prevent their recurrence.
- *Business Continuity Management* to protect critical business processes from the effects of security failures and major disasters.
- *Compliance process* where the Company is ensured to comply with all applicable legal requirements to avoid breaches of any criminal and civil laws, statutory, regulatory and contractual obligations; and security requirements.

N. Related Party Transactions

The Company strictly complies with its Related Party Transactions ("*RPT*") Policy as well as pertinent rules issued by the *SEC*. Under the Policy, the Board, through the *RPT* Committee, reviews material/significant *RPT*s to determine whether they are in the best interest of the Company and its shareholders and ensure that all RPTs of the Company are conducted in fair and at arm's length terms. The Policy provides for materiality thresholds, i.e., de *minimis,* significant, material *RPT*s including *SEC* material *RPT*s which constitute ten percent (10%) of the Company's assets.

In 2022, all *RPT*s have been reviewed and executed in accordance with the Policy and have been determined to be fair and at arm's length terms. No *RPT*s were entered into that can be classified as financial assistance to entities other than wholly-owned subsidiary companies.

The Company provides all the names of related parties, degree of relationship, nature, and value for each material/ significant *RPT* in the Company's Consolidated Financial Statements.

O. Annual Corporate Governance Performance Assessments

MERALCO's Performance in the field of corporate governance was assessed and found to be exemplary in the ACGS which evaluates the level of CG practices of Philippine *PLC*s vis-à-vis regional and international standards and best practices. This was conducted by the *ICD* in cooperation with *SEC* and *PSE*.

P. Corporate Governance Advocacies and Outlook

Believing that corporate governance is about shining a light through the whole organization, *MERALCO* has institutionalized the Be Right Open Communication Policy in the corporate culture, which has paved the way to an extensive good governance awareness program for its internal stakeholders. *CG* orientations for its new employees and roadshows for its directors, officers, employees, and suppliers are regularly held, and online *CG* policy information campaigns are periodically issued. *MERALCO* has also enhanced its *CG* compliance monitoring through a unique online HR Express Corporate Governance Facility and SharePoint platform where employees can file their annual *CG* commitment, conflict-of-interest disclosures and gift registry. In 2022, 100% of *MERALCO* employees complied with these disclosure requirements and attended the CG Refresher program containing discussions on relevant CG policies of the Company.

MERALCO is in the process of embedding *CG* policies and programs in its business responsibility unit through its line leadership to make the full transition from compliance to a culture of good governance from Top Management to the ranks in the Company in pursuit of sustainability of relationships with and interests of all stakeholders.

MERALCO also ensures that the governance structure and policies of subsidiaries and affiliates are aligned with its current standards. The Company aided them in the review and drafting of their own Corporate Governance manuals, policies, codes, and best practices.

MERALCO believes that it is necessary to maintain a culture of good governance by utilizing innovative ways in reaching out to its stakeholders in these challenging times. In line with this, *MERALCO* afforded stockholders the right to propose the holding of meetings and to include agenda items ahead of the scheduled Annual and Special Shareholders' Meeting. Also, the Company introduced its enhanced Stockholders Electronic Registration and Voting Express (SERVE). SERVE allows the Company's stockholders to cast their votes online and participate in the Annual Stockholders' Meeting ("*ASM*") via remote communication. This also allows the stockholders to send their questions and clarifications regarding other agenda items.

The Company also provided online learning modules to its employees in January 2022 to strengthen the awareness of all employees on the governance policies promulgated by the Board. This provided an

accessible platform that helped ensure that employees are continuously updated on the best practices in corporate governance.

In pursuit of further improvements in the discipline of governance, *MERALCO* is also actively involved with national and international *CG* advocates and organizations such as the *ICD*, and the Good Governance Advocates and Practitioners of the Philippines *("GGAPP")*. The Company participates in best practice and knowledge-sharing events organized by these organizations with *CG* practitioners, *BOD* and Senior Management, as unified by their *CG* principles and philosophy that responsible professionals yield ethical companies and ultimately, economically sustainable businesses.

For a full discussion on the Corporate Governance practices and achievements of *MERALCO*, please refer to the Company website: www.meralco.com.ph.

SEC Form 17-A

A COPY OF THE COMPANY'S ANNUAL REPORT ON SEC FORM 17-A WILL BE PROVIDED WITHOUT CHARGE TO EACH PERSON UPON WRITTEN REQUEST OF ANY SUCH PERSON ADDRESSED TO:

THE OFFICE OF THE CORPORATE SECRETARY
LOPEZ BUILDING, ORTIGAS AVENUE, BRGY. UGONG
PASIG CITY

SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in the City of Pasig on May 2, 2023.

MANILA ELECTRIC COMPANY
May 2, 2023

SIMEON KEN R. FERRER
Corporate Secretary

SEC Form 17-Q

A COPY OF THE COMPANY'S SEC FORM 17-Q FOR THE FIRST QUARTER OF 2022 WILL BE PROVIDED WITHOUT CHARGE TO EACH PERSON UPON WRITTEN REQUEST OF ANY SUCH PERSON ADDRESSED TO:

THE OFFICE OF THE CORPORATE SECRETARY
LOPEZ BUILDING, ORTIGAS AVENUE, BRGY. UGONG
PASIG CITY

MANILA ELECTRIC COMPANY

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

The following discussion and analysis of financial position and results of operations of Manila Electric Company ("*MERALCO*") and its subsidiaries, collectively referred to as the *"MERALCO Group*" should be read in conjunction with the unaudited interim consolidated financial statements as at March 31, 2023 and 2022 and the audited consolidated financial statements as at December 31, 2022. The consolidated financial statements have been prepared in compliance with the Philippine Financial Reporting Standards (*"PFRS*s*")*. *PFRS* includes statements named *PFRS* and Philippine Accounting Standards, including Interpretations issued by the *PFRS* Council.

The financial information appearing in this report and in the accompanying unaudited interim consolidated financial statements is presented in Philippine peso, *MERALCO Group'*s functional and presentation currency, as defined under *PFRS*. All values are rounded to the nearest million pesos, except for earnings per share ("*EPS*") data. The exchange rate used to translate U.S. dollar to Philippine peso in this report and in the accompanying unaudited interim consolidated financial statements is US$1.00 to ₱54.36, the closing rate as at March 31, 2023 quoted through the Philippine Dealing System.

Financial Highlights and Key Performance Indicators
(Amounts in million, except earnings per share, operational data and system loss)

	March 31, 2023 (Unaudited)	December 31, 2022 (Audited)	Increase (Decrease) Amount	%
Condensed Statements of Financial Position				
Total assets	₱512,582	₱519,261	(₱6,679)	(1)
Current assets	147,208	154,287	(7,079)	(5)
Cash and cash equivalents	57,946	55,832	2,114	4
Equity attributable to equity holders of the parent	105,464	109,664	(4,200)	(4)
Total debt	102,200	103,833	(1,633)	(2)
Current liabilities	201,993	205,725	(3,732)	(2)

	Unaudited			
	Three Months Ended March 31		Increase (Decrease)	
	2023	2022*	Amount	%
Condensed Statements of Income				
Revenues	₱105,642	₱85,905	₱19,737	23
Costs and expenses	98,384	79,420	18,964	23
Other income, net of expenses	2,464	2,039	425	21
Income before income tax	9,722	8,204	1,518	19
Net income	8,205	6,476	1,729	27
Net income attributable to equity holders of the parent	8,071	6,381	1,690	27
Earnings per share (EPS), attributable to equity holders of the parent	7.16	5.66	1.5	27
Condensed Statements of Cash Flows				
Net cash provided by (used in) operating activities	(734)	12,461	(13,195)	(106)
Net cash provided by (used in) investing activities	4,837	(5,464)	10,301	(189)
Net cash provided by (used in) financing activities	(2,126)	(3,936)	(21,242)	(111)
Operational Data				
Number of customers (in thousands):				
Residential	7,081	6,888	193	3
Commercial	571	559	12	2
Industrial	11	11	–	–
Streetlight	5	5	–	–
Electricity sales volume (in *GWh*)	11,287	11,069	218	2
System loss (in percentage) :				
MERALCO	5.62	6.02	(0.40)	(7)
Clark Electric Distribution Corporation ("*Clark Electric*")	1.79	2.01	(0.22)	(11)

*The 2022 balances were restated to adjust the provision for ECL and related deferred income tax.

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

Financial KPI	Definition	March 31, 2023 (Unaudited)	December 31, 2022 (Audited)
Debt to Equity	Total debt / Equity attributable to equity holders of the parent	0.97	0.95
Current Ratio	Current assets / Current liabilities	0.73	0.75

		Unaudited	
		Three Months Ended March 31	
		2023	2022
Core EBITDA	*CCNI* excluding depreciation and amortization, interest and other financial charges, interest and other financial income, and provision for income tax	₱16,140	₱12,170
Profit Margin	Net income attributable to equity holders of the parent / Revenues	8%	7%
Return on Equity	Net income attributable to equity holders of the parent / Equity attributable to equity holders of the parent	8%	6%
Asset Turnover	Revenues / Average total assets	20%	17%

OVERVIEW

MERALCO is the Philippines' largest electric power distribution company, with franchise area covering 9,685 square kilometers. It provides power to over 7.7 million customer accounts in 38 cities and 73 municipalities, which include Metro Manila, all of the provinces of Rizal, Cavite and Bulacan, and parts of the provinces of Pampanga, Batangas, Laguna and Quezon.

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

- Power

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

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

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

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

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

  MERALCO PowerGen Corporation *("MGen")* owns 51% of San Buenaventura Power Ltd. Co. ("*SBPL*") which operates a 455 *MW* (net) supercritical coal-fired plant in Mauban, Quezon.

  Global Business Power Corporation *("GBPC")* owns 970 *MW* (net) of operating coal and diesel-fired power plants in the Visayas and Mindanao. *GBPC* also has a 50% interest in Alsons Thermal Energy Corporation ("*ATEC*"), which holds a 75% interest in Sarangani Energy Corporation ("*Sarangani Energy"*). *Sarangani Energy* operates a 2 x 105 *MW* (net) *CFB* plant in Maasim, Sarangani.

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

  MGreen, through *PHRI*, a joint venture with Mitsui's local unit Mit-Renewables Philippine Corporation, has energized 67.5 MW*ac* of its 75 *MWac* solar plant in Baras, Rizal and has started generating power

since March 2023. The Plant is expected to declare COD in May 2023. Also, in partnership with Pasuquin Energy Holdings, Inc. of Vena Energy Solar PH B.V. ("*Vena Energy*"), a 68 *MWac* solar plant project in Ilocos Norte was fully energized in February 2023. As of end-March, the project has delivered a total of 36 *GWh* of commissioning energy to *MPower* and the *WESM*.

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

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

The *ERC* granted the following subsidiaries distinct *RES* licenses to operate as retail electricity suppliers within Luzon and Visayas: *Vantage* and *Phoenix Power*, wholly owned subsidiaries of *MERALCO*; *MeridianX*, a wholly owned subsidiary of *Comstech*, and *GESC*, a wholly owned subsidiary of *GBPC*. *Vantage* and *MeridianX*'s *RES* licenses which were issued by the *ERC* are valid for five (5) years up to January 10, 2022 and February 9, 2022, respectively. The validity of their *RES* licenses was extended until July 9, 2023 pending final evaluation by the *ERC* of the renewal applications. *Clarion*, a wholly owned subsidiary of *Clark Electric*, submitted the requirements for its *RES* licensing to *ERC* on November 17, 2017. As at April 24, 2023, the approval of its *RES* licensing is pending with the *ERC*. *GESC* is a wholly owned subsidiary of *GBPC*. *GESC*'s *RES* license was renewed for another five (5) years beginning September 13, 2021.

- Other Services

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

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

BUSINESS SEGMENTS	
Power	**Other Services**
Electricity distribution • *MERALCO* • *Clark Electric* • *Shin Clark* Power generation • *MGen* and its subsidiaries *RES* • *MERALCO* through *MPower* business unit • *Clark Electric* through *Cogent Energy* business unit • *Clarion* • *GESC* • *MeridianX* • *Phoenix Power* • *Vantage*	• *CIS Group* • *Comstech* • *e-MVI Group* • *eSakay* • *Finserve* • *LOIL* • *MIESCOR Group* • *MServ* • *Spectrum* • *Movem*

RESULTS OF OPERATIONS

The consolidated results of operations and the contribution of each business segment to *MERALCO Group*'s revenues, costs and expenses, other income, and net income for the three months ended March 31, 2023 and 2022 are discussed below.

	Unaudited			
	For the Three Months Ended March 31, 2023			
	Power	Other Services	Inter-segment Transactions	Consolidated
	(Amounts in millions)			
Revenues	₱102,356	₱4,380	(₱1,094)	₱105,642
Costs and expenses	95,865	3,497	(978)	98,384
Other income (expense) - net	2,660	(172)	(24)	2,464
Net income attributable to equity holders of the parent	7,938	267	(134)	8,071

	Unaudited			
	For the Three Months Ended March 31, 2022*			
	Power	Other Services	Inter-segment Transactions	Consolidated
	(Amounts in millions)			
Revenues	₱83,272	₱3,568	(₱935)	₱85,905
Costs and expenses	77,512	2,688	(780)	79,420
Other income (expense) - net	1,682	44	(7)	1,719
Net income attributable to equity holders of the parent	6,013	464	(96)	6,381

*The 2022 balances were restated to adjust the provision for ECL and related deferred income tax.

2023 compared with 2022

REVENUES

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

	Unaudited					
	For the Three Months Ended March 31					
	2023		2022		Increase/Decrease	
	Amount	%	Amount	%	Amount	%
	(Amounts in millions)					
Power	₱102,356	97	₱83,272	97	₱19,084	23
Other services	4,380	4	3,568	4	812	23
Inter-segment transactions	(1,094)	(1)	(935)	(1)	(159)	17
Total	**₱105,642**	**100**	**₱85,905**	**100**	**₱19,737**	**23**

Consolidated revenues rose by 23% to ₱105,642 million from ₱85,905 million mainly due to (a) higher generation pass-through charges with persisting increases in global fuel prices, higher spot market prices, and peso depreciation; (b) higher *kWh* sales with the easing of pandemic-related restrictions; and (c) higher contribution of the power generation business driven by increases in volume and fuel prices.

Non-electric revenues, which accounted for 4% of consolidated total revenues, grew by 23% due to increase in business activities of subsidiaries and business expansion initiatives.

Power

Revenues from electricity distribution, *RES* and power generation consist of generation, transmission, system loss, distribution, subsidies and other charges related to electricity distribution and energy trading. *MERALCO* and *Clark Electric* distribute electricity to captive industrial, commercial and residential customers while *MPower*, *Cogent Energy*, *Vantage* and *MeridianX* supply electricity to their respective contestable customers. Revenues of the power generation companies of *GBPC*, Powersource First Bulacan Solar, Inc. ("*First Bulacan*") and PH Renewables, Inc. ("*PHRI*") are included in the power segment. *GBPC* owns coal and oil plants with a net capacity of 970 *MW*, of which 800 *MW* are contracted under *PSA*s with captive and contestable customers and Ancillary Services Procurement Agreements ("*ASPAs*"). *First Bulacan* owns and operates a 80 *MW*dc/50 *MWac* utility scale solar facility located in San Miguel, Bulacan, the largest single operating solar plant in the country, which began commercial operations on May 12, 2021 and has since delivered solar energy to *MERALCO* under an *ERC*-approved *PSA*. *PHRI* owns a 75 MWac solar plant in Baras, Rizal in partnership with Mitsui & Co., Ltd.'s local unit, Mit-Renewables Philippine Corporation, which has started testing and commissioning in the first quarter of 2023.

Revenues of the power segment in 2023 was at ₱102,356 million, ₱19,084 million or 23% higher compared with 2022.

MERALCO's average retail rate increased by 17% to ₱10.41 per *kWh* from ₱8.89 per *kWh* as generation charges, which accounted for about 68% of total retail rate, went up by 33%. Transmission charges, comprising 8% of the retail rate, increased by 6%.

MERALCO's average distribution charge of ₱0.93 per *kWh*, which accounted for 9% of the retail rate, dropped by 30% following the implementation of distribution rate true-up ("*DRTU*") adjustments which averaged ₱0.53 per *kWh* during the quarter.

MERALCO's 12-month moving average ("*12-MMA*") system loss at end-March improved by 0.40 percentage point to 5.62% from 6.02% indicative regulatory cap due to increasing share of commercial and industrial volume compared with higher residential volume in the previous year. In addition, system loss management initiatives also contributed to the lower *SL* rate. *Clark Electric*'s 12-*MMA* system loss was at 1.79% as at March 31, 2023.

The following summarizes the customer count of the electricity distribution business as at March 31, 2023 and 2022 and the corresponding electric consumption per customer class for the three months ended March 31, 2023 and 2022:

	No. of Customers		**Electricity Sales**		**% Change**	
	(in thousands)		*(in GWh)*		**No. of**	**Electricity**
Customer Class	**2023**	**2022**	**2023**	**2022**	**Customers**	**Sales**
Residential	7,081	6,888	3,701	3,808	3	(3)
Commercial	571	559	4,213	3,781	2	11
Industrial	11	11	3,336	3,443	–	(3)
Streetlights	5	5	37	37	–	–
Total	**7,668**	**7,463**	**11,287**	**11,069**	**3**	**2**

Consolidated distribution utility energy sales volumes in the first quarter rose to 11,287 *GWh* from 11,069 *GWh* in the same period last year following the easing of pandemic-related restrictions and warmer temperatures.

In terms of the sales mix, residential sales accounted for 33%, commercial sales increased to 37% from 34% in 2022, while industrial sales was at 30% from 31% in 2022.

Demand of residential consumers continue to normalize with the resumption of travel and increasing face-to-face activities in offices, factories, service companies, schools and others. This resulted in residential volume decreasing by 3% to 3,701 *GWh* from 3,808 *GWh*.

Commercial sales volumes grew to 4,213 *GWh* to 3,781 *GWh* amid the increase in economic activities. Demand in the real estate and education sectors posted growth as schools began face-to-face classes. Full operations of retail, restaurants, and hospitality sectors also contributed to the higher commercial sales volumes.

The impact of global economic headwinds and inflation was felt by the industrial segment as sales volumes declined by 3% to 3,336 *GWh* from 3,443 *GWh*. Weak demand for consumer electronics globally continued to dampen growth of the semiconductor industry, while plant shutdowns due to maintenance activities and lower production due to high input cost negatively impacted sales from plastics and cement industries.

Meanwhile, consolidated customer count grew at steadily at 3% to 7.7 million by the end of March 2023 from 7.5 million in 2022. Energization of new customers for both ordinary service and project-covered applications recovered, as local government units and developers cleared backlogs and normalized operations.

Other Services

Non-electric revenues consist mainly of businesses generated from (i) foreign attachments to the *MERALCO* and *Clark Electric* poles; (ii) space rentals; and (iii) revenues of subsidiaries not engaged in the power business, which include businesses generated from third party customers by: (a) *MIESCOR Group* from its engineering, procurement and construction ("*EPC*") contracts; operations and maintenance works involving transmission and telecommunications lines; and *MIDC* for leasing of communication towers; (b) *MServ* for the supply and installation of powerhouse, load side equipment, and energy efficiency services; (c) *CIS Group* handling payment collections for corporate and government billers, spot billing volumes, remittances and other fee-based transactions; (d) *Radius* with its data and internet services; and (e) *eSakay* with its sales of e-vehicles to electric vehicles expansion enterprises, Makati-Mandaluyong route operations, and e-shuttle services.

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

COSTS AND EXPENSES

Consolidated costs and expenses for the three months ended March 31, 2023, amounted to ₱98,384 million, higher by ₱18,964 million compared with ₱79,420 million in 2022. The following table shows the breakdown of consolidated costs and expenses by business segment:

	Unaudited					
	For the Three Months Ended March 31					
	2023		2022*		Increase/Decrease	
	Amount	%	Amount	%	Amount	%
	(Amounts in millions)					
Power[1]	₱95,865	97	₱77,512	98	₱18,353	24
Other services	3,497	4	2,688	3	809	30
Inter-segment transactions	(978)	(1)	(780)	(1)	(198)	25
Total	**₱98,384**	**100**	**₱79,740**	**100**	**₱18,964**	**24**

**Restated.*

[1] *Ibid.*

Power

Costs and expenses of power segment for three months ended March 31, 2023 amounted to ₱95,865 million, 24% higher compared with ₱77,512 million in 2022. The details of costs and expenses are summarized in the following table:

	Unaudited					
	For the Three Months Ended March 31					
	2023		2022*		Increase/Decrease	
	Amount	%	Amount	%	Amount	%
	(Amounts in millions)					
Purchased power	₱78,580	82	₱61,551	79	₱17,029	28
Coal and fuel	4,566	5	3,466	5	1,100	32
Depreciation and amortization	3,616	4	3,130	4	486	16
Salaries, wages and employee benefits	3,081	3	3,111	4	(30)	(1)
Contracted services	2,054	2	1,760	2	294	17
Others	3,968	4	4,494	6	(526)	(18)
Total	**₱95,865**	**100**	**₱77,512**	**100**	**₱18,353**	**24**

**Restated.*

Purchased power cost ("*PPC*") increased by 28% to ₱78.6 billion from ₱61.7 billion due to the increase in Malampaya gas prices, depreciation of the Peso, and increase in purchases from the Wholesale Electricity Spot Market ("*WESM*") following the suspension by South Premiere Power Corporation ("*SPPC*") since December 2022 of its Power Supply Agreement ("*PSA*") with *MERALCO*. The average Malampaya natural gas price increased to US$ 10.08 per *GJ* versus US$ 8.71 per *GJ* a year ago. Due to persisting Malampaya gas supply restrictions that began in March 2021 and the 15-day Malampaya maintenance shutdown in February 2023, *First Gas* natural gas plants were compelled to continue using more expensive alternative fuel to ensure continued supply to *MERALCO*. The depreciation of the Peso against the US dollar also contributed to the higher *PPC*. Average Wholesale Electricity Spot Market ("*WESM*") prices, on the other hand, which peaked at ₱37.97 per *kWh* on March 21, 2023, averaged at ₱6.58 per *kWh*. Peak demand recorded during the three-month period was lower by 151 *MW* compared with a year ago due to relatively cooler temperatures.

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

Other Services

Costs and expenses of other services business segment for the three months ended March 31, 2023 amounted to ₱3,497 million, 30% higher compared with ₱2,688 million in 2022.

	Unaudited					
	For the Three Months Ended March 31					
	2023		2022		Increase/Decrease	
	Amount	%	Amount	%	Amount	%
	(Amounts in millions)					
Salaries, wages and employee benefits	₱1,155	33	₱1,074	40	₱81	8
Contracted services	712	20	570	21	142	25
Depreciation and amortization	438	13	149	6	289	194
Others	1,192	34	895	33	297	33
Total	**₱3,497**	**100**	**₱2,688**	**100**	**₱809**	**30**

The increase in the cost and expenses of other business segment reflects the costs of increasing business activities for the three months ended March 31, 2023 compared with the same period in 2022, consistent with the increase in revenues of other business segment. These costs pertain to (i) project costs of *Miescor* group and *MServ*, and (ii) major costs of *Radius* and *Bayad*.

Depreciation and amortization expenses for the three months ended March 31, 2023 include ₱199 million depreciation expense of *MIDC* related to the acquired telecom towers and related passive infrastructure.

OTHER INCOME (EXPENSES)

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

	Unaudited			
	For the Three Months Ended March 31			
			Increase/Decrease	
	2023	2022	Amount	%
	(Amounts in millions)			
Power[2]	₱2,660	₱1,682	₱978	58
Other services	(172)	44	(216)	(491)
Intersegment transactions	(24)	(8)	(16)	200
Total	**₱2,464**	**₱1,718**	**₱746**	**43**

Other income, net of expenses for the three months ended March 31, 2023 increased by ₱746 million mainly due to higher share in net earnings of associates and joint ventures and higher yield from financial investments. The increase was mitigated by higher interest and financial charges and foreign exchange losses due to appreciation of Philippine peso against US dollar between December 31, 2002 and March 31, 2023.

Power

Other income (expenses) of power segment consists of:

	Unaudited			
	For the Three Months Ended March 31			
			Increase/Decrease	
	2023	2022	Amount	%
	(Amounts in millions)			
Interest and other financial income	₱703	₱413	290	70
Interest and other financial charges	(1,047)	(998)	(49)	5
Equity in net earnings of associates and joint ventures	3,915	2,105	1,810	86
Foreign exchange gains (losses)	(299)	218	(517)	(237)
Others	(612)	(56)	(556)	(331)
Total	**₱2,660**	**₱1,682**	**₱978**	**58**

Interest and other financial income increased by ₱290 million with higher interest rates of short-term placements during the period.

The higher share in net earnings of associates and joint ventures was attributed to the net income contribution of *SBPL* and *PacificLight Power*. *PacificLight Power*'s operations in the first quarter of 2023 resulted in total equity in net earnings of ₱5.4 billion compared with ₱3.0 billion same period last year. The increase in the results of operations of *PacificLight Power* was attributable to the higher margins generated from the spot market and 2% growth in demand.

The three months ended March 31, 2023 resulted in foreign exchange losses due to the appreciation of Philippine peso against the U.S. dollar since December 31, 2022. The exchange rate of U.S. dollar is ₱54.36 as at March 31, 2023 (₱55.76 as at December 31, 2022) compared with is ₱51.74 as at March 31, 2022 (₱51.00 as at December 31, 2021).

[2] *Ibid.*

NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The following table shows the breakdown of net income attributable to equity holders of the parent by business segment:

	Unaudited					
	For the Three Months Ended March 31					
	2023		2022*		Increase/Decrease	
	Amount	**%**	**Amount**	**%**	Amount	**%**
	(Amounts in millions)					
Power	₱7,938	98	₱6,013	94	₱1,925	32
Other services	267	4	464	7	(197)	(42)
Inter-segment transactions	(134)	(2)	(96)	(1)	(38)	40
Total	**₱8,071**	**100**	**₱6,381**	**100**	**₱1,690**	**27**

**Restated.*

The higher net income attributable to equity holders of the parent is largely due to significant increase in contribution of power generation companies.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	March 31, 2023 Unaudited	December 31, 2022 Audited	Increase (Decrease) Amount	%
		(Amounts in millions)		
ASSETS				
Noncurrent Assets				
Utility plant, generation plant and others	**₱244,119**	₱243,323	₱796	–
Investments in associates and interests in joint ventures	**33,464**	31,888	1,576	5
Investment properties	**1,494**	1,495	(1)	–
Intangible assets	**21,511**	21,691	(180)	(1)
Deferred tax assets - net	**22,654**	22,657	(3)	–
Financial and other noncurrent assets	**42,132**	43,920	(1,788)	(4)
Total Noncurrent Assets	**365,374**	364,974	400	–
Current Assets				
Cash and cash equivalents	**57,946**	55,832	2,114	4
Trade and other receivables	**49,276**	54,683	(5,407)	(10)
Inventories	**10,832**	10,629	203	2
Financial and other current assets	**29,154**	33,143	(3,989)	(12)
Total Current Assets	**147,208**	154,287	(7,079)	(5)
Total Assets	**₱512,582**	₱519,261	(₱6,679)	(1)
EQUITY AND LIABILITIES				
Equity attributable to equity holders of the parent	**₱105,464**	₱109,664	(₱4,200)	(4)
Non-controlling interests	**14,712**	14,445	267	2
Total Equity	**120,176**	124,109	(3,933)	(3)
LIABILITIES				
Noncurrent Liabilities				
Interest-bearing long-term financial liabilities - net of current portion	**68,258**	68,757	(499)	(1)
Customers' deposits - net of current portion	**32,246**	31,590	656	2
Long-term employee benefits	**3,282**	2,893	389	13
Provisions	**12,541**	12,657	(116)	(1)
Refundable service extension costs - net of current portion	**4,614**	4,653	(39)	(1)
Deferred tax liabilities - net	**5,383**	5,427	(44)	(1)
Other noncurrent liabilities	**64,089**	63,450	639	1
Total Noncurrent Liabilities	**190,413**	189,427	986	1
Current Liabilities				
Notes payable	**28,419**	29,491	(1,072)	(4)
Trade payables and other current liabilities	**161,203**	163,902	(2,699)	(2)
Customers' refund	**2,895**	2,905	(10)	–
Income tax payable	**203**	92	111	121
Current portion of long-term employee benefits	**3,750**	3,750	–	–
Current portion of interest-bearing long-term financial liabilities	**5,523**	5,585	(62)	(1)
Total Current Liabilities	**201,993**	205,725	(3,732)	(2)
Total Liabilities	**392,406**	395,152	(2,746)	(1)
Total Liabilities and Equity	**₱512,582**	₱519,261	(₱6,679)	(1)

Utility Plant, Generation Plant and Others
The ₱796 million increase in utility plant, generation plant and others reflects the completed and on-going construction of electric distribution-related facilities, and upgrade and major rehabilitation of existing electrical facilities and IT related assets, most of which represents regulated capital expenditures by *ERC*'s definition, development of power plant projects and construction of tower assets, totaling to about ₱5,033 million. This was offset by the depreciation and amortization of ₱3,648 million.

Investments in Associates and Interests in Joint Ventures
Investments in associates and interest in joint ventures increased with the combined share in net earnings of associates and joint ventures amounting to ₱3,915 million, net of dividends declared of ₱2,332 million.

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

Trade and Other Receivables
The decrease in trade and other receivables balance was mainly attributed to less billing days in March 2023 compared with December 2022.

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

Interest-bearing long-term financial liabilities
The decrease in this account was due to settlement of interest bearing loans amounting to ₱565 million.

Long-term employee benefits
The increase in this account is due to the long-term employee benefits expense recognized during the period.

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

Trade Payables and Other Current Liabilities
Trade payables and other current liabilities substantially represent purchased power costs in March 2023 due the following month. The December 2022 balance of purchased power included amounts pertaining to November 2022 supply month which were settled in January 2023. This was offset by the declaration of dividends of ₱12,430 million.

2022 compared with 2021

REVENUES

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

	Unaudited					
	For the Three Months Ended March 31					
	2022		2021		Increase/Decrease	
	Amount	%	Amount	%	Amount	%
	(Amounts in millions)					
Power	₱83,272	97	₱62,484	97	₱20,788	33
Other services	3,568	4	2,821	4	747	26
Inter-segment transactions	(935)	(1)	(593)	(1)	(342)	58
Total	**₱85,905**	**100**	**₱64,712**	**100**	**₱21,193**	**33**

Consolidated revenues rose by 33% to ₱85,905 million from ₱64,712 million with the growth in power generation contribution, uptick in energy sales, and increase in pass-through charges. On March 31, 2021, *MGen* acquired an additional 86% equity in *GBPC*, increasing *MGen*'s equity interest in *GBPC* to 100%. As such, *MERALCO*'s consolidated revenues for the three months ended March 31, 2021 does not include *GBPC*'s revenues.

Non-electric revenues, which accounted for 4% of consolidated total revenues, grew by 26% due to increase in business activities of subsidiaries following more relaxed quarantine restrictions and business expansion initiatives.

Power

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

Revenues of the power segment in 2022 was at ₱83,272 million, ₱20,788 million or 33% higher compared with 2021 mainly due to higher pass-through charges on account of the unprecedented increase in global fuel prices.

MERALCO's average retail rate increased by 14% to ₱8.89 per *kWh* from ₱7.82 per *kWh* as generation charges, which accounted for about 59% of total retail rate, went up by 21%. Transmission charges, comprising 9% of the retail rate, also increased by 9%.

The rate increase was mitigated by the ₱0.1064 per *kWh* average refund of distribution over-recoveries, which was implemented by *MERALCO* following the order of the Energy Regulatory Commission ("*ERC*") in March 2022. This refund was intended to expand its coverage to include the December 2020 to December 2021 period. This is in addition to the ₱0.1528 per *kWh* refund of distribution over-recoveries for the period July 2015 to November 2020, which is currently being implemented as ordered by the *ERC* in February 2021. With these, the average effective distribution rate charged to customers by *MERALCO* was at ₱1.33 per *kWh* for the first quarter of 2021.

MERALCO's 12-month moving average ("*12-MMA*") system loss at end-March was at 6.02%, a 0.12 percentage point improvement compared with 6.14% in 2021 as a result of sales approaching pre-pandemic mix and system loss management initiatives. *Clark Electric Distribution Corporation*'s 12-MMA system loss was at 2.01% as at March 2022.

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

	No. of Customers *(in thousands)*		Electricity Sales *(in GWh)*		% Change	
Customer Class	**2022**	**2021**	**2022**	**2021**	**No. of Customers**	**Electricity Sales**
Residential	6,888	6,644	3,808	3,616	4	5
Commercial	559	545	3,781	3,560	3	6
Industrial	11	11	3,443	3,261	–	6
Streetlights	5	5	37	36	–	3
Total	**7,463**	**7,205**	**11,069**	**10,473**	**4**	**6**

Consolidated distribution utility energy sales volumes in the first quarter rose to 11,069 *GWh* from 10,473 *GWh* in the same period last year following the easing of pandemic-related restrictions and higher temperatures.

National Capital Region ("*NCR*") and parts of Cavite, Laguna, Batangas, Rizal and Quezon ("*CALABARZON*") were placed under the least restrictive Alert Level 1 in March 2022, driving power demand in Luzon that peaked at 11,654 *MW* on March 23, 2022, exceeding the actual peak demand in 2021. *MERALCO* peak demand for the first quarter of 2022 was at 7,816 *MW*, 10% higher than the previous year.
]
In terms of the sales mix, residential sales accounted for 35%, while commercial and industrial sales accounted for 34% and 31%, respectively.

While demand in the residential segment continued to normalize with increased mobility due to higher vaccination rate, the continuing hybrid work arrangements and home-based learning set-up, as well as the relatively warmer temperatures pushed residential sales volume to grow 5% to 3,808 *GWh* from 3,616 *GWh*.

Commercial sales volumes likewise went up to 3,781 *GWh* from 3,560 *GWh* amid the increase in economic activities. Demand in the real estate and education sectors posted growth as schools began hybrid face-to-face classes. Full operation of retail, restaurants, and hospitality sectors also contributed to the higher commercial sales volumes.

With the more relaxed restrictions, growth in industrial sales volumes was sustained, increasing to 3,443 *GWh* from 3,261 *GWh*. Growth mainly came from the semiconductor, cement, food and beverage, plastics, and chemical packaging industries.

Meanwhile, consolidated customer count grew at a steady 4% to 7.46 million at end-March 2022 from 7.21 million in the same period last year. Energization of new customers for both ordinary service and project-covered applications recovered, as local government units and developers cleared backlogs and normalized operations.

Other Services

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

Revenues of *Bayad* increased in the first three months of 2022 due to higher volume of bills payment transactions handled, load top-up and remittances. *Bayad also* added 27 new billers, bringing its total number of serviced billers to 505 as of end-March 2022. Launched in January 2021, the *Bayad* App recorded over

220,500 downloads and executed ₱73 billion in bills payment transactions. Meanwhile, *Bayad* Online recorded 53,211 registered users since its commercial launch in December 2020.

Radius recorded ₱427.9 million consolidated revenues for the first quarter of 2022 versus ₱337.6 million compared with the same period in 2021. With the establishment of its capability to manage end-to-end broadband operations, *Radius'* RED Fiber for Business ended the first quarter of 2022 with 37,012 subscribers in Metro Manila, Rizal, Bulacan, Cavite Laguna, Cebu and Clark in Pampanga.

MIESCOR, the engineering and construction arm of *MERALCO*, and its subsidiaries contributed ₱36.0 million to *MERALCO*'s *CCNI* in the first quarter of 2022 as revenues grew by 13% to ₱1.4 billion driven by its Engineering, Procurement and Construction ("*EPC*") and telecoms contracts.

COSTS AND EXPENSES

Consolidated costs and expenses for the three months ended March 31, 2022, amounted to ₱79,420 million, higher by ₱24,116 million compared with ₱55,304 million in 2021. The following table shows the breakdown of consolidated costs and expenses by business segment:

	Unaudited					
	For the Three Months Ended March 31					
	2022*		2021		Increase/Decrease	
	Amount	%	Amount	%	Amount	%
	(Amounts in millions)					
Power[3]	₱77,512	98	₱53,707	97	₱23,805	44
Other services	2,688	3	2,195	4	493	22
Inter-segment transactions	(780)	(1)	(598)	(1)	(182)	30
Total	**₱79,420**	**100**	**₱55,304**	**100**	**₱24,116**	**44**

**Restated.*

Power

Costs and expenses of power segment for the three months ended March 31, 2022 amounted to ₱77,512 million, 44% higher compared with ₱53,707 million in 2021. The details of costs and expenses are summarized in the following table:

	Unaudited					
	For the Three Months Ended March 31					
	2022*		2021		Increase/Decrease	
	Amount	%	Amount	%	Amount	%
	(Amounts in millions)					
Purchased power	₱61,551	79	₱47,482	89	₱14,069	30
Salaries, wages and employee benefits	3,111	4	2,864	5	247	9
Depreciation and amortization	3,130	4	1,913	4	1,217	64
Contracted services	1,760	2	1,619	3	141	9
Coal and fuel	3,466	5	–	1	3,466	–
Others	4,494	6	(171)	-	4,665	(2,728)
Total	**₱77,512**	**100**	**₱53,707**	**100**	**₱23,805**	**44**

**Restated.*

Purchased power accounted for 79% and 89% of the total costs and expenses for the three months ended March 31, 2022 and 2021, respectively. All of the electricity distributed by *MERALCO* and *Clark Electric* are mostly contracted through *PSAs* with generators and long-term Power Purchase Agreements *("PPA")*

[3] *Ibid.*

with Independent Power Producers ("*IPP*"), with any uncontracted volume sourced from the Wholesale Electricity Spot Market ("*WESM*").

Purchased power cost ("*PPC*") increased by 30% to ₱61,551 million from ₱47,482 million due to higher cost of power caused by the spike in global fuel prices, as well as by the increase in the *WESM* prices as a result of tight supply conditions and higher average capacity on outage in Luzon. The average Malampaya natural gas price also increased to US$8.71 per *GJ* during the quarter versus US$6.26 per *GJ* the previous year. The Malampaya gas supply restrictions, which began in March 2021, forced suppliers to use more expensive alternative fuel. The depreciation of the peso against the US dollar to ₱51.74 at the end of March 2022 from ₱48.53 as of end-March of 2021 also contributed to the higher *PPC*.

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

Other Services

Costs and expenses of other services business segment for the three months ended March 31, 2022 amounted to ₱2,688 million, 22% higher compared with ₱2,195 million in 2021.

	Unaudited					
	For the Three Months Ended March 31					
	2022		2021		Increase/Decrease	
	Amount	%	Amount	%	Amount	%
	(Amounts in millions)					
Salaries, wages and employee benefits	₱1,074	40	₱928	42	₱146	16
Contracted services	570	21	398	18	172	43
Depreciation and amortization	149	6	137	6	12	9
Others	895	33	732	33	163	22
Total	**₱2,688**	**100**	**₱2,195**	**100**	**₱493**	**22**

The increase in the cost and expenses of other business segment was driven mainly by higher business activities for the three months ended March 31, 2022 compared with the same period in 2021.

OTHER INCOME (EXPENSES)

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

	Unaudited			
	For the Three Months Ended March 31			
			Increase/Decrease	
	2022	2021	Amount	%
	(Amounts in millions)			
Power[4]	₱1,682	₱740	₱942	127
Other services	44	(28)	72	(257)
Intersegment transactions	(8)	(5)	(3)	60
Total	**₱1,718**	**₱707**	**₱1,011**	**143**

Other income, net of expenses for the three months ended March 31, 2022 increased by ₱1,011 million mainly due to higher share in the net earnings of associates and joint ventures and foreign exchange gain recorded with the depreciation of Philippine peso against the U. S. dollar in 2021, offset by lower yield from investments and higher interest and other financial charges and higher interest and financial charges due to *GBPC*'s consolidation in March 31, 2021.

[4] *Ibid.*

Power

Breakdown of other income (expenses) of power segment are as follow:

	Unaudited			
	For the Three Months Ended March 31			
			Increase/Decrease	
	2022	2021	Amount	%
	(Amounts in millions)			
Interest and other financial income	₱413	₱472	(₱59)	(13)
Interest and other financial charges	(998)	(439)	(559)	127
Equity in net earnings of associates and joint ventures	2,105	294	1,811	616
Foreign exchange gains	218	62	156	252
Others	(56)	351	(407)	(116)
Total	**₱1,682**	**₱740**	**₱942**	**127**

Interest and other financial income declined by ₱59 million in 2022 with lower interest rates on peso and dollar placements during the period.

Interest and other financial charges increased by ₱559 million due to additional loans obtained in March 2021 to fund the acquisition of *GBPC,* and consolidation of *GBPC* and subsidiaries' interest expense beginning April 1, 2021. Interest expense and other financial charges for the period ended March 31, 2021 do not include interest expense of *GBPC* and subsidiaries.

The higher equity in net earnings of associates and joint ventures was attributed to the net income contribution of *SBPL* and *PacificLight.*

Foreign exchange gains increased due to the depreciation of Philippine peso against the U.S. dollar. The exchange rate of U.S. dollar is ₱51.74 as at March 31, 2022 (₱51.00 as at December 31, 2021) compared with ₱48.53 as at March 31, 2021 (₱48.02 as at December 31, 2020).

NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The following table shows the breakdown of net income attributable to equity holders of the parent by business segment:

	Unaudited					
	For the Three Months Ended March 31					
	2022		2021		Increase/Decrease	
	Amount	%	Amount	%	Amount	%
	(Amounts in millions)					
Power	₱6,013	94	₱3,937	91	₱2,076	53
Other services	464	8	419	10	44	10
Inter-segment transactions	(96)	(2)	(22)	(1)	(73)	317
Total	**₱6,381**	**100**	**₱4,334**	**100**	**₱2,047**	**47**

**Restated.*

Net income attributable to equity holders of the parent increased by ₱2,047 million due to higher volume of energy sold this period compared to the same period last year and increase in contribution from its power generation business.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	March 31, 2022 Unaudited (Restated**)	December 31, 2021 (As restated)*	Increase (Decrease)	
			Amount	%
		(Amounts in millions)		
ASSETS				
Noncurrent Assets				
Utility plant, generation plant and others	**₱228,633**	₱225,326	₱3,307	1
Investments in associates and interests in joint ventures	**25,800**	23,317	2,483	11
Investment properties	**1,495**	1,496	(1)	–
Intangible assets	**15,103**	15,054	49	–
Deferred tax assets - net	**27,476**	27,143	333	1
Financial and other noncurrent assets	**57,097**	53,125	3,972	7
Total Noncurrent Assets	**355,604**	345,461	10,143	3
Current Assets				
Cash and cash equivalents	**58,035**	55,007	3,028	6
Trade and other receivables	**49,242**	45,013	4,229	9
Inventories	**10,006**	9,817	189	2
Financial and other current assets	**28,717**	28,317	400	1
Total Current Assets	**146,000**	138,154	7,846	6
Total Assets	**₱501,604**	₱483,615	₱17,989	4
EQUITY AND LIABILITIES				
Equity attributable to equity holders of the parent	**₱90,895**	₱95,204	(₱4,309)	(5)
Non-controlling interests	**10,243**	10,124	119	1
Total Equity	**101,138**	105,328	(4,190)	(4)
LIABILITIES				
Noncurrent Liabilities				
Interest-bearing long-term financial liabilities - net of current portion	**52,101**	52,720	(619)	(1)
Customers' deposits - net of current portion	**30,982**	30,901	81	–
Long-term employee benefits	**10,926**	10,257	669	7
Provisions	**12,094**	13,554	(1,460)	(11)
Refundable service extension costs - net of current portion	**5,284**	5,334	(50)	(1)
Deferred tax liabilities - net	**5,639**	5,959	(320)	(5)
Other noncurrent liabilities	**100,978**	97,981	2,997	3
Total Noncurrent Liabilities	**218,004**	216,706	1,298	1
Current Liabilities				
Notes payable	**28,506**	28,834	(328)	(1)
Trade payables and other current liabilities	**142,343**	119,067	23,276	20
Customers' refund	**2,926**	2,929	(3)	–
Income tax payable	**3,246**	1,637	1,609	98
Current portion of interest-bearing long-term financial liabilities	**5,441**	9,114	(3,673)	(40)
Total Current Liabilities	**182,462**	161,581	20,881	13
Total Liabilities	**400,466**	378,287	22,179	6
Total Liabilities and Equity	**₱501,604**	₱483,615	₱17,989	4

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

** The 2022 balances were restated to adjust the provision for ECL and related deferred income tax.

Utility Plant and Others

The ₱3,307 million increase in utility plant and others reflects the completed and on-going construction of electric distribution-related facilities, and upgrade and major rehabilitation of existing electrical facilities and IT related assets, most of which represents regulated capital expenditures by *ERC*'s definition, totaling to about ₱5,731 million, net of depreciation and amortization of ₱2,851 million for the period.

Investments in Associates and Interests in Joint Ventures
For the three months ended March 31, 2022, there were (a) additional investments in associates and joint ventures of ₱226 million and (b) recognition of equity in net earnings of ₱2,115 million.

Financial and Other Noncurrent Assets
The higher balance of this account is mainly attributed to the additional under recoveries of pass through charges resulting from increasing generation and transmission charges recognized during the period.

Trade and Other Receivables
The increase in trade and other receivables balance was mainly driven by higher *kwh* sales and average retail rate per *kwh* in March 2022 compared with December 2021. The average retail rate in March 2022 is ₱8.89 per kwh compared with ₱8.26 per kwh in December 2021.

Financial and Other Current Assets
There were additional investments in debt securities at amortized cost made during the first quarter of 2022.

Interest-bearing long-term financial liabilities
In the first quarter of 2022, *PEDC* paid its bank loans of ₱4,288 million.

Long-term employee benefits
The increase in this account is due to the long-term employee benefits expense recognized during the period.

Provisions
Provisions represents the net settlement, reversals and adjustments made during the period.

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

Trade Payables and Other Current Liabilities
The increase in trade payables and other current liabilities was driven by higher purchased power costs in March 2022 compared with December 2021.

Income Tax Payable
Income tax payable as of March 31, 2022 included the amounts due as of December 31, 2021 and that for the first quarter of 2022.

LIQUIDITY AND CAPITAL RESOURCES

The following show the cash flows for the three months ended March 31, 2023 and 2022 as well as the capitalization and other selected consolidated financial data as at March 31, 2023 and December 31, 2022:

	Unaudited	
	For the Three Months Ended March 31	
	2023	2022
Cash Flows		
Net cash provided by (used in) operating activities	**(₱734)**	₱12,461
Net cash provided by (used in) investing activities	**4,837**	(5,464)
Net cash provided by (used in) financing activities	**(2,126)**	(3,936)
Net increase in cash and cash equivalents	**1,977**	3,061
Capital Expenditures	**5,107**	5,875

	March 31, 2023 (Unaudited)	December 31, 2022 (Audited)
	(Amounts in millions)	
Capitalization		
Interest-bearing long-term financial liabilities		
Current	**₱5,523**	₱5,585
Noncurrent	**68,258**	68,757
Notes payable	**28,419**	29,491
Equity attributable to equity holders of the parent	**105,464**	109,664
Other Selected Financial Data		
Total assets	**512,582**	519,261
Utility plant, generation plant and others	**244,119**	243,323
Cash and cash equivalents	**57,946**	55,832

Debt Financing

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

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

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

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

As at March 31, 2023, the *MERALCO Group* is in compliance with all of the covenants of its loan agreements.

Equity Financing

As at March 31, 2023 and December 31, 2022, *MERALCO*'s capital stock consists of (*amounts in millions except par value and number of shares*):

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

The balance of previously issued preferred shares which have been called for redemption amounted to ₱1,466 million and ₱1,467 million as at March 31, 2023 and December 31, 2022, respectively. Total unclaimed dividends amounted to ₱249 million as at March 31, 2023 and December 31, 2022. Interest is no longer accrued from the time such preferred shares were called for redemption.

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

The following were the cash dividends declared on common shares for the three months ended March 31, 2023 and 2022 (*amounts in millions except per share data*):

Declaration Date	Record Date	Payment Date	Dividend Per Share	Amount
February 27, 2023	March 29, 2023	April 26, 2023	₱11.03	₱12,430
February 28, 2022	March 30, 2022	April 26, 2022	10.23	11,526

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

RISK FACTORS

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

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

Regulated Rates and Cost Recoveries

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

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

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

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

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

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

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

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

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

Distribution Rate True-Up ("DRTU") Applications

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

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

MERALCO implemented the foregoing refunds. As at March 31, 2023, a total of ₱38.3 billion have been credited to the bills of customers.

Regulatory Reset Process Application

On March 16, 2022, *MERALCO* filed its application for the approval of its annual revenue requirement and performance incentive scheme for the 5th *RP* (July 1, 2022 to June 30, 2023) based on *ERC*-promulgated *RDWR*. As at April 24, 2023, hearings on the case are ongoing.

CAPEX for 4th RP, RY 2020 to RY 2022

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

Except with respect to partial approval by the *ERC* of the *RY* 2016 *CAPEX* amounting to ₱15,466 million and provisional authority granted by the *ERC* to implement certain projects for *RY* 2017 amounting to ₱8,758 million, all other applications remain pending with the *ERC*. As at April 24, 2023, *MERALCO* is awaiting the final resolution of the *ERC*.

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

3rd and 4th RP PBR Reset for Clark Electric

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

Pending the issuance by the *ERC* of the final rules to govern 3rd and 4th *RP* of Group D entrants, *Clark Electric* continued to bill its customers using the last approved *MAP* for *RY* 2015. Similarly, *Clark Electric* filed and manifested as urgent its *CAPEX* requirements with the *ERC* to be able to implement such projects immediately. As at April 24, 2023, the applications remain pending with the *ERC*.

Recovery of Development Investments, New Businesses and Significant Capital Expenditures

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

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

On August 11, 2022, *MIDC* entered into a Sale and Leaseback Agreement with Globe Telecom, Inc. (*"Globe"*) to acquire 2,180 telecom towers and the related passive infrastructure for a total consideration of ₱26,160 million. Under the Master Lease Agreement, *Globe* shall be the anchor tenant of the towers for an initial period of 15 years. In addition, Globe has commissioned *MIDC* to construct 900 additional build-to-suit towers over the next four (4) years on which *Globe* will be the anchor tenant.

As of March 31, 2023, *MIDC* completed the acquisition of 860 towers from *Globe* for a total price of ₱10,320 million and recognized the following identifiable assets:

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

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

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

Sales Volume and Philippine Economic Conditions

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

Demand of residential consumers continue to normalize with the resumption of travel and increasing face-to-face activities in offices, factories, service companies, schools and others. This resulted in residential volume decreasing by 3% to 3,701 *GWh* in the first quarter of 2023 from 3,808 *GWh* in the same period last year.

Commercial sales volumes grew to 4,213 *GWh* in the first quarter of 2023 from 3781 *GWh* in the same period in 2022 amid the increase in economic activities. Demand in the real estate and education sectors posted growth as schools began face-to-face classes. Full operations of retail, restaurants, and hospitality sectors also contributed to the higher commercial sales volumes.

The impact of global economic headwinds and inflation was felt by the industrial segment as sales volumes declined by 3% to 3,336 *GWh* in the first quarter of 2023 from 3,443 *GWh* in the same period last year. Weak demand for consumer electronics globally continued to dampen growth of the semiconductor industry, while plant shutdowns due to maintenance activities and lower production due to high input cost negatively impacted sales from plastics and cement industries.

Meanwhile, consolidated customer count grew steadily at 3% to 7.7 million by the end of March 2023 from 7.5 million a year ago. Energization of new customers for both ordinary service and project-covered applications recovered, as local government units and developers cleared backlogs and normalized operations.

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

Power Supply and Demand Management

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

Below is the summary of *MERALCO* and *Clark Electric*'s electricity suppliers and the respective amounts of power purchased for the three months ended March 31, 2023and 2022. The details of the relevant *IPP*s and *PSA*s are disclosed and discussed in Note 30 to the unaudited interim consolidated financial statements:

The amounts of purchased power costs including transmission and ancillary charges for the three months ended March 31, 2023 and 2022, follow:

	Unaudited	
	For the Three Months Ended March 31	
	2023	**2022**
	(Amounts in millions)	
Independent Electricity Market Operator of the Philippines ((“*IEMOP*”)	**₱17,476**	₱7,454
First Gas Power Corporation *(*“*FGPC*”) and FGP Corp. (“*FGP*”)	**17,049**	14,498
National Grid Corporation of the Philippines (“*NGCP*”)	**10,027**	9,699
SBPL	**7,980**	4,260
Quezon Power (Philippines) Limited Company (“*QPPL*”)	**4,955**	3,873
Masinloc Power Partners Co. Ltd. (“*MPPCL*”)	**4,036**	2,753
San Miguel Energy Corporation (“*SMEC*”)	**3,970**	3,756
First NatGas Power Corp. (“*FNPC*”)	**3,452**	2,252
AC Energy Philippines, Inc. (“*AC Energy*”)	**2,389**	2,455
South Premiere Power Corporation (“*SPPC*”)	**1,683**	6,664
Southwest Luzon Power Generation Corporation	**1,329**	659
Therma Luzon, Inc. (“*TLI*”)	**877**	688
Energy Development Corporation (“*EDC*”)	**624**	–
Sem-Calaca Power Corporation (“*Sem-Calaca*”)	**176**	159
Solar Philippines Tarlac Corporation (“*Solar Philippines Tarlac*”)	**106**	85
First Gen Hydro Power Corporation (“*FGHPC*”)	**–**	584
PEDC	**–**	22
Others	**2,491**	1,796
	₱78,620	₱61,657

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

On April 18, 2022, *SMEC* and *SPPC* issued Notices of Change in Circumstances to *MERALCO*, claiming that the worsening conflict between Russia and Ukraine and other geopolitical and economic factors related and/or emanating therefrom have impacted *SMEC* and *SPPC*'s capability to perform their obligations under the respective *PSA*s in terms of unexpected increase in fuel cost. Thus, on May 12, 2022, *SMEC* and *SPPC* (joined by *MERALCO*) filed Joint Motions for Price Adjustment with the *ERC*. On June 27, 2022 and July 22, 2022, *SMEC*, *SPPC* and *MERALCO* filed motions for urgent resolution of the Joint Motion. On August 30, 2022, the *ERC* conducted a clarificatory hearing with *SMEC, SPPC* and *MERALCO* to address several issues in connection with the Joint Motions for Price Adjustment. On October 3, 2022, the *ERC*, voting 3-2, promulgated its Orders dated September 29, 2022, denying the Joint Motions for Price Adjustment. On October 5, 2022, *SMEC* and *SPPC* notified *MERALCO* that it will continue with its obligations under their respective baseload *PSA*s with *MERALCO* under protest and without prejudice to their rights and remedies under pertinent laws and contract. On November 4, 2022, *SMEC* and *SPPC* filed Petitions

for Certiorari with prayer for issuance of *TRO* and Writ of Preliminary Injunction ("*WPI*") with the *CA*, assailing the *ERC* Orders dated September 29, 2022. On November 25, 2022, the *CA* issued a *TRO* for the *SPPC* case, hence, after the *TRO* bond was posted by *SPPC*, on December 7, 2022, *SPPC* stopped accepting *MERALCO* nominations. On January 25, 2023, the *CA* issued a *WPI* for the *SPPC* case, which shall remain in effect until the main case is finally decided. Meanwhile, for the *SMEC* case, on January 13, 2023, the *CA* denied *SMEC*'s prayer for *TRO* and *WPI*. As at April 24, 2023, *SPPC* has suspended its obligations under its baseload *PSA* with *MERALCO*, while *SMEC* has continued with its obligations under its baseload *PSA* with *MERALCO*.

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

Competition

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

ELECTRIC POWER INDUSTRY DEVELOPMENTS AND UPDATES

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

OTHER QUANTITATIVE AND QUALITATIVE DISCLOSURES

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

Not Applicable

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

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

NPC embarked on a Power Development Program ("*PDP*"), which consisted of contracting generating capacities and the construction of its own, as well as private sector, generating plants, following a crippling power supply crisis. To address the concerns of the creditors of *NPC*, namely, Asian Development Bank and the World Bank, the *DOE* required that *MERALCO* enter into a long-term supply contract with *NPC.*

Accordingly, on November 21, 1994, *MERALCO* entered into a 10-year Contract for Sale of Electricity ("*CSE*") with *NPC* which commenced on January 1, 1995. The *CSE,* the rates and amounts charged to *MERALCO* therein, were approved by the *BOD* of *NPC* and the then Energy Regulatory Board, respectively.

Separately, the *DOE* further asked *MERALCO* to provide a market for half of the output of the Camago-Malampaya gas field to enable its development and production of natural gas, which was to generate significant revenues for the Philippine Government and equally significant foreign exchange savings for the country to the extent of the fuel imports, which the domestic volume of natural gas will displace.

MERALCO's actual purchases from *NPC* exceeded the contract level in the first seven (7) years of the *CSE*. However, the 1997 Asian crisis resulted in a significant curtailment of energy demand.

While the events were beyond the control of *MERALCO*, *NPC* did not honor *MERALCO*'s good faith notification of its off-take volumes. A dispute ensued and both parties agreed to enter into mediation.

The mediation resulted in the signing of a Settlement Agreement ("*SA*") between the parties on July 15, 2003. The *SA* was approved by the respective *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. Power Sector Assets and Liabilities Management Corporation ("*PSALM*") likewise filed its comment to the Petition. In a Resolution dated July 8, 2015, the *SC* resolved to serve anew its Resolutions requiring *NPC* to comment on the Petition. In compliance, *NPC* submitted its Comment dated September 8, 2015. *MERALCO* submitted its Motion for Leave to File and to Admit Attached Reply on October 12, 2015. Pursuant to the *SC* Resolution dated November 11, 2015, the *OSG* filed a Consolidated Reply to the comments filed by *NPC*, *MERALCO* and *PSALM*. *MERALCO* then filed a Motion for Leave to File and to Admit the Attached Rejoinder. The parties have filed their respective memoranda. In a Resolution dated September 28, 2022, the *SC* denied the Petition filed by the *OSG* and affirmed the validity of the Settlement Agreement. The implementation of the *SA* is subject to the approval of the *ERC*.

2. Sucat-Araneta-Balintawak Transmission Line

The Sucat-Araneta-Balintawak transmission line is a two (2)-part transmission line, which completed the 230 *kV* line loop within Metro Manila. The two (2) main parts are the Araneta to Balintawak leg and the Sucat to Araneta leg, which cuts through Dasmariñas Village, Makati City.

On March 10, 2000, certain residents along Tamarind Road, Dasmariñas Village, Makati City "the *Plaintiffs*", filed a case against *NPC* with the *RTC-Makati*, enjoining *NPC* from further installing high voltage cables near the *Plaintiffs*' homes and from energizing and transmitting high voltage electric current through said cables because of the alleged health risks and danger posed by the same through the electromagnetic field emitted by said lines. Following its initial status quo Order issued on March 13, 2000, *RTC-Makati* granted on April 3, 2000 the preliminary injunction sought by the *Plaintiffs*. The decision was affirmed by the *SC* on March 23, 2006, which effectively reversed the decision of the *CA* to the contrary. The *RTC-Makati* subsequently issued a writ of execution based on the Order of the *SC*. *MERALCO*, in its capacity

as an intervenor, was constrained to file an Omnibus Motion to maintain status quo because of the significant effect of a de-energization of the Sucat-Araneta line to the public and economy. Shutdown of the 230 *kV* line will result in widespread and rotating brownouts within *MERALCO*'s franchise area with certain power plants unable to run at their full capacities.

On September 8, 2009, the *RTC-Makati* granted the motions for intervention filed by intervenors, *MERALCO* and *NGCP* and dissolved the *WPI* issued, upon the posting of the respective counter bonds by defendant *NPC*, intervenors *MERALCO* and *NGCP*, subject to the condition that *NPC* and intervenors will pay for all damages, which the *Plaintiffs* may incur as a result of the *WPI*.

In its Order dated February 5, 2013, the *RTC-Makati* granted the *Plaintiffs*' motion and directed the re-raffle of the case to another branch after the judicial dispute resolution failed.

This case remains pending and is still at the pre-trial stage. During the pre-trial stage, *Plaintiffs* filed a Manifestation stating that they are pursuing the deposition of a supposed expert in electromagnetic field through oral examination without leave of court in late January or early February 2016 or on such date as all the parties may agree amongst themselves at the Consulate Office of the Philippines in Vancouver, Canada. *NPC* and intervenors filed their Opposition and Counter-Manifestation. Intervenor *NGCP* filed a Motion to Prohibit the Taking of the Deposition of the said expert. Intervenor *MERALCO* intends to file its Comment/Opposition in due course. As at April 24, 2023, *MERALCO* is awaiting further action of the *SC* on the matter.

3. *RPT* Assessments

On October 22, 2015, the *SC* ruled on an appeal of *MERALCO* declaring, among others, that the transformers, electric posts, transmission lines, insulators and electric meters are not exempted from *RPT* under the *LGC*. Thereafter, *MERALCO* began the process of settlement with the affected *LGU*s and filed for the recovery of the resulting *RPT* payments with the *ERC*.

With the development, *PEPOA* and *PHILRECA* filed separate petitions for rule-making proposing the pass-through of *RPT*.

In 2021, acting on petitions filed by *PEPOA* and *PHILRECA*, which proposed the pass-through of *RPT*, *ERC* issued Resolution No. 2, Series of 2021, "Rules on Recovery of Pass-Through Taxes (Real Property, Local Franchise, and Business Taxes". Under such resolution, the *ERC* approved the recovery of *RPT*, *LFT* and Business Taxes as pass-through charges and therefore excluded among the financial building blocks in the annual revenue requirement of *PBR*.

Accordingly, *MERALCO* filed for recovery of such *RPT* paid and intends to recover the same in the regulatory reset process.

Subsequently, *PEPOA* filed another petition for rule-making to amend certain provisions of Resolution No. 2, Series of 2021 to cover full recovery as pass-through costs of: (i) local taxes (*RPT*, *LFT* and business tax) levied by *LGU*s during the years prior to the Resolution to address tax arrearages; (ii) *RPT* assessed by *LGU*s on assets located outside the *DU*'s franchise area but are used to provide public service within the franchise area. *MERALCO* had submitted its comments and several public consultations were conducted. As at April 24, 2023, the Petition is pending with the *ERC*.

4. *LFT* Assessments of Municipalities

Certain municipalities have served assessment notices on *MERALCO* for *LFT*. As provided in the Local Government Code ("*LGC*"), only cities and provincial governments may impose taxes on establishments doing business in their localities. On the basis of the foregoing, *MERALCO* and its legal counsel believe that *MERALCO* is not subject or liable for such assessments.

5. *SC* Decision on Unbundling Rate Case

On May 30, 2003, the *ERC* issued an Order approving *MERALCO*'s unbundled tariffs that resulted in a total increase of ₱0.17 per *kWh* over the May 2003 tariff levels. However, on August 4, 2003, *MERALCO* received a Petition for Review of the *ERC*'s ruling filed by certain consumer and civil society groups before the Court of Appeals ("*CA*"). On July 22, 2004, the *CA* set aside the *ERC*'s ruling on *MERALCO*'s rate unbundling and remanded the case to the *ERC*. Further, the *CA* opined that the *ERC* should have asked the Commission on Audit ("*COA*") to audit the books of *MERALCO*. The *ERC* and *MERALCO* subsequently filed separate motions asking the *CA* to reconsider its decision. As a result of the denial by the *CA* of the motions on January 24, 2005, the *ERC* and *MERALCO* elevated the case to the *SC*.

In an En Banc decision promulgated on December 6, 2006, the *SC* set aside and reversed the *CA* ruling saying that a *COA* audit was not a prerequisite in the determination of a utility's rates. However, while the *SC* affirmed *ERC*'s authority in rate-fixing, the *SC* directed the *ERC* to request *COA*'s assistance to undertake a complete audit of the books, records and accounts of *MERALCO*. In compliance with the directive of the *SC*, the *ERC* requested *COA* to conduct an audit of the books, records and accounts of *MERALCO* using calendar years 2004 and 2007 as test years.

The *COA* audit, which began in September 2008, was completed with the submission to the *ERC* of its report on November 12, 2009.

On February 15, 2010, the *ERC* issued its Order directing *MERALCO* and all intervenors in the case to submit, within 15 days from receipt of the Order, their respective comments on the *COA* report.

On June 21, 2011, the *ERC* maintained and affirmed its findings and conclusions in its Decision dated March 20, 2003 and Order dated May 30, 2003. The *ERC* stated that the *COA* recommendation to apply disallowances under *PBR* to rate unbundling violates the principle against retroactive rate-making. An intervenor group filed a *MR* of the said Order. On September 5, 2011, *MERALCO* filed its comment on the intervenor's *MR*. On February 4, 2013, the *ERC* denied the intervenor's *MR*. The intervenor filed a Petition for Review before the *CA* and *MERALCO* filed its comment thereon on May 29, 2014. In compliance with the *CA*'s directive, *MERALCO* filed its Memorandum in August 2015. In a Resolution dated September 29, 2015, the *CA* declared the case submitted for decision. In a Decision dated February 29, 2016, the *CA* dismissed the Petition for Review and affirmed the orders dated June 21, 2011 and February 4, 2013 of the *ERC*.

On March 22, 2016, the intervenors filed a *MR* on the *CA* Decision dated February 29, 2016. The same was denied by the *CA* through a Resolution dated August 8, 2016.

On October 11, 2016, *MERALCO* received a Petition for Review on Certiorari filed by the intervenors before the *SC* appealing the dismissal of its Petition. *MERALCO*, *COA* and the *ERC* have filed their respective comments to the Petition. On June 22, 2017, *MERALCO* received the Motion for Leave to Intervene and Admit Comment-in-Intervention filed by other *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 from finality of the Decision, (1) the valuation of the *RAB* of *MERALCO*; and (2) the parameters whether expenses that are not directly and entirely related to the operation of a distribution utility shall be passed on wholly or partially to consumers.

MERALCO, the other *DU*s and the *ERC* filed their respective motions for reconsideration which are pending before the *SC*. Two (2) new *DU*s filed their respective motions for leave to intervene and to file their motions for reconsideration. As at April 24, 2023, the case is pending before the *SC*.

(iii) All material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of *MERALCO* with unconsolidated entities or other persons created during the reporting period.

2023 Capital Expenditure Requirements

	Amounts in millions
Power generation projects	₱10,076
Electric capital projects	19,527
Non-electric projects and other capitalized items	34,412
Total capital expenditure	₱64,015

MERALCO has a *BOD*-approved capital expenditure budget of ₱64,015 million for the year ending December 31, 2023, of which about 16% is for planned power generation projects and 31% represents planned expenditures for the electric capital projects of the power distribution business. Power generation projects include solar power plants of 45 *MWac* in Cordon, Isabela, 75 *MWac* in Baras, Rizal and 68 *MWac* in Ilocos Norte. The distribution utility capital expenditure budget shall address the requirements in areas with large concentration of core customers, correct normal deficiencies in the system, stretch loading limits of *MERALCO* facilities and initiate practical and cost-effective projects to correct system deficiencies. *MERALCO* subsidiaries' *CAPEX* budget for 2023 mainly covers the requirements of expansion of *Radius* to new areas and segments; and replacement and additional equipment of *MIESCOR Group* to support its growing business.

(iv) Any known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations should be described.

1. Retail Competition

The transition period for *RCOA* commenced on December 26, 2012 in accordance with the joint statement released by the *ERC* and the *DOE* on September 27, 2012 and the Transitory Rules for the Implementation of *RCOA* (*ERC* Resolution No. 16, Series of 2012). The commercial operations of *RCOA* started on June 26, 2013.

On May 12, 2016, the *ERC* issued Resolutions No. 10 and 11, Series of 2016, which:

a. 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*;

b. Prohibits *DU*s from engaging in the supply of electricity to the contestable market except in its capacity as a *SoLR*;

c. Mandates Local *RES*s to wind down their supply businesses within a period of three (3) years;

d. 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,

e. Prohibits *RES*s from transacting more than 50% of the total energy transactions of its supply business, with its affiliate contestable customers.

On November 29, 2017, the *DOE* issued two (2) *DOE* Circulars, namely: DC 2017-12-0013, entitled, Providing Policies on the Implementation of *RCOA* for Contestable Customers in the Philippines Electric Power Industry and DC 2017-12-0014, entitled Providing Policies on the Implementation of *RCOA* for *RES* in the Philippine Electric Power Industry. The *DOE* Circulars became effective on December 24, 2017.

Under the *DOE* Circular No. DC 2017-12-0013, it is provided that voluntary participation for contestable customers under *RCOA*-Phase 2 shall now be allowed upon effectivity of said Circular, while voluntary participation of contestable customers with a monthly average peak demand of 500 *kW to* 749 *kW* for the preceding 12 months and demand aggregation for electricity end users within a contiguous area with an aggregate average peak demand of not less than 500 *kW* for the preceding 12-month period, will also be allowed by June 26, 2018 and December 26, 2018, respectively.

On December 28, 2020, the *ERC* released Resolution No. 12, Series of 2020, entitled "A Resolution Prescribing the Timeline for the Implementation of Retail Competition and Open Access ("*RCOA*")". In said Resolution, the *ERC* expanded the coverage of *RCOA* for end-users with an average monthly peak demand of at least 500 *KW* in the preceding 12 months, on a voluntary basis.

On September 24, 2021, *MERALCO* received a copy of the *SC* Decision wherein, among other matters, the *ERC* was also directed to promulgate the supporting guidelines to *DOE* Circular No. DC 2017-12-0013 and DC 2017-12-0014.

2. Petition for Dispute Resolution against *PEMC*, *TransCo*, *NPC* and *PSALM*

On September 9, 2008, *MERALCO* filed a Petition for Dispute Resolution, against *PEMC*, *TransCo*, *NPC* and *PSALM* with the *ERC* as a result of the congestion in the transmission system of *TransCo* arising from the outages of the San Jose-Tayabas 500 *kV* Line 2 on June 22, 2008, and the 500 *kV* 600 Mega Volt-Ampere Transformer Bank No. 2 of *TransCo*'s San Jose, Bulacan substation on July 11, 2008. The Petition seeks to, among others, direct *PEMC* to adopt the *NPC*- Time-of-Use ("*TOU*") rate or the new price determined through the price substitution methodology of *PEMC* as approved by the *ERC*, as basis for its billing during the period of the congestion and direct *NPC* and *PSALM* to refund the transmission line loss components of the line rentals associated with *NPC/PSALM* bilateral transactions from the start of *WESM* operation on June 26, 2006.

In a Decision dated March 10, 2010, the *ERC* granted *MERALCO*'s petition and ruled that there is double charging of the transmission line costs billed to *MERALCO* by *NPC* for the Transition Supply Contract ("*TSC*") quantities to the extent of 2.98% loss factor, since the effectivity of the *TSC* in November 2006. Thus, *NPC* was directed to refund line rental adjustment to *MERALCO*. In the meantime, the *ERC* issued an Order on May 4, 2011 allowing *PEMC* to submit an alternative methodology for the segregation of line rental into congestion cost and line losses from the start of the *WESM*. *PEMC* has filed its compliance submitting its alternative methodology.

On September 8, 2011, *MERALCO* received a copy of *PEMC*'s compliance to the *ERC*'s directive and on November 11, 2011, *MERALCO* filed a counter-proposal which effectively simplifies *PEMC*'s proposal.

In an Order of the *ERC* dated June 21, 2012, *MERALCO* was directed to submit its computation of the amount of the double charging of line loss on a per month basis from June 26, 2006 up to June 2012. On July 4, 2012, *MERALCO* filed its Compliance to the said Order. Thereafter, the *ERC* issued an Order directing the parties to comment on *MERALCO*'s submissions. Hearings were conducted on October 2, 2012 and October 16, 2012 to discuss the parties' proposal and comments.

In an Order dated March 4, 2013, the *ERC* approved the methodology proposed by *MERALCO* and *PEMC* in computing the double charged amount on line losses by deducting 2.98% from the *NPC-TOU* amount. Accordingly, the *ERC* determined that the computed double charge amount to be collected from *NPC* is ₱5.2 billion, covering the period November 2006 to August 2012 until actual cessation of the collection of the 2.98% line loss charge in the *NPC-TOU* rates imposed on *MERALCO*. In this regard, *NPC* was directed by the *ERC* to refund said amount by remitting to *MERALCO* the equivalent amount of ₱73.9 million per month until the over-recoveries are fully refunded. In the said Order, the *ERC* likewise determined that the amount to be collected from the successor generating companies ("*SGC*s") is ₱4.7 billion. Additionally, *MERALCO* was directed to file a petition against the following *SGC*s: *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 *SGC*s.

In an Order dated July 1, 2013, the *ERC* issued the following clarifications/resolutions: (i) *SPPC* should be included as one of the *SGC*s 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 *SGC*s 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 *SGC*s: *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 April 24, 2023, *MERALCO*'s Manifestation with Motion is pending resolution by the *ERC*.

On October 24, 2013, *MERALCO* received *PSALM*'s Petition for Review on Certiorari with the *CA* (With Urgent *TRO* and/or Writ of Preliminary Mandatory Injunction Applications) questioning the March 4, 2013 and July 1, 2013 Orders of the *ERC*.

On February 3, 2014, *MERALCO* filed a Comment with Opposition to the Application for *TRO* or Writ of Preliminary Injunction dated January 30, 2014. *PEMC* filed a Comment and Opposition Re: Petition for Certiorari with Urgent *TRO* and/or Writ of Preliminary Mandatory Injunction dated January 6, 2014. On June 4, 2014, the *CA* issued a Resolution declaring that *PSALM* is deemed to have waived the filing of a Reply to the comment and opposition of *MERALCO* and *PEMC* and directing the parties to submit their simultaneous memoranda within 15 days from notice. On December 1, 2014, the *CA* issued a decision dismissing the Petition for Certiorari filed by *PSALM* against the *ERC*, *MERALCO* and *PEMC* and affirming the *ERC*'s ruling on the refund of the ₱5.2 billion of transmission line losses double charged by *PSALM* and *NPC*. On January 30, 2015, *PSALM* filed its *MR* on the December 1, 2014 Decision of the *CA*. *MERALCO* has filed its Opposition to the *MR*. In a Resolution dated August 11, 2015, the *CA* denied *PSALM'*s *MR*. On October 27, 2015, *MERALCO* received *PSALM'*s Petition for Review with the *SC*. The Petition has been given due course and the parties have filed their respective memoranda. As at April 24, 2023, *MERALCO* is still awaiting further action of the *SC* on the Petition.

3. Petition for Dispute Resolution Against *SPPC*, *MPPCL*, *APRI*, *TLI*, *SMEC* and *Sem-Calaca*

On August 29, 2013, *MERALCO* filed a Petition for Dispute Resolution against *SPPC*, *MPPCL*, *APRI*, *TLI*, *SMEC* and *Sem-Calaca.* Said Petition seeks the following: 1) refund of the 2.98% transmission line losses in the amount of ₱5.4 billion, inclusive of the ₱758 million line loss for the period September 2012 to June 25, 2013, from said *SGC*s; 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 *SGC*s, 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 *SGC*s' Joint Motion to Dismiss. On October 7, 2013, *MERALCO* filed its Comment on the said Joint Motion.

On October 8, 2013, *MERALCO* received the *SGC*s Manifestation and Motion, which sought, among other things, the cancellation of the scheduled initial hearing of the case, including the submission of the parties respective Pre-trial Briefs, until the final resolution of the *SGC*'s Joint Motion to Dismiss. On October 11, 2013, *MERALCO* filed its pre-trial brief. On October 14, 2013, *MERALCO* filed its Opposition to the *SGC*'s Manifestation and Motion. On October 24, 2013, *MERALCO* received the *SGC'*s Reply to its Comment on the Joint Motion to Dismiss. On October 29, 2013, *MERALCO* filed its Rejoinder. Thereafter, the *SGC*'s filed their Sur-Rejoinder dated November 4, 2013. As at April 24, 2023, the Joint Motion to Dismiss is pending resolution by the *ERC*.

4. Petition for Dispute Resolution with *NPC* on Premium Charges

On June 2, 2009, *MERALCO* filed a Petition for Dispute Resolution against *NPC* and *PSALM* with respect to *NPC*'s imposition of premium charges for the alleged excess energy it supplied to *MERALCO* covering the billing periods May 2005 to June 2006. The premium charges amounting to ₱315 million during the May-June 2005 billing periods have been paid but are the subject of a protest by *MERALCO*, and premium charges of ₱318 million during the November 2005, February 2006 and April to June 2006 billing periods are being disputed and withheld by *MERALCO*. *MERALCO* believes that there is no basis for the imposition of the premium charges. The hearings on this case have been completed. As at April 24, 2023, the Petition is pending resolution by the *ERC*.

5. *SC TRO* on *MERALCO*'s December 2013 Billing Rate Increase

On December 9, 2013, the *ERC* gave clearance to the request of *MERALCO* to implement a staggered collection over three (3) months covering the December 2013 billing month for the increase in generation charge and other bill components such as *VAT*, *LFT*, transmission charge, and *SL* charge. The generation costs for the November 2013 supply month increased significantly because of the aberrant spike in the *WESM* charges on account of the non-compliance with *WESM* Rules by certain plants resulting in significant power generation capacities not being offered and dispatched, and the scheduled and extended shutdowns, and the forced outages, of several base load power plants, and the use of the more expensive liquid fuel or bio-diesel by the natural gas-fired power plants that were affected by the Malampaya Gas Field shutdown from November 11 to December 10, 2013.

On December 19, 2013, several party-list representatives of the House of Representatives filed a Petition against *MERALCO*, *ERC* and *DOE* before the *SC*, questioning the *ERC* clearance granted to *MERALCO* to charge the resulting price increase, alleging the lack of hearing and due process. It also sought for the declaration of the unconstitutionality of the *EPIRA*, which essentially declared the generation and supply sectors competitive and open, and not considered public utilities. A similar petition was filed by a consumer group and several private homeowners' associations challenging also the legality of the *AGRA* that the *ERC* had promulgated. Both petitions prayed for the issuance of *TRO*, and a Writ of Preliminary Injunction.

On December 23, 2013, the *SC* consolidated the two (2) Petitions and granted the application for *TRO* effective immediately and for a period of 60 days, which effectively enjoined the *ERC* and *MERALCO* from implementing the price increase. The *SC* also ordered *MERALCO*, *ERC* and *DOE* to file their respective comments to the Petitions. Oral Arguments were conducted on January 21, 2014, February 4, 2014 and February 11, 2014. Thereafter, the *SC* ordered all the Parties to the consolidated Petitions to file their respective Memorandum on or before February 26, 2014 after which the Petitions will be deemed submitted for resolution of the *SC*. *MERALCO* complied with said directive and filed its Memorandum on said date.

On February 18, 2014, acting on the motion filed by the Petitioners, the *SC* extended for another 60 days or until April 22, 2014, the *TRO* that it originally issued against *MERALCO* and *ERC* on December 23, 2013. The *TRO* was also similarly applied to the generating companies, specifically *MPPCL*, *SMEC*, *SPPC*, *FGPC*, and the *NGCP*, and the *PEMC* (the administrator of *WESM* and market operator at that time) who were all enjoined from collecting from *MERALCO* the deferred amounts representing the ₱4.15 per *kWh* price increase for the November 2013 supply month.

In the meantime, on January 30, 2014, *MERALCO* filed an Omnibus Motion with Manifestation with the *ERC* for the latter to direct *PEMC* to conduct a re-run or re-calculation of the *WESM* prices for the supply months of November to December 2013. Subsequently, on February 17, 2014, *MERALCO* filed with the *ERC* an Application for the recovery of deferred generation costs for the December 2013 supply month praying that it be allowed to recover the same over a six (6)-month period.

On March 3, 2014, the *ERC* issued an Order voiding the Luzon *WESM* prices during the November and December 2013 supply months on the basis of the preliminary findings of its Investigating Unit ("*IU*") that these are not reasonable, rational and competitive, and imposing the use of regulated rates for the said period. *PEMC* was given seven (7) days upon receipt of the Order to calculate these regulated prices and implement the same in the revised *WESM* bills of the concerned *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 a Resolution dated November 4, 2020, the *SC* consolidated *ERC*'s and *MERALCO*'s petitions and transferred *MERALCO*'s petition to the member-in-charge of *ERC*'s petition which was the lower-numbered case. The petitions filed by the consumers were denied by the *SC*.

In view of the pendency of the various submissions before the *ERC* and mindful of the complexities in the implementation of the *ERC*'s Order dated March 3, 2014, the *ERC* directed *PEMC* to provide the market participants additional 45 days to comply with the settlement of their respective adjusted *WESM* bills. In an Order dated May 9, 2014, the parties were then given an additional non-extendible period of 30 days from receipt of the Order within which to settle their *WESM* bills. However, in an Order dated June 6, 2014 and acting on an intervention filed by Angeles Electric Corporation, the *ERC* deemed it appropriate to hold in abeyance the settlement of *PEMC*'s adjusted *WESM* bills by the market participants.

On April 22, 2014, the *SC* extended indefinitely the *TRO* issued on December 23, 2013 and February 18, 2014 and directed generating companies, *NGCP* and *PEMC* not to collect from *MERALCO*. In a Decision promulgated on August 3, 2021, the *SC* affirmed the December 9, 2013 *ERC* letter approving *MERALCO*'s proposal to implement a staggered collection over three (3) months covering the December 2013 billing month. However, it voided the *ERC* March 3, 2014 Order which voided the Luzon *WESM* prices during the November and December 2013 supply months and imposed the use of regulated rates for said period. The *ERC* and the petitioners filed motions for reconsideration which were denied with finality in the *SC* Resolution dated October 11, 2022. The implementation of any staggered collection is subject to the approval of *ERC*.

6. *ERC* Investigating Unit *("IU*") Complaint

On December 26, 2013, the *ERC* constituted the *IU* under its Competition Rules to investigate possible anti-competitive behavior by the industry players and possible collusion that transpired in the *WESM* during the supply months of November 2013 and December 2013. *MERALCO* participated in the proceedings and submitted a Memorandum.

An investigating officer of the *IU* filed a Complaint dated May 9, 2015 against *MERALCO* and *TMO* for alleged anti-competitive behavior constituting economic withholding in violation of Section 45 of the *EPIRA* and Rule 11, Section 1 and 8(e) of the *EPIRA IRR*. In an Order dated June 15, 2015, the *ERC* directed *MERALCO* to file its comment on the Complaint. *MERALCO* and *TMO* have filed their respective answers to the Complaint.

In an Order dated September 1, 2015, the *ERC* directed the investigating officer to file his reply to *MERALCO*. In a Manifestation and Motion to Set the Case for Hearing dated November 9, 2015, the investigating officer manifested that he would no longer file a reply and that the case be set for hearing.

On May 24, 2016, the *ERC* promulgated Resolution No. 14, Series of 2016, which resolved to divide the Commission into two (2) core groups for the conduct of hearings and to designate the commissioners to act as presiding officers in anti-competition cases. The raffle pursuant to said Resolution was conducted on June 15, 2016.

In a Notice of Pre-Trial Conference dated June 16, 2016, the *ERC* set the pre-trial conference on August 18, 2016 and required *MERALCO* and *TMO* to submit their respective pre-trial briefs. However, on July 27, 2016, the complainant filed two (2) omnibus motions for the consolidation and deferment of the pre-trial conferences. Hence, in an Order dated August 1, 2016, the respondents were given 10 days to submit their comments on the Motion for Consolidation, with the complainant given five (5) days to file his reply. As such, the pre-trial conferences as scheduled were deferred until further notice and all parties were granted 20 days to submit their respective pre-trial briefs.

In the meantime, *MERALCO* likewise filed an Urgent Motion to Dismiss with Motion to Suspend Proceedings which was adopted by *TMO* in its Manifestation and Motion filed on July 28, 2016. *MERALCO* maintained that the Complaint should be dismissed due to the absence of subject matter jurisdiction as it is now the Philippine Competition Commission ("*PCC*") which has original and primary jurisdiction over competition-related cases in the energy sector. On August 23, 2016, *MERALCO* filed an Urgent Motion Ad Cautelam for suspension of proceeding including period to file pre-trial brief and judicial affidavit.

In a Motion dated August 25, 2016, complainant filed a Motion to defer the submission of the complainant's pre-trial brief and judicial affidavit. In an Order dated June 13, 2017, the *ERC* denied the motion to consolidate but upheld the authority of private counsel to represent the complainants. *MERALCO* filed a Motion for Partial Reconsideration to question such authority.

In an Order dated February 2, 2017, the *ERC* denied the motion to dismiss and asserted jurisdiction over the Complaint. *MERALCO* filed its *MR* to the Order on February 23, 2017. In an Order dated June 20, 2017, the *ERC* denied the *MR*. On September 19, 2017, *MERALCO* filed a Petition for Certiorari with the *CA*. In a Resolution dated October 2, 2017, the *CA* required respondents to file their Comment on the Petition within 10 days and held in abeyance its resolution on the prayer for injunctive relief until the comments have been filed. *MERALCO* was likewise given five (5) days to file its reply. In a Manifestation dated October 23, 2017, the *ERC* stated that it is a nominal party in the case as the quasi-judicial 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*, *TMO* and *APRI* have all filed their respective manifestations before the *SC*. In a Resolution dated September 29, 2021, the *SC* affirmed the *CA* in that the *ERC* had jurisdiction over these cases as they were filed before the enactment of the *PCA*. However, the *SC* did not rule on whether the *PCC* and the *ERC* now have concurrent jurisdiction as these issues were not fully litigated.

In the meantime, the *ERC* called for a conference on March 26, 2021 in order to discuss updates and developments regarding the case. On April 14, 2021, *MERALCO* filed an Urgent Motion Ad Cautelam to Suspend Proceedings in view of the pendency of the case before the *SC*. The *ERC* then issued an Order dated

August 13, 2021, setting the pre-trial conference on August 27, 2021. *MERALCO* filed a Manifestation and Urgent Omnibus Motion Ad Cautelam to (A) Resolve the Urgent Motion Ad Cautelam to Suspend Proceedings dated April 14, 2021 and (B) Cancel the August 27, 2021 Pre-Trial Conference dated August 20, 2021. The pre-trial conference proceeded on August 27, 2021. However, the *ERC* stated that, after the pre-trial conference and before the case can proceed with trial on the merits, the *ERC* will first resolve *MERALCO*'s motions. The *ERC* also issued an open court order denying the motion of the *ERC IU* that the case be resolved through the submission of the position papers and other supporting documents. The *ERC IU* filed a Motion for Reconsideration to which *MERALCO* filed an opposition. As at April 24, 2023, *MERALCO* is awaiting further action by the *ERC* on the matter.

7. Ombudsman Case Against Directors

On January 30, 2018, *MERALCO* received an Order dated January 22, 2018 from the Office of the Ombudsman directing *MERALCO*'s directors to comment on a complaint-affidavit for syndicated estafa filed by certain consumer group which charged that there was conspiracy between *MERALCO* directors and the *ERC* regarding the alleged misappropriation of the bill deposits received from *MERALCO* consumers. On February 9, 2018, *MERALCO*'s directors filed their Counter-Affidavits where they refuted the arguments of the consumer group. In a Resolution dated May 18, 2018, the criminal complaint for syndicated estafa was dismissed for insufficiency of evidence. The case was referred to the *COA* for the conduct of audit on the bill deposits collected by *MERALCO* from the public consumers and to inform the Ombudsman of the compliance therewith. The consumer group filed a Motion for Partial Reconsideration dated June 16, 2018 to which *MERALCO* filed its Comment. The consumer group's Motion for Partial Reconsideration was denied through an Order dated July 30, 2018. *NASECORE* filed an *Urgent Motion for Immediate Execution* dated September 21, 2018 praying that the Ombudsman issue a writ of execution to implement the *Resolution* dated May 18, 2018.

On February 28, 2018, *MERALCO* received an Order dated February 20, 2018 from the Office of the Ombudsman directing *MERALCO*'s directors to comment on a complaint-affidavit for syndicated estafa filed by certain consumer group which charged that there was conspiracy between *MERALCO* directors and the *ERC* regarding the *MERALCO*'s investment activities in other businesses for being violative of its legislative franchise and the *EPIRA*. On March 12, 2018, *MERALCO*'s directors filed their Counter-Affidavits where they refuted the arguments of the consumer group. On May 4, 2018, *MERALCO* filed a Manifestation with Motion for Early Resolution of even date. Another Motion to Resolve and Dismiss was also filed by *MERALCO* on June 2, 2021. In a Joint Resolution dated February 22, 2022, the Ombudman dismissed the cases.

8. SC Decision on the ₱0.167 per kWh Refund

Following the *SC*'s final ruling that directed *MERALCO* to refund affected customers ₱0.167 per *kWh* for billings made from February 1994 to April 2003, the *ERC* approved the release of the refund in four (4) phases. On December 18, 2015, *MERALCO* filed a Motion seeking the *ERC*'s approval for the continuation of the implementation of the refund to eligible accounts or customers under Phases I to IV, three (3) years from January 1, 2016 or until December 31, 2018. In said Motion, *MERALCO* likewise manifested to the *ERC* that, in order to give eligible customers, the opportunity to claim their refund, and, so as not to disrupt the *SC* Refund process, *MERALCO* shall continue implementing the refund even after the December 2015 deadline, until and unless the *ERC* directs otherwise. In its Order dated December 18, 2019, the *ERC* granted *MERALCO*'s Motion and authorized *MERALCO* to continue with the implementation of the *SC* Refund to eligible accounts or customers under Phases I to IV until June 30, 2019 and submit a proposed scheme on how the unclaimed refund will be utilized for purposes of reducing the distribution rates of customers. On February 18, 2019, *MERALCO* filed a Partial Compliance with Manifestation and Motion. On March 8, 2019, *MERALCO* filed a Compliance with Manifestation and Motion. On July 12, 2019, *MERALCO* filed its Compliance with Manifestation informing the *ERC* that on July 1, 2019, *MERALCO* deposited all the unclaimed amounts of the *SC* Refund as of June 30, 2019 in a separate bank account. *MERALCO* further manifested in said Compliance that it shall continue with the processing of the refund claims of eligible customers and should the refund claims of these customers be evaluated to be valid, *MERALCO* shall, for the benefit of the customers, withdraw the refund amount from the bank account, release the same to the concerned customers and accordingly inform the *ERC* of the refunds paid. On September 10, 2019,

MERALCO filed an Urgent Manifestation and Motion with respect to the Order dated December 19, 2018 of the *ERC*. The *ERC* has yet to rule on the Urgent Manifestation and Motion by *MERALCO*. In its letter dated July 23, 2020, *MERALCO* informed the *ERC* of the updated balance of the *SC* Refund. As at April 24, 2023, *MERALCO* continues to process the refund claims of eligible customers.

In the meantime, in a letter dated February 3, 2021, the *ERC* informed *MERALCO* that it will be undertaking an audit and verification of *MERALCO*'s refunds, which included *MERALCO*'s *SC* refund. The audit has been completed and as at April 247, 2023, *MERALCO* is awaiting further action of the *ERC* on the matter.

9. *Overpayment of Income Tax related to SC Refund*

With the decision of the *SC* for *MERALCO* to refund ₱0.167 per *kWh* to customers during the billing period February 1994 to May 2003, *MERALCO* overpaid income tax in the amount of ₱7,107 million for taxable years 1994 to 1998 and 2000 to 2001. Accordingly, on November 27, 2003, *MERALCO* filed a claim for the recovery of such excess income taxes paid. After examination of the books of *MERALCO* for the covered periods, the *BIR* determined that *MERALCO* had in fact overpaid income taxes in the amount of ₱6,690 million. However, the *BIR* also maintained that *MERALCO* is entitled to a refund amount of only ₱894 million, which pertains to taxable year 2001, claiming that the period for filing a claim had prescribed in respect to the difference between *MERALCO*'s overpayment and the refund amount *MERALCO* is entitled to.

The *BIR* then approved the refund of ₱894 million for issuance of tax credit certificates ("*TCC*s"), proportionate to the actual refund of claims to utility customers. The *BIR* initially issued *TCC*s amounting to ₱317 million corresponding to actual refund to customers as at August 31, 2005. In May 2014, the *BIR* issued additional *TCC*s amounting to ₱396 million corresponding to actual refund to customers as at December 31, 2012.

MERALCO filed a Petition with the Court of Tax Appeals ("*CTA*") assailing the denial by the *BIR* of its income tax refund claim of ₱5,796 million for the years 1994 - 1998 and 2000, arising from the *SC* decision (net of ₱894 million as approved by the *BIR* for taxable year 2001 "Overpayment of Income Tax related to *SC* Refund"). In a Decision dated December 6, 2010, the *CTA*'s Second Division granted *MERALCO*'s claim and ordered the *BIR* to refund or to issue *TCC* in favor of *MERALCO* in the amount of ₱5,796 million in proportion to the tax withheld on the total amount that has been actually given or credited to its customers.

On appeal by the *BIR* to the *CTA* En Banc, *MERALCO*'s petition was dismissed on the ground of prescription in the Decision of the *CTA* En Banc dated May 8, 2012. On a *MR* by *MERALCO* of the said dismissal, the *CTA* En Banc partly granted *MERALCO*'s motion and issued an Amended Decision dated November 13, 2012, ruling that *MERALCO*'s claim was not yet barred by prescription and remanding the case back to the *CTA* Second Division for further reception of evidence.

The *BIR* filed a *MR* of the above Amended Decision, while *MERALCO* filed its Motion for Partial Reconsideration or Clarification of Amended Decision. Both parties filed their respective Comments to the said motions, and these were submitted for resolution at the *CTA* En Banc.

In a Resolution promulgated on May 22, 2013, the *CTA* denied the said motions of the *BIR* and *MERALCO*, and the *CTA* Second Division was ordered to receive evidence and rebuttal evidence relating to *MERALCO*'s level of refund to customers, pertaining to the excess charges it made in taxable years 1994-1998 and 2000, but corresponding to the amount of ₱5,796 million, as already determined by the said court.

On July 12, 2013, the *BIR* appealed the *CTA* En Banc's Amended Decision dated November 13, 2012 and Resolution dated May 22, 2013 via Petition for Review with the *SC*. As at April 24, 2023, the case is pending resolution by the *SC*.

(v) Any significant elements of income or loss that did not arise from the registrant's continuing operations.

The reconciliation of Consolidated Core Net Income ("*CCNI*") and Net income as disclosed in Note 6 to the unaudited interim consolidated financial statements shows the amounts of foreign exchange gains or losses, mark-to-market adjustments, impairment or reversal of impairment of noncurrent assets and other one-time, exceptional transactions, net of tax effect of the foregoing adjustments.

(vi) Any seasonal aspects that had a material effect on the financial condition or results of operations.

Seasonality of Operations and Growth Drivers

Approximately 97% of *MERALCO Group*'s operating revenues pertain to sale of electricity distributed by *MERALCO* and *Clark Electric*.

The electricity sales of *MERALCO* and *Clark Electric* exhibit a degree of quarterly seasonality. The *kWh* sales in the first quarter is lower than the average of the year as this period is characterized by cooler temperature and softer consumer demand following heightened consumer spending in the last quarter of the year. The second quarter is marked by higher than average *kWh* sales. This is due to a number of factors, including: increased consumption of households and commercial establishments due to the summer season; increased production of industries to replenish stocks and in preparation for the opening of classes; and, heightened construction activity to take advantage of the sunny weather. In the third quarter of the year, manufacturing industries that cater to the export market have their peak production schedule at this time as they rush to meet shipping deadlines to foreign markets. Industries catering to the domestic market are also now starting production in preparation for the Christmas season. Lastly, the fourth quarter performance is about the average of the year. Industrial production winds down while households and commercial establishments also cut down on their cooling loads. Given this perspective on the seasonality of *kWh* sales, a higher proportion of the *MERALCO*'s and *Clark Electric*'s revenues are earned on the second half of the year. Aside from the quarterly seasonal pattern, *kWh* sales on a year-on-year basis adjust as a result of a number of factors. Sales of electricity normally increase in periods of economic growth, low inflation and electricity rates, and in periods of high temperatures over extended period of time, e.g. the "*El Niño*" episodes.

MERALCO Group sales for the three months ended March 31, 2023 and 2022 are 11,287 *GWh* and 11,069 *GWh*, respectively.

The power generation business generally follows the seasonality of the distribution utility business. The businesses of all other subsidiaries are not highly seasonal.

(vii) Any known trends, demands, commitments, events or uncertainties that will have a material impact of the issuer's liquidity.

Management is not aware of any known trends, demands, commitments, events or uncertainties that may deem potentially have a material impact on *MERALCO* Group's liquidity as at March 31, 2023, other than those already disclosed in this report and in the consolidated financial statements.

(viii) Discussion of *MERALCO*'s and its majority-owned subsidiaries top five (5) key performance indicators. It shall include a discussion of the manner by which *MERALCO* calculates or identifies the indicators presented on a comparable basis.

Listed hereunder are *MERALCO*'s five (5) major subsidiaries namely *Clark Electric*, *MGen*, *MIESCOR*, *e-MVI* and *CIS*. The following table summarizes their key financial performance and indicators as at and for the three months ended March 31, 2023 and 2022.

Financial Highlights and Ratios[5] of Major Subsidiaries
As at and for the Three Months Ended March 31, 2023 and 2022
(Amounts in million pesos except for financial ratios and % change)

	Clark Electric			*MGen*			*MIESCOR*			*e-MVI*			*CIS*		
	2023	**2022**	**% change**	**2023**	**2022**	**% change**	**2023**	**2022**	**% change**	**2023**	**2022**	**% change**	**2023**	**2022**	**% change**
Percentage of ownership	65%	65%		100%	100%		99%	99%		100%	100%		100%	100%	
Condensed Statements of Financial Position															
Total assets	₱4,007	₱3,539	13	₱129,988	₱122,222	6	₱22,641	₱7,324	209	₱6,370	₱4,276	69	₱4,612	₱3,896	51
Current assets	1,773	1,443	23	25,495	20,282	26	9,608	6,538	47	1,134	960	(42)	4,310	3,663	49
Cash and cash equivalents	1,355	1,016	33	11,898	8,926	33	1,778	752	136	269	331	(81)	1,946	1,725	58
Equity	2,419	2,105	15	58,731	41,942	40	6,425	1,712	275	2,963	2,782	12	1,008	925	9
Total debt[6]	–	–	–	45,822	44,058	4	4,897	648	656	793	–	–	–	–	–
Current liabilities	507	587	(14)	11,617	22,075	(47)	7,576	4,925	54	2,540	1,380	167	3,519	2,874	69
Financial Ratios															
Debt-to-equity ratio	–	–	–	0.78	1.05	(26)	0.76	0.38	101	0.27	–	–	–	–	–
Current ratio	3.50	2.46	42	2.19	0.92	139	1.27	1.33	(4)	0.45	0.70	(78)	1.22	1.27	(12)
Condensed Statements of Income															
Revenues	832	667	25	7,533	6,078	24	1,922	1,406	37	593	428	75	514	486	6
Costs and expenses	762	605	26	6,818	6,178	10	1,887	1,352	40	507	338	123	495	448	10
Net income	72	60	20	3,761	1,317	186	(181)	46	(493)	61	72	(34)	22	–	–
Financial Ratios															
Profit margin	8.7%	9.0%	(4)	49.9%	21.7%	130	(9.4%)	3.3%	(388)	10.3%	16.8%	(63)	4.3%	0.0%	–
Return on equity	3.0%	2.9%	4	6.4%	3.1%	104	(2.8%)	2.7%	(205)	2.1%	2.6%	(41)	2.2%	0.0%	–
Asset turnover	0.23	0.20	10	0.06	0.05	19	0.13	0.23	(44)	0.11	0.11	(3)	0.13	0.14	(25)

5 The manner of computing the financial ratios for subsidiaries is the same with that of *MERALCO's* as presented in *Financial Highlights and Key Performance Indicators*.

6 Total Debt is composed of notes payable and interest-bearing long-term financial liabilities, current and non-current portions.

ANNEX – Aging of Trade and Other Receivables

As at March 31, 2023

(Amounts in millions)

	T o t a l	**1 - 30 days**	**31 - 60 days**	**61 - 90 days**	**Over 90 days**
Trade receivables	₱45,455	₱26,194	₱877	₱421	₱17,963
Other trade receivables	6,726	3,336	523	403	2,464
Gross trade receivables	**52,181**	**29,530**	**1,400**	**824**	**20,427**
Non-trade receivables	4,813	2,979	932	16	886
Total receivables	**56,994**	**32,509**	**2,332**	**840**	**21,313**
Allowance for doubtful accounts	**(7,718)**	**(121)**	**(356)**	**(771)**	**(6,470)**
Net receivables	**₱49,276**	**₱32,388**	**₱1,976**	**₱69**	**₱14,843**

LIST OF ACTS OF THE MERALCO BOARD
January 2022 – February 2023

FEBRUARY 7, 2022 (in lieu of January 2022)

- Approval of the Minutes of Previous Regular Board Meeting (December 13, 2021)
- Approval of Supply Contract in Excess of ₱50 Million
- Board Resolutions Authorizing Signatories/Representatives for Green Energy Option Program
- Board Resolutions on the Conduct of 2022 Annual Stockholders Meeting (ASM)

FEBRUARY 28, 2022

- Approval of the Minutes of Previous Meeting (February 7, 2022)
- Approval of 2021 Audited Financial Statements
- Approval of Declaration of ₱10.226/share Final Cash Dividend to all common stockholders at record date of March 30, 2022, payable on April 26, 2022
- Approval of Supply Contract in Excess of ₱50 Million
- Approval of the Purchase of a lot in Dasmarinas, Cavite for Two (2) 83 MVA substation
- Approval of Funding for MGreen's Equity.
- Approval of Delegation of Authority to Approve Definitive Power Supply Agreement between MPower and Therma Luzon, Inc. (TLI) for a 100 MW Capacity
- Approval of 2021 Annual Bonus Plan and Variable Incentive Plan
- Approval of 2022 Merit Increase Budget
- Approval of Regular Employment Extension of Atty. William S. Pamintuan as Chief Legal Counsel, Assistant Corporate Secretary, Compliance Officer and Head of Legal Office and Corporate Governance Office
- Approval of MERALCO Human Rights Policy
- Board Resolutions on the Appointment of Corporate Assignee to Wack Wack Golf & Country Club

MARCH 28, 2022

- Approval of the Minutes of Previous Regular Board Meeting (February 28, 2022)
- Approval of Credit Facilities with Security Bank Corporation
- Approval of Nominees to the 11-seat MERALCO Board of Directors
- Approval of Supply Contract in Excess of ₱50 Million
- Approval of Renewal of Cybersecurity Insurance Policy with MPioneer
- Approval of Meritorious Justification for Retention of Retired Chief Justice Artemio V. Panganiban and Mr. Pedro Emilio O. Roxas as Independent Directors
- Approval of the Conduct of MERALCO Annual Stockholders' Meeting at the MERALCO Multipurpose Hall.

April 25, 2022

- Approval of the Minutes of Previous Regular Board Meeting (March 28, 2022)
- Approval of 1st Quarter 2022 Unaudited Financial Statements and Press Release
- Ratification of Executive Committee's Approval of Third-Party Bids and Awards Committee's (TPBAC) recommendation on Unsolicited Proposal (USP) from Ahunan Power Inc. (API) for 500 MW capacity *(Resolution)*
- Approval of Social Media Policy
- Approval of Appointment of External Auditors and Audit Fee
- Approval of Supply Contract in Excess of ₱50 Million
- Approval of MPower Power Supply Agreements with Vena Energy Group
- Appointment of Third-Party Bids and Awards Committee (TPBAC) Members
- Appointment of Auditors and Election of Inspectors for the MERALCO Annual Stockholders' Meeting

MAY 31, 2022

- Approval of the Minutes of Previous Meeting (April 25, 2022)
- Ratification of Executive Committee's Approval of Third-Party Bids and Awards Committee's (TPBAC) recommendation on the Completeness Review of the Unsolicited Proposal (USP) from Renewal Energy Resources Inc (RERI) for 100 MW capacity (RE baseload) *(Resolution)*
- Ratification of Executive Committee's Approval for MERALCO direct PSA negotiation for 850 MW mid-merit
- Approval of Supply Contract in Excess of ₱50 Million
- Approval of MERALCO's shell Registration and Bond Issuance
- Approval of Funding Request for MGREEN's Due Diligence for Sindicatum-Terasu and 750 MW Vena Projects
- Approval of Funding Request for Pre-Development Costs of the Bulan Project.

MAY 31, 2022 (Annual Stockholders' Meeting)

- Approval of the Minutes of Stockholders' Meeting Held in 2021 *(Resolution)*
- Approval of the 2021 Audited Financial Statements *(Resolution)*
- Ratification of the Acts, Resolutions, and Deeds of the Board of Directors and Management from the Annual Stockholders' Meeting Held on May 25, 2021 up to May 31, 2022 *(Resolution)*
- Election of Directors for ensuing year *(Resolution)*
- Appointment of External Auditors *(Resolution)*

MAY 31, 2022 (Organizational Meeting)

- Election of Chairman and Vice Chairman of the Board
- Appointment of Officers
- Designation of Members of the Board Committees
- Approval of Schedule of Regular Board Meetings

JUNE 27, 2022

- Approval of the Minutes of Previous Regular Board and Organizational Meetings (both held on May 31, 2022)
- Ratification of Executive Committee's Approval of Third-Party Bids and Awards Committee's (TPBAC) recommendation on the Unsolicited Proposal (USP) from Solar Philippines Batangas Baseload Corporation (SPBBC) for 200 MW RE *(Resolution)*
- Approval of Credit Facilities with Rizal Commercial Banking Corporation (RCBC)
- Approval of Supply Contracts in Excess of ₱50 Million
- Approval of Renewal of Directors and Officers Liability Insurance Policy with MPioneer Insurance
- Application of Renewal of License to Possess Purchaser Explosives/Explosive Ingredients

JULY 25, 2022

- Approval of the Minutes of the Previous Regular Board Meeting (June 27, 2022)
- Approval of 1st Half 2022 Unaudited Financial Statements
- Declaration of Interim Cash Dividend of ₱5.806/share to all common stockholders of record as at August 23, 2022 and payable on September 14, 2022 (*Resolution*)
- Ratification of Executive Committee's Approval of MIESCOR Infrastructure Development Corporation (MIDC) to participate in the Bid for Globe Towers
- Approval of Amendments to the Manual of Corporate Governance
- Approval of Amendments to the Code of Ethics
- Approval of MERALCO Top Risks for Submission to Metro Pacific Investments Corporation (MPIC)
- Approval of Supply Contracts in Excess of ₱50 Million
- Approval of Business Separation and Unbundling Plan (BSUP) Submission to Energy Regulatory Commission (*Resolution*)
- Approval of Authorization of Signatories for Renewable Electricity Market Facility Registration Form and Attestation (*Resolution*)
- Approval of Independent Expert's Report on the Roll Forward Regulatory Asset Base (RAB), Director's Certificate signed by Independent Directors and Submission to Energy Regulatory Commission (ERC)
- Approval of Amendment to the Board Resolutions for Signatories to Business Transactions and Financial Transactions

SEPTEMBER 2, 2022 (In lieu of August 2022)

- Approval of the Minutes of Previous Meetings (July 25, 2022)
- Approval for MERALCO to Negotiate, Finalize and Execute the Signing of Emergency Power Supply Agreement (EPSA) for 1,070 MW; and to Request the Department of Energy (DOE) for Certification of Exemption from Conduct of Competitive Selection Process (CSP) for the EPSA
- Approval of Supply Contracts in Excess of ₱50 Million
- Approval of Lot Acquisition for Substation Projects
- Approval of MIESCOR Equity for MIDC on Globe Towers (*Resolution*)
- Board Resolutions on Filing of Request to Update Bureau of Internal Revenue (BIR) Certificate of Registration and Change of MERALCO Business Center Nomenclature (*Resolution*)

SEPTEMBER 26, 2022

- Approval of the Minutes of Previous Meetings (September 2, 2022)
- Appointment of Assistant Head of Third-Party Bids and Awards Committee Secretariat (*Resolution*)
- Approval of Supply Contract in Excess of ₱50 Million
- Approval of Renewal of Building, Machinery & Equipment (BME) Insurance with MPioneer
- Approval of Price Adjustment for the Purchase of Property for Lawang Bato 115kV – 34.5 kV Substation
- Approval of Recommended Collective Bargaining Agreement (CBA) Package for Negotiation with Rank-and-File Union (MERALCO Employees and Workers Association or MEWA)
- Appointment of Mr. Antonio M. Abuel, Jr. as Head of Facilities, Security and General Services (FSGS)
- Employment Extension of Ms. Maria Luisa V. Alvendia as Chief of Staff of the President & CEO and Chief Supply Advisor

OCTOBER 28, 2022

- Approval of the Minutes of Previous Meetings (September 26, 2022)
- Approval of 3rd Quarter 2022 Unaudited Financial Statements and Related Press Release
- Approval of Credit Facilities with BDO Unibank, Inc. (BDO) and China Banking Corporation (CBC) (*Resolution*)
- Approval of Supply Contract in Excess of ₱50 Million
- Board Resolutions to Authorize Appointment of External Counsel for ERC Case (*Resolution*)

NOVEMBER 28, 2022

- Approval of the Minutes of Previous Meetings (October 28, 2022)
- Approval of Supply Contract in Excess of ₱50 Million
- Approval of Renewal of Wholesale Electricity Spot Market (WESM) Surety Bond with Prudential Guarantee and Assurance Inc. (PGAI) and MPioneer Insurance Inc. (MPioneer) (*Resolution*)
- Approval of Renewal of Comprehensive General Liability (CGL) Insurance with MPioneer
- Approval of Funding for Atimonan One Energy LNG Plant
- Election of Additional Finance Committee Member and Appointment of New Chairperson
- Approval of Sale of eSakay's Makati-Mandaluyong Route to Byahe and Establishment of MERALCO's New Electric Mobility Company (*Resolution*)
- Approval of 2023 Schedule of MERALCO Board, Organizational and Annual Stockholders' Meeting

DECEMBER 16, 2022

- Approval of the Minutes of Previous Meetings (November 28, 2022)
- Approval of Financing Plan for 2023
- Approval of Finance Committee and Risk Management Composition
- Approval of Supply Contract in Excess of ₱50 Million
- Approval of Infusion of Funds for MPioneer's Compliance to the Insurance Commission's Mandated Net Worth
- Approval of New Clark City Performance Security for Year 2023 with the Renewal of Standby Letter of Credit 9SBLC) with Mizuho Ltd. Manila
- Approval of Renewal of Insurance for Transmission and Distribution (T&D) Assets, Meter Assets, Engineering Electronic Equipment (EEE) with MPioneer and other insurers
- Approval of Initial Capitalization for MERALCO's New Electric Mobility Company, Movem Electric, Inc.
- Approval of Capital Infusion to Shin Clark Power Holdings, Inc.
- Approval of Extension of Cooperation Period of Rockwell Business Center – Ortigas Towers 1 and 2
- Approval of Rank Conferment of several MERALCO Officers
- Board Resolution to Authorize ACCRALAW and Tolosa Javier Lim & Chua Law Firm to File Petitions for MPower ERC Cases (*Resolution*)

JANUARY 12, 2023 (Special)

- Approval of the 2023 – 2027 Budget and Business Plan

JANUARY 30, 2023

- Approval of the Minutes of Previous Regular Board Meeting (December 16, 2022)
- Approval to Accept GNPower Dinginin Ltd. Co.'s (GNPD) Offer and Sign Emergency Power Supply Agreement (EPSA)
- Approval of Direct Negotiation and Signing of EPSA with South Premiere Power Corp (SPPC) to Run Ilijan Plant on Diesel and File with the Department of Energy (DOE) the request for Certificate of Exemption from Competitive Selection Process (COE-CSP)
- Approval to Authorize MERALCO to Sign Relevant PSAs with Winning Supplier/s after the Conduct of CSPs for 180 MW Baseload and 300 MW Peaking Supply Requirements
- Approval of Supply Contract in Excess of ₱50 Million
- Approval of Purchase of property for Bulihan 69kV – 13.8kV Substation in Bulacan
- Approval of Renewal of National Grid Corporation of the Philippines (NGCP) Surety Bond through Prudential Guarantee Assurance Inc. (PGAI)
- Approval of Amendment to the Board Resolutions for signatories for Court Cases and Business Transactions (*Resolution*)
- Board Resolutions on the Conduct of 2022 Annual Stockholders Meeting (ASM) including Approval of Proposed Amendment of Manila Electric Company By-Laws and conduct of Virtual ASM and Voting Through Remote Communication or In Absentia.

FEBRUARY 27, 2023

- Approval of the Minutes of Previous Meeting (January 30, 2023)
- Approval of 2022 Audited Financial Statements
- Approval of Declaration of ₱11.028/share Final Cash Dividend to all common stockholders at record date of March 29, 2023, payable on April 26, 2023
- Approval of MERALCO Top Risks for Submission to Metro Pacific Investments Corporation (MPIC)
- Approval of Amendment of Code of Business Conduct and Ethics for Vendors
- Approval of Amendment of Related Party Transactions Policy Guidelines
- Approval of Supply Contract in Excess of ₱50 Million
- Approval of 2022 Annual Bonus Plan and Variable Incentive Plan
- Approval of 2023 Merit Increase Budget
- Approval of Amendment of Board Resolution for Provident Fund Committee Members and Signatories

ANNEX C: REQUIREMENTS AND PROCEDURE FOR ELECTRONIC VOTING IN ABSENTIA AND PARTICIPATION VIA REMOTE COMMUNICATION

I. ELECTRONIC VOTING IN ABSENTIA

1. Certificated stockholders of Manila Electric Company ("the Company") as of March 6, 2023 ("Stockholders") may exercise their right to vote on the agenda items in the 2023 Annual Stockholders' Meeting (ASM) through electronic voting in absentia. Electronic voting in absentia affords the Stockholders an opportunity to vote during the ASM without being physically present during the meeting.

2. The exercise of this right is subject to successful registration with the Company's Stockholders Electronic Registration and Voting Express (SERVE) platform found at https://company.meralco.com.ph/corporate-governance/SERVE. The registration will run from **May 2 to May 26, 2023** beyond which, no Stockholders will be allowed electronically vote in absentia or participate in the ASM by remote communication.

3. To register, SERVE will require the Stockholder to create a Log In Account and provide the items enumerated below to prove his/her identity and right to vote and participate in the ASM:

    a. Stockholder number
    b. Name
    c. Complete address
    d. E-mail address;
    e. Contact number
    f. Digital copy of the front and back portions of the Stockholder's two (2) valid government-issued photo IDs (in JPG format); and
    g. Secretary's Certificate and proxy for corporate stockholders

    The Company reserves its right to require additional personal data or documents to ensure the identity and right to vote of the Stockholder. At all time, the right of the Stockholder to the privacy of his/her personal data as provided in the Data Privacy Act shall be ensured.

4. The abovementioned data will be validated by the Company not later than three (3) business days from the Stockholder's receipt of an electronic mail acknowledging his/her registration.

5. Upon successful registration, the Stockholder, or his/her proxy, will be given access to SERVE where he/she can cast his/her votes during the ASM. The stockholder will be required to log-in to his Account and his/her successful log-in shall be considered in the determination of quorum in the ASM.

6. All agenda items indicated in the Notice of the Meeting will be set out in the digital absentee ballot and the registered Stockholder, or his/her proxy, may vote as follows:

a. For items other than the election of Directors, registered Stockholder, or their proxy, will have the options to vote "For," "Against," or "Abstain." The vote is considered cast for all the registered Stockholder's shares.
b. For the election of Directors, the registered Stockholder, or his/her proxy, may vote for all nominees or cumulate his vote for one or some of the nominees provided that the total number of allowable votes will not exceed the number of shares multiplied by the number of Board seats (Number of Shares x 11 Directors= Number of Voting Shares).

7. Once the registered Stockholder, or his/her proxy, has finished voting on the Agenda items, he/she can proceed to submit his/her electronic ballot by clicking the 'Submit' button. The Stockholder, or his/her proxy, will then be redirected to an online webpage containing a summary of the votes cast. After the electronic ballot has been submitted, the registered Stockholder may no longer make any change.

8. The integrity and secrecy of votes shall be protected. As such, all votes received will be tabulated by SERVE and validated by the Office of the Corporate Secretary and auditors. Inspectors from an independent third party appointed by the Board will also be present to validate the results. The Corporate Secretary shall report the results of voting during the meeting.

II. PARTICIPATION VIA REMOTE COMMUNICATION

1. Only the Stockholders, or their proxies, who have successfully registered with, and have logged in to, SERVE may be given access to the ASM Live Portal, a livestream video service that will allow Stockholders to participate, or their proxies, in the ASM.

2. The Company will provide mechanisms to ensure that stockholders have opportunity to participate including the opportunity to hear and read the discussion substantially.

3. All questions and clarifications on the agenda items may be raised through SERVE.

4. Requests for access to the recorded webcast of the ASM may be sent to stockholder.affairs@meralco.com.ph.

MINUTES OF THE ANNUAL MEETING OF STOCKHOLDERS OF THE MANILA ELECTRIC COMPANY HELD ON MAY 31, 2022 AT THE MERALCO COMPOUND, ORTIGAS AVENUE, PASIG CITY

CALL TO ORDER

The Company's 59th Annual Stockholders' Meeting was called to order at 10:15 a.m. on May 31, 2022 by the Chairman of the Board, Mr. Manuel V. Pangilinan, who presided over the same at the Company's principal office at MERALCO Compound, Ortigas Ave., Brgy. Ugong, Pasig City, Metro Manila. The Corporate Secretary, Atty. Simeon Ken R. Ferrer, took the minutes of the meeting.

Due to the corona virus pandemic and for the health and safety of the stockholders, the 2022 Annual Stockholders' Meeting was conducted virtually. The event was streamed live from the MERALCO Compound.

Stockholders who have successfully registered online from May 2 to 25, 2022 were able to participate through remote communication using the Stockholder's Electronic Registration and Voting Express or SERVE platform found at the Company's website, https://company.meralco.com.ph/corporate-governance/SERVE. There were over one hundred sixty (160) stockholders and guests who were able to view the proceedings virtually.

The Chairman addressed the stockholders and requested that given the level of complexity and the time needed to resolve questions on customer service, dividend delivery, invitations to, or notice of, the Annual Stockholders' Meeting and other operational matters,

all stockholders with concerns or questions on these were advised to email them with their contact details to stockholder.affairs@meralco.com.ph.

The Chairman introduced the other members of the Board of Directors, namely: Mses. Anabelle L. Chua and Lydia B. Echauz, Atty. Ray C. Espinosa, Messrs. Lance Y. Gokongwei, Jose Ma. K. Lim, Pedro E. Roxas and Victorico P. Vargas, who were physically present at the MERALCO Compound, and Messrs. James L. Go, Frederick D. Go, and retired Chief Justice Artemio V. Panganiban, who joined by way of live streaming.

Atty. Ray C. Espinosa also serves as the Company's President and Chief Executive Officer while Retired Chief Justice Artemio V. Panganiban and Mr. Pedro O. Roxas, both Independent Directors, serve as the Chairman of the Audit Committee and the Nomination and Governance Committee, respectively.

Also introduced were the Chief Finance Officer, Ms. Betty C. Siy-Yap, the Corporate Secretary, Atty. Simeon Ken R. Ferrer, and the Assistant Corporate Secretary, Atty. William S. Pamintuan. Other corporate officers and executives of the company, as well as the Company's external auditors, Sycip Gorres Velayo and Co. (SGV & Company), who joined the meeting via remote communication were likewise acknowledged.

Upon successful online registration, stockholders were provided with access to the Company's SERVE platform, which allowed them to vote electronically on the matters passed upon in the meeting and to elect the Company's Board of Directors for fiscal year 2022-2023.

The proposed Resolutions for the meeting were contained in the Definitive Information Statement, a copy of which was uploaded in the in MERALCO's website, www.meralco.com.ph, to make the same accessible to all stockholders. This practice is in line with the Company's commitment to good governance and its desire to encourage broader participation of its stockholders in deciding fundamental matters involving the Company.

Thereafter, the Secretary read the ground rules and voting procedure, set forth in the Definitive Information Statement, to be observed during the meeting to ensure the conduct of

fair, orderly, and efficient proceedings. Following are the points highlighted to the stockholders who joined via remote communications and who will be voting in absentia:

a) **Certificated stockholders of the Company as of March 4, 2022 may exercise their right to vote on the agenda items in the 2022 Annual Stockholders' Meeting through electronic voting in absentia.**

b) **Stockholders or their proxies, who have successfully registered with, and have logged on to MERALCO's SERVE platform found at https://company.meralco.com.ph/corporate-governance/SERVE from May 2, 2022 to May 25, 2022, may be given access to the Annual Stockholders' Meeting Live Portal, a livestream video service that allows the Stockholders or their proxies to participate and vote electronically on the matters to be passed upon in the Annual Stockholders' Meeting and to elect the Company's Board of Directors.**

c) **All questions and clarifications on the agenda items may be raised through MERALCO's SERVE platform.**

d) **The Company's Assistant Corporate Secretary, Atty William S. Pamintuan will read the questions received during the Question and Answer portion which will take place before "Other Business", if any, Item No. 10 of the Agenda. Management will reply to questions not taken up during the meeting via email.**

e) **As indicated in the Notice and in the electronic ballot, there are 6 resolutions proposed for the adoption by the stockholders of this meeting. Each proposed resolution will be shown on the screen as the same is being taken up.**

For voting procedure, the Company's class of outstanding shares entitles the holder to one vote for one share. The affirmative vote of the stockholders representing at least a majority of the outstanding and voting shares shall be needed to pass and approve each proposed resolution unless the law provides otherwise.

For the election of directors, stockholders are allowed to elect directors individually or to cumulate their votes. Election of directors shall be by plurality of votes.

All votes received are tabulated by SERVE and validated by the Office of the Corporate Secretary and the auditing firm of Reyes Tacandong & Co., which was duly appointed to act as such for this Annual Stockholders' Meeting.

As each item in the agenda is taken up, the Corporate Secretary will report on the votes received and tabulated as of 9:00 a.m. today. The minutes will, however, reflect the final tally of votes.

Voting will close when the meeting is adjourned.

SERVICE OF NOTICE

The Secretary reported that written notice of the meeting was served to all stockholders of record as of March 4, 2022. Stockholders who have provided their email address were furnished a copy of the Notice through electronic mail. The Notice was also published in the Business World and Philippine Star, print and on-line editions, on April 25, 2022 to April 26, 2022 and posted in the Company's website at www.meralco.com.ph.

The notices were released through various means prior to the annual stockholders meeting in accordance with the Revised Corporation Code, Securities Regulation Code, By-Laws of the Company, and the internal guidelines for participation in meetings via remote communications and for voting in absentia, which are embodied in the Company's Definitive Information Statement as approved by the Securities and Exchange Commission (SEC).

The rationale and explanation for each agenda item which required shareholders' approval were provided in the notice of this meeting.

DETERMINATION OF QUORUM

The Secretary reported and certified that there was a quorum for the meeting, as stockholders who own or hold over 902,548,837 shares or 80.08% of the 1,127,098,705 issued and outstanding common shares of the Company entitled to vote, were represented in person, by proxy or through remote communication.

APPROVAL OF THE MINUTES OF STOCKHOLDERS' MEETING HELD IN 2021

The Chairman submitted for approval the Minutes of the Annual Stockholders Meeting held on May 25, 2021. Copies of the minutes have been made available during office hours at the Office of the Corporate Secretary and posted in the Company's website within 24 hours

from the conduct of such meeting. The minutes are also reflected in the Definitive Information Statement submitted to the SEC.

The Secretary moved to dispense with the reading of the Minutes of the Annual Stockholders' Meeting held on May 25, 2021, to approve the same since copies of the Minutes have previously been made available, and to adopt Resolution No. 2022-1.

The Minutes were approved by stockholders representing more than a majority of the total voting shares, present and represented at the meeting, as detailed in the following table:

VOTES	NUMBER OF VOTES CAST (1 share = 1 vote)	PERCENTAGE OF VOTING
1. Approved	902,478,463	80.07%
2. Against	0	0.00%
3. Abstained	22,368	0.00%

The following resolution was thus adopted and approved as Resolution 2022-1:

> **"RESOLVED, that the Stockholders of the Corporation hereby approve the Minutes of the Annual Stockholders' Meeting held on May 25, 2021."**

REPORT OF THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

The President and Chief Executive Officer, Atty. Ray C. Espinosa, presented his report to the stockholders quoted hereunder as follows:

> **"To our MERALCO Stockholders,**
>
> **Good morning and thank you for joining our 2022 Annual Stockholders' Meeting. It is my fervent wish that you are all keeping safe and well.**
>
> **While 2020 was the year COVID-19 disrupted our lives, 2021 was our year of recovery when we rebuilt our lives to thrive, and not simply survive.**
>
> ***Bayanihan. Kalinga. Malasakit*.**
>
> **Through these values ingrained in the MERALCO culture, we delivered outstanding financial and operational performance and excellent customer service.**
>
> **Even as the impact of Covid-19 lingered, the relentless efforts of our people resulted in an extraordinary story of recovery for One MERALCO.**

Our Consolidated Core Net Income (CCNI) reached PhP 24.6 billion in 2021, 13% higher than the PhP 21.7 billion in 2020. Likewise, Reported Net Income rose 44% to PhP 23.5 billion from the previous year, driven by sales volumes nearing pre-pandemic levels, and by greater contribution from our power generation business.

Core EBITDA stood at PhP 44.6 billion, compared with PhP 35.3 billion in 2019, and Core Earnings Per Share was PhP 21.83.

In 2021, total Cash Dividends amounted to PhP 15.28 per share, following a payout ratio of 70%. At the last trading day of the year, MERALCO's share price was at PhP 295.20 with a market cap of PhP 332.7 billion. The MERALCO stock price closed at PhP 372 yesterday, May 30, 2022, reflecting an increase in market cap of 26% at PhP 419.3 billion.

Fueled by our drive for excellence, we continued to create and deliver great value across our growth platforms.

We strengthened the core distribution utility.

We ended 2021 with consolidated energy sales of 46,073 GWh, 6% higher versus 2020 brought about by increases across all customer segments. Residential and commercial volumes grew by 3% while industrial volume registered a significant 13% growth.

MERALCO powered the country's path to recovery by continuously energizing customers across all segments with our base growing 4% to more than 7.4 million.

Net System Input and Peak Demand registered 5% and 3% increase versus 2020, respectively.

We also powered the nation reliably and more efficiently. For the 14th consecutive year, MERALCO outperformed the prescribed regulatory system loss cap recording a System Loss level of 5.85%.

We attained high system reliability performance, posting all-time best levels on Power Interruption Frequency and Duration, while maintaining rewards level on Time to Connect Customers.

Your Company also continued to elevate customer experience.

As we streamlined processes, deployed digital solutions, and engaged in proactive and transparent stakeholder communications, we improved our Customer Satisfaction Index (CSI) to 8.10, a significant 6-point increase versus 2020.

We achieved these by building a robust and resilient distribution network supported by the highly efficient management of our capital expenditures which reached PhP 27.5 billion, 32% higher than in 2020.

Guided by *Bayanihan*, we sparked synergies with the government, industry players, and among our employees to power our nation. Together, we expanded our facilities to support government development plans, while enabling a more resilient distribution network.

Core to our CapEx program in 2021 were 15 major Electric Capital Projects (ECPs).

Further, we took steps to secure continuity of supply at the least cost by entering into two new Power Supply Agreements (PSAs) after the conduct of Competitive Selection Processes (CSPs) for 1,800 MW and 70 MW baseload capacity.

Moreover, we relocated around 3,500 poles in support of the government's Build, Build, Build (BBB) and Public-Private Partnership (PPP) initiatives as well as DPWH's road-widening projects.

2021 saw us invest more heavily in building a digital distribution utility. We launched the Operations Platform and Telecommunications Integrated Command Center (OPTIC), the first of its kind among electricity DUs in the country. The OPTIC now manages all information, communication, and technology systems of MERALCO.

To enhance system reliability and improve the efficiency of our power restoration efforts, we piloted the Mobile Distribution Transformer Project reducing the usual 2-to-3-hour service interruption to only a few seconds.

We are also laying the groundwork for our breakthrough Advanced Distribution Management System 2.0 and Advanced Metering Infrastructure to efficiently manage the evolving grid, integrate more renewable energy resources, and empower customers to monitor their energy use.

Looking ahead, in collaboration with the Department of Energy (DOE) and Energy Regulatory Commission (ERC), MERALCO plans to invest over PhP 39 billion in the next four years to ramp up its Smart Grid Program.

Sensitive to the plight of our customers still reeling from the pandemic, we partnered with the ERC to implement our proposed PhP 13.9 billion refund of distribution-related charges over 24 months. Through December 2021, PhP 5.7 billion or 41% of the total amount had been refunded.

Through constant coordination with our suppliers and the ERC, we also deferred portions of generation costs, cushioning the impact of generation charge increases.

We extended the implementation of disconnection moratoriums in areas under community quarantine and offered Installment Payment Arrangements (IPAs) to those unable to pay their bills in full. In 2021, we facilitated and processed nearly 580,000 IPA transactions, amounting to roughly PhP 10.4 billion.

Your Company delivered higher levels of customer experience through more channels and touchpoints.

We rolled out a new and improved electricity bill format, providing the information our customers immediately need to help them better understand their bills.

Our Virtual Customer Assistant and Online Customer Appointment initiatives also received high ratings of 93% and 87%, respectively.

The pandemic has spurred a host of new opportunities across our growth platforms in One MERALCO.

Beyond the core distribution utility (DU), our retail electricity business continued to deliver top-notch service to our contestable customers. MPower and Vantage Energy ended 2021 with combined energy sales of 7,131 GWh serving 691 customer accounts, up 29% versus 2020.

We also grew our power generation business.

MERALCO PowerGen Corporation (MGen) supports the country's transition to a sustainable future by providing reliable, cost-competitive, and Earth-friendly energy. Our generation units delivered 13,691 GWh of power in 2021, representing a 6% increase in energy sales vs 2020.

The performance improvement was mainly driven by portfolio expansion.

The full acquisition of Global Business Power (GBP) and the commercial operations of BulacanSol added a total net capacity of 1,025 MW. MGen also acquired an additional 30% interest in PacificLight Power (PLP) in Singapore, increasing MGen's total interests to 58%.

PLP's turnaround contributed significantly to One MERALCO's CCNI driven by 11% growth in energy sales and improved spot market margins.

San Buenaventura Power Ltd.'s 455 MW supercritical coal-fired plant in Mauban, Quezon posted a 21% increase in revenues driven by 5% increase in generation and 44% outage reduction.

Our 55-MWac BulacanSol plant in San Miguel, Bulacan, the country's largest single operating solar plant, delivered 67 GWh to MERALCO from May to December 2021. Furthermore, we broke ground on the 75-MWac solar farm in Baras, Rizal.

Our power generation business thus ended 2021 with a capacity of 2,251 MW and contributed PhP 1.2 billion to MERALCO's CCNI, significantly higher than the PhP 428 million in 2020.

Beyond our assets and investments in the energy value chain, your Company also maintains its strong presence in energy-related and infrastructure services.

Bayad continued to provide seamless onsite-to-online customer experience with the expansion of its network reaching 355 billers by end-2021 and achieving PhP 267 billion in gross transaction value, a 45% increase vs 2020.

Advancing in the digital space, the Bayad App recorded over 120,000 downloads and booked PhP 39.2 billion in bills payment transactions, while Bayad Online ended the year with more than 42,000 registered users.

Radius fortified its position as one of the country's leading data, internet, cloud, and managed services providers with 7,635 kilometers of fiber optic cable.

RED Fiber significantly expanded its presence, closing 2021 with a total of 17,442 subscribers.

MIESCOR, our AAAA-rated engineering services company, delivered key power and telecommunications projects.

The MIESCOR Group achieved all-time high revenues of PhP 5 billion generated from engineering, procurement and construction (EPC) grid and telecommunications projects, and from the growth of its subsidiaries.

It also incorporated a new subsidiary, Miescor Infrastructure Development Corporation (MIDC), which aims to become one of the major players in the country's tower infrastructure space.

In 2021, Spectrum, our end-to-end solar solutions provider, posted a 194% increase in clean energy generated, a 68% increase in installed capacity, and a 67% increase in customer count.

Complementing our spirit of *Bayanihan* is our deep sense of *Kalinga.* We remain keenly focused on sustainability and have thus crafted and embarked on our long-term sustainability strategy (LTSS) marked by our just, orderly, and affordable transition to clean energy.

We have begun our low-carbon transition to serve the Philippines' growing energy demand with greener power, as we invest more heavily in renewable energy (RE).

From a contracting standpoint, we look to secure 1,500 MW of renewable energy supply agreements in the next five years, in line with the DOE's Renewable Portfolio Standards. To date, we have contracted 320 MW in RE Power Supply Agreements—100 MW for our captive DU customers and the balance for our contestable customers.

On the generation front, we will accelerate our shift by building 1,500 MW in attributable clean energy projects across multiple technologies such as solar and wind through 2027.

To provide energy for all, always, we energized 100% of priority sites under the MERALCO Electrification Program.

We also heightened our initiatives to reduce our greenhouse gas emissions and to minimize our waste.

2021 saw us speed up our drive to electrify our vehicle fleet via the Green Mobility Program enabling us to convert 6% of our fleet to electric vehicles through the deployment of 128 eCars, eVans, ePick-ups, and eMotorcycles.

As part of our Race to Zero Waste initiative, we likewise broadened the use of plant-based, natural ester oil (NEO), making our power distribution transformers (DTs) 99% biodegradable and recyclable.

Through One MERALCO Foundation's One for Trees (OFT) Program, we continued to revive and rehabilitate forests and watersheds as your Company nurtured 1.6M trees.

Embedding sustainability more within our organization, we launched our #Mbrace Program to advance gender diversity and inclusion across MERALCO. By the end of 2021, women made up more than 22% of DU employee base, over twice the average in the global energy sector.

We also introduced the MERALCO Supplier Sustainability Scorecard (MS^3), a collection of key sustainability metrics integrated in our vendor accreditation process.

Through our social responsibility arm, One MERALCO Foundation, your company expressed *malasakit* by electrifying far-flung, challenging-to-reach barangays.

In off-grid and indigenous communities, solar lamps were donated to fisherfolk and women weavers. Our school electrification program bridged the technological gap in remote public schools.

The Foundation was responsive to the needs of nearly 9,000 families affected by calamities—from fires and floods in the MERALCO franchise area to the devastating Typhoon Odette in Visayas and Mindanao. MERALCO deployed a 154-strong contingent and provided gensets to Cebu, Bohol, and Surigao del Norte. Our crews, imbued with the true spirit of *malasakit* and *bayanihan*, spent Christmas and New Year away from loved ones to light up these communities.

Through the We Got Your Vac program launched by the MVP Group Vaccine Task Force, we inoculated close to 100% of our employees and donated over 40,000 doses of the Moderna vaccine to various local governments.

We also maintained our support to the government by providing reliable electricity to 60 COVID-19 facilities.

Amid these difficult times, MERALCO relied on its greatest asset—its people—to fulfill its mission.

Recognizing the contributions of the women and men of One MERALCO and inspired by their dedication, we continuously invested in our people leading to an all-time high engagement rating of 93.5%.

Going forward, we will continue delivering supreme value to all our stakeholders through our strategic thrusts. This 2022 and beyond, we will heighten Revenue Enhancement and Expansion across our growth platforms, continue delighting the millions we serve through our Customer Centricity initiatives, and advance our important Digital Transformation—all while remaining centered on and committed to Sustainability.

We thank the members of the MERALCO Board of Directors for their unwavering support, guidance, and governance, our Management Team, and our employees for their dedication. We are also grateful to our shareholders and customers for their continued trust and confidence.

As we forge ahead, your Company—your MERALCO—will remain even more steadfast in bringing forth a better and brighter tomorrow for all.

Thank you and good day."

The Chairman thanked the President and CEO for his report and reminded the stockholders that for good order and as indicated by the Secretary, any questions on the report will be considered after Item 9 of the agenda and before Item 10.

APPROVAL OF THE 2021 AUDITED CONSOLIDATED FINANCIAL STATEMENTS

The next item on the agenda was the approval of the Audited Consolidated Financial Statements for the period ended December 31, 2021.

The Secretary stated that Management requested the approval of the Company's 2021 Audited Consolidated Financial Statements and proposed the adoption of Resolution No. 2022-2.

Accordingly, the Company's Audited Consolidated Financial Statements for the period ended December 31, 2021 was approved by stockholders representing at least a majority of the total voting shares, present and represented at the meeting, as detailed below:

VOTES	NUMBER OF VOTES CAST (1 share = 1 vote)	PERCENTAGE OF VOTING
1. Approved	902,346,798	80.06%
2. Against	131,470	0.01%
3. Abstained	22,565	0.00%

The following resolution was thus adopted and approved as Resolution 2022-2:

> **"RESOLVED, that the audited consolidated financial statements for the year ended December 31, 2021 be, as the same are hereby, approved."**

RATIFICATION OF ACTS OF THE BOARD OF DIRECTORS AND MANAGEMENT

The next item on the agenda was the ratification of acts, resolutions, and deeds of the Board of Directors, its Committees and Management of the Company from the Annual Stockholders' Meeting held on May 25, 2021 up to this meeting. Upon the Chairman's request, the Secretary briefly explained that these acts are provided in the minutes of meetings of the Board, its Committees and the Management. These include, among others, the approval of contracts and agreements, projects and investments, treasury matters, dividend declarations, and disclosures to the Securities and Exchange Commission and Philippine Stock Exchange.

The highlights of these acts of the Board and Management were flashed on the screen.

Acts of Management pertain to those taken to implement the resolutions, directives and instructions of the Board and its Committees and those done in the regular course of the Company's business.

All acts, resolutions, and deeds of the Board of Directors, its Committees and Management of the Company from the Annual Stockholders' Meeting held on May 25, 2021, up

to this meeting were ratified by the stockholders representing at least a majority of the total voting shares, present and represented at the meeting, as detailed in the following table:

VOTES	NUMBER OF VOTES CAST (1 share = 1 vote)	PERCENTAGE OF VOTING
1. Approved	901,952,669	80.02%
2. Against	418,319	0.04%
3. Abstained	129,843	0.01%

The following resolution was thus adopted and passed as Resolution 2022-3:

> **"RESOLVED, that all acts, resolutions, and deeds of the Board of Directors and Management of the Company from the Annual Stockholders' Meeting held on May 25,2021 up to the date of this meeting be as they hereby are, confirmed, ratified and approved."**

APPROVAL OF AMENDMENT OF ARTICLE 1, SECTIONS 1, 2, 3, 5, AND 7 OF THE COMPANY'S BY LAWS

The next item on the agenda was the approval of the Amendment of Article 1, Sections 1, 2, 3, 5, and 7 of the of the Company's By-Laws.

The Management and Board proposed the amendment of certain sections of Article 1 in the Company's By-Laws in order to allow the Company flexibility in the conduct of its meetings and to adapt to the changing times, especially with the current pandemic. The following are the proposed amendments:

> **In Article I, Section 1 on Annual Meeting, the Management and the Board proposed the insertion of the phrase "any place in the city where the principal office of the Corporation is located" to allow the Company the flexibility on the venue of its annual meetings.**
>
> **In Article I, Section 2 on Special Meetings, the Management and the Board proposed the insertion of a similar phrase.**
>
> **For Article I, Section 3 on Voting, the Management and the Board proposed allowing stockholders to vote through remote communication or in absentia and to change the deadline for submission of proxies to no later than 18 days prior to the scheduled stockholders' meeting.**
>
> **For Article I Section 5 on Notice of Meeting, the proposed changes consist of: (a) allowing delivery of notice of meeting through electronic transmission and (b) the extension of deadline for the delivery of the notice from the previous**

submission of at least 28 working days before the meeting to 21 days before the meeting.

There is also the addition of Article I, Section 7 on the allowance of virtual stockholders' meeting subject to the rules and regulations of the SEC.

The Management and Board proposed the adoption of Resolution No. 2022-4 which seeks the approval of the amendment of Article I, Sections 1, 2, 3, 5 and 7.

The amendment of Article I, Sections 1, 2, 3, 5 and 7 of the Company's By-Laws was approved by the stockholders representing at least a majority of the total voting shares, present and represented at the meeting, as detailed in the following table:

VOTES	NUMBER OF VOTES CAST (1 share = 1 vote)	PERCENTAGE OF VOTING
1. Approved	898,448,225	79.71%
2. Against	3,996,581	0.35%
3. Abstained	56,025	0.01%

The following resolution was thus adopted and passed as Resolution 2022-4:

"RESOLVED, that the Stockholders of the Corporation hereby approve the amendment of Article I Sections 1, 2, 3, 5 and 7 of the Company's By-Laws as quoted below:

ARTICLE I
MEETING OF STOCKHOLDERS

Section 1. ANNUAL MEETING. – The annual meeting of the stockholders shall be held on the last Tuesday of May in each year at the principal office of the Company, or at any place in the city where the principal office of the Corporation is located as may be fixed by the Board of Directors or the Chairman of the Board and specified in the notice, at such day and hour as the Board or the Chairman shall direct.

Section 2. SPECIAL MEETINGS. – Special meetings of the stockholders may be called by the Chairman of the board or by order of the Board of Directors whenever he or they may deem it necessary, and shall be so called whenever persons holding of record at least one-fourth of outstanding stock of the Company entitled to vote shall in writing request the same. Special meetings shall be held at the principal office of the Company or at any place in the city where the principal office of the Corporation is located as may be specified in the call.

Section 3. VOTING. – At all meetings of the stockholders, each stockholder entitled to vote thereat shall be entitled to one vote for each share held of record by him, which vote may be given personally or by attorney or proxy authorized in writing. The right to vote of stockholders or

members may be exercised in person, through remote communication or in absentia. The instrument authorizing an attorney or proxy to act shall be filed with the Office of the Corporate Secretary of the Company not later than eighteen (18) days prior to the scheduled stockholders meeting. In the election of directors each stockholder entitled to vote for directors may accumulate and distribute his votes in accordance with provision of law applicable in such case.

Section 5. NOTICE OF MEETING. – Written notice of the annual and of any special meeting of stockholders shall be given to each stockholder entitled to vote thereat by posting the same in a postage prepaid letter, addressed to each such stockholder at his last known address or at the address last left by him with the Secretary of the Company, or by delivering the same to him personally, or by electronic transmission, at least 21 days before the meeting.

x x x

The Board of Directors shall fix the record date which will determine the stockholders entitled to notice and attend a scheduled stockholders meeting.

As used herein, electronic transmission means the delivery or transfer of documents, data or information by electronic mail to the electronic address of the stockholders registered in the books of the Corporation, posting in the Philippine Stock Exchange, posting in the Corporation's website or such other recognized means of electronic transfer of data or information.

Section 7. VIRTUAL MEETING. The Corporation may opt to hold fully virtual stockholders' meetings, subject to applicable laws, rules and regulations of the Securities and Exchange Commission, as may be amended from time to time. "

ELECTION OF DIRECTORS FOR THE ENSUING YEAR

The next item on the agenda was the election of the members of the Board of Directors for the ensuing year. The Company's Articles of Incorporation provides for eleven (11) seats in the Board. The Company's stockholders, including shareholders in the minority, were given the opportunity to nominate candidates for election to the Board of Directors.

A "Call for Nomination" was also posted in the Company's website last February 7, 2022 calling for the submission of the proposed agenda and nomination of qualified candidates on or before March 4, 2022.

The Chairman requested the Chairman of Nomination and Governance Committee, Mr. Pedro Emilio O. Roxas, and the Corporate Secretary, Atty. Simeon Ken R. Ferrer, to explain the matter and give the results of the election.

The Chairman of Nomination and Governance Committee stated that in accordance with the Company's By-Laws and Manual of Corporate Governance, as well as the Revised Corporation Code and the Securities Regulations Code, the following stockholders were duly nominated as members of the Company's Board of Directors to serve as such for the ensuing term 2022 - 2023:

Name	Nominated by
1. Anabelle L. Chua	Beacon Electric Asset Holdings, Inc.
2. Ray C. Espinosa	Beacon Electric Asset Holdings, Inc.
3. James L. Go	JG Summit Holdings, Inc.
4. Frederick D. Go	JG Summit Holdings, Inc.
5. Lance Y. Gokongwei	JG Summit Holdings, Inc.
6. Jose Ma. K. Lim	Metro Pacific Investments Corporation
7. Lydia B. Echauz	Atty. Marianito D. Miranda
8. Artemio V. Panganiban	Atty. Marianito D. Miranda
9. Manuel V. Pangilinan	Beacon Electric Asset Holdings, Inc.
10. Pedro Emilio O. Roxas	Atty. Marianito D. Miranda
11. Victorico P. Vargas	Beacon Electric Asset Holdings, Inc.

Retired Chief Justice Panganiban, Mr. Roxas and Ms. Echauz were nominated as independent directors.

The Corporate Secretary stated that under the Company's Corporate Governance Manual, as well as SEC Code of Governance, a company's independent director shall serve for a maximum cumulative period of only nine (9) years. At present, Retired Chief Justice Panganiban has served the Company as an independent director since May 27, 2008, while Mr. Roxas has served as such since May 25, 2010, both exceeding the term limit provided under the rules.

This notwithstanding, these rules allow for the extension and re-election of independent directors beyond the term limit, provided that meritorious justification exists.

Given their experience and knowledge of the Company, the re-election of Retired Chief Justice Panganiban and Mr. Roxas, as independent directors, would be instrumental in bringing about stability in the Company as it would primarily benefit from their expert guidance and meaningful participation in crafting needed policies and strategies.

Retired Chief Justice Panganiban is a legal luminary whose wealth of expertise and experience in the energy industry critically contributed to the Company's continuing success despite the crisis. He freely shared valuable opinions on relevant issues raised during meetings, encouraged critical discussion, and fostered sound resolutions which were crucial in attaining the Company's strategic objectives. He effectively served as the Board's Lead Independent Director, chaired the Company's Audit Committee, and led the Board in ensuring the adequacy of material controls and risk management systems.

Mr. Roxas, on the other hand, has been the Board's governance champion, providing indispensable support to the Company towards achieving its long-term strategic goals and objectives while ensuring that it fully commits to its environmental, social and civic responsibilities.

As a testament to his efforts in ensuring strong governance culture in the Company, MERALCO was conferred the ASEAN Asset Class Award by the ASEAN Capital Markets Forum for being one of the publicly listed companies in the Philippines which attained highest score in the ASEAN Corporate Governance Scorecard. In January 2021, MERALCO received an ASEAN Asset Class Award as well as Three-Golden Arrow Award from the Securities and Exchange Commission and the Institute of Corporate Directors as one of the top companies in the country with sterling governance performance.

A more detailed description of Retired Chief Justice Panganiban and Mr. Roxas' individual background and achievements, including their accomplishments and contributions to the Company are all in the Definitive Information Statement distributed to the stockholders.

The Chairman of Nomination and Governance Committee stated that the Committee had evaluated the qualifications of the nominees, including the nominees for Independent Directors, and determined that they have all the qualifications and none of the disqualifications to serve as directors of the Company. All these nominees have given their consent to their nomination.

The profiles of all the nominees to the Board of Directors, stating their age, qualifications, experience, date of first appointment to the Board of the Company, and directorships in other publicly listed companies or subsidiaries, whether listed or non-listed within the group of companies, were made available as part of the Definitive Information Statement that were distributed to all the stockholders.

The Corporate Secretary announced that based on votes obtained by each, and as certified by the Nomination and Governance Committee that each of the nominees has garnered enough votes for election, the following were declared duly elected members of the Board of Directors to serve for the ensuing year and until their successors are duly elected and qualified:

Name	Votes
1. Anabelle L. Chua	853,297,608
2. Ray C. Espinosa	896,422,575
3. James L. Go	853,290,757
4. Frederick D. Go	853,479,648
5. Lance Y. Gokongwei	853,345,999
6. Jose Ma. K. Lim	853,275,737
7. Lydia B. Echauz	902,139,115
8. Artemio V. Panganiban	884,071,350
9. Manuel V. Pangilinan	854,351,801
10. Pedro Emilio O. Roxas	884,452,472
11. Victorico P. Vargas	854,648,888

The following resolution was thus adopted and passed as Resolution 2022-5.

> **"RESOLVED, that the following nominees to the Board, having received sufficient number of votes from the stockholders present and represented at the meeting, are hereby declared duly elected members of the Board of Directors to serve for the ensuing year and until their successors are duly elected and qualified:**

Anabelle L. Chua
Ray C. Espinosa
James L. Go
Frederick D. Go
Lance Y. Gokongwei
Jose Ma. K. Lim
Lydia B. Echauz
Artemio V. Panganiban
Manuel V. Pangilinan
Pedro O. Roxas
Victorico P. Vargas

The Chairman acknowledged the duly elected members of the Board of Directors for the ensuing Year 2022 - 2023

APPOINTMENT OF EXTERNAL AUDITORS

The next order of business was the appointment of external auditor for the Company.

The Chairman requested the Chairman of the Audit Committee, Retired Chief Justice Artemio V. Panganiban, to enlighten the stockholders on this matter and for the Corporate Secretary to give the voting results on the proposed resolution for this item.

Retired Chief Justice Panganiban stated that for the information of the stockholders, the Company had paid an audit fee of about Eighteen Million One Hundred Thousand Pesos (PhP 18,100,000.00) to our incumbent external auditors, SyCip Gorres Velayo & Co. for the year ended December 31, 2021. He added that the Audit Committee had evaluated their performance for the past year and was satisfied with their work. As such, the Audit Committee and the Board of Directors hereby endorse the re-appointment of Sycip Gorres Velayo & Co. as External Auditor of the Company for the ensuing year.

The Secretary stated that the management proposed the adoption of Resolution No. 2022-6 for the re-appointment of SyCip Gorres Velayo & Co. as External Auditor of the Company for the ensuing year. He was pleased to report that the reappointment of the Company's external auditor was approved by the stockholders representing a majority of the

voting shares, present and represented at the meeting and eligible to vote. The details of the votes are, follows:

VOTES	NUMBER OF VOTES CAST (1 share = 1 vote)	PERCENTAGE OF VOTING
1. Approved	902,370,368	80.06%
2. Against	108,930	0.01%
3. Abstained	22,133	0.00%

The following resolution was thus adopted and passed as Resolution 2022-6:

"RESOLVED, that SGV & Company, Certified Public Accountants, be, as they hereby are, re-appointed as external auditors of the Company for the ensuing year 2022 - 2023."

QUESTIONS & ANSWERS

The Chairman requested the Assistant Corporate Secretary, Atty. William S. Pamintuan, to read the questions from the stockholders.

Atty. Pamintuan stated that there are several questions from stockholders that were received via the SERVE facility. Following were the questions raised and the answers provided by the Board and/or Management of the Company:

- **Mr. Ishmael Sam Canua: How many employees have been administered COVID-19 vaccines that the company bought? Please indicate the number of vaccines per brand. How many employees have been vaccinated?**

  Atty. Ray Espinosa, President and CEO, replied that a total of 5,881 employees were vaccinated, and ten (10) remain unvaccinated. Of the vaccinated employees, 3,759 employees were vaccinated through the MVP Vaccine Program with Moderna, while 2,122 were vaccinated in LGUs using various approved COVID 19 vaccines.

- **Mr. Ishmael Sam Canua: The Open Access in Data Transmission Act has already been introduced in Congress and is currently pending. What is Radius Telecom's reaction to this proposal? Should the legislative franchise requirement be eliminated to improve telecommunications and power distribution services?**

  Atty. Espinosa stated that Radius supports the Act's objective to narrow the country's digital divide and improve the industry's service. Further, the Company understands the compelling need to establish telecommunications standards to ensure that internet users enjoy the best quality of data transmission service.

He also mentioned that it appears that the customers will benefit from this Act, and that MERALCO will adhere to the wisdom and discretion of the Congress on whether the franchise requirement should be retained for power distribution services.

- **Mr. Anthony Gilbert Antiquiera: Is it possible to reduce electric bill of consumers in the Marcos administration?**

  Atty. Espinosa replied that reducing electricity prices is always possible but involves looking into the many factors that affect movements in electricity rates. He explained that the biggest and most volatile part of the bill, which is the generation charge, is driven by fuel prices, foreign exchange (forex) and supply-demand situation. Fuel prices mostly reflect global oil prices, as even the Malampaya natural gas is indexed on oil.

  He added that what we need are sound government policies that can better address movements on fuel and forex, and an environment that encourages the development of additional capacities brought by new generating plants.

- **From Mr. Amador Nieves: Given the increasing focus on sustainability across the industry, can you share MERALCO's energy transition plans – both for its own generation assets and its sourcing of supply?**

  Atty. Espinosa shared that, anchored on One MERALCO's sustainability agenda, MERALCO PowerGen Corporation - Global Business Power (MGen-GBP) is planning to transition to clean energy in a just, orderly, and affordable manner that is consistent with least cost principle in the Electric Power Industry Reform Act of 2001 (EPIRA).

  He added that MGen-GBP's low-carbon energy transition started with the first solar plant in Bulacan which declared commercial operations in 2021, with 55 Megawatt Alternating Current (MWac) capacity. He provided an update that three (3) additional solar plants are currently under development and expected to commence operations in the latter part of 2022 up to early 2023. Further, the target is to build 1,500 MW renewable energy capacity in seven years.

  He also said that MGen-GBP aims to be coal-free by 2050 as next-generation clean technologies mature technically and economically.

- **From Mr. Ishmael Sam Canua: The amendments to the Public Service Act had just been signed into law, what implications will this have for customer service and the Company's overall performance in coming years?**

  Atty. Espinosa explained that on March 21, 2022, President Rodrigo Duterte signed into law Republic Act No. 11659, which further amended the Public Service Act. While electric distribution remained a public utility under the amended law, new amendments were introduced which updated obsolete and redundant provisions of the original Public Service Act, such as the requirement for public utilities to seek the prior approval of the Energy Regulatory Commission (ERC) before it can "issue any bonds or other evidence of indebtedness payable in more than one year from the issuance thereof".

Thus, with this amendment, public utilities like MERALCO can already incur long term debt of more than one (1) year, without the necessity of seeking prior approval of the ERC to finance its required capital expenditures and payment obligations. He clarified that this enables public utilities to incur financing arrangements in a timely manner, that will ensure continuity and quality of service offered to its customers.

- **Dr. Gerardo Marinay: With the incoming new administration of our government, one of its thrusts is to have a more efficient supply and reasonable cost of electricity. What is the stand of Meralco if ever the Bataan Nuclear Power Plant (BNPP) will be restored, and if possible, will MERALCO lead the restoration and operations management of BNPP?**

  Atty. Espinosa responded that MERALCO will favorably consider contracting reasonably and competitively priced supply from generation companies, including the BNPP, if the same should become operational. However, MERALCO may not have the internal competencies to operate and maintain the BNPP.

- **Ms. Ma. Lourdes Manlugon: What are MERALCO's views on the adequacy of power supply for Luzon in the medium term? And what will be the role of renewable energy sources in the supply-demand situation considering concerns about intermittency?**

  Atty. Espinosa reported that on paper, there appears to be enough new capacity coming in the next few years to meet increasing demand and reserve requirements. He shared that the Department of Energy (DOE) projects Luzon Grid demand to increase by about 800 MW per year from 2022 to 2026 based on the 2020-2040 Philippine Energy Plan. To meet this, around 7,198 MW of new capacity is scheduled to come online in the Luzon grid from 2022 to 2026, based on the DOE's list of committed power plants as of 31 December 2021. He noted that this includes the 1,800 MW of baseload greenfield capacity that MERALCO successfully bid out last year.

  Atty. Espinosa further explained that with recent surges in energy prices, diversity of fuel sources is important for both energy security and affordability. According to DOE data, while coal-fired power plant projects will still account for about a third (or 32%) of new capacity, natural gas-fired plant projects will be almost half (or 48%) of new supply. The remaining 20% will use renewable sources.

  He further noted that hybrid renewable energy plants that combine solar photovoltaic (PV) technology with battery energy storage systems, promise to address the intermittency of such renewable resources. Atty. Espinosa also expressed that MERALCO is looking to secure 850 MW of renewable energy-based mid-merit supply, which was initially proposed to be met by a hybrid plant consisting of solar and battery energy storage.

Atty. Pamintuan thanked the stockholders for their questions, as well as Atty. Espinosa for his answers. He stated that other questions not taken up will be referred to the responsible offices and will be answered through email.

ADJOURNMENT

There being no other business to transact, the 59th Annual Stockholders meeting was adjourned at 11:25 a.m.

SIMEON KEN R. FERRER
Corporate Secretary

A T T E S T:

MANUEL V. PANGILINAN
Chairman of the Board

PROOF OF NOTICE

I HEREBY CERTIFY, as duly elected, qualified and incumbent Corporate Secretary of Manila Electric Company (MERALCO), that written notice of the annual meeting of stockholders was sent to all stockholders of record at least twenty-eight (28) days before the date of the meeting, in accordance with the By-laws of the Company. A copy of the notice is attached as Annex "A" hereof.

Pasig City, Philippines, May 31, 2022.

SIMEON KEN R. FERRER
Corporate Secretary

LIST OF STOCKHOLDERS WHO ATTENDED 2022 ASM	
No.	**Stockholder's Name**
1.	Adelio Morales Sales
2.	Alberto Villamayor Diestro
3.	Anabelle Lim Chua
4.	Ann Cedron Aclo
5.	Arn Richard Veloso Remo Mr.
6.	Artemio V. Panganiban
7.	Adorina Ditablan
8.	Adrian Bondoc
9.	Alberto Gayon Tanael
10.	Alejandro Gatmaitan Torres
11.	Allan Colarina Reyes
12.	Alpha Simagala Bautista
13.	Amador Sarmiento Nieves
14.	Amelita C. Tan
15.	Amor Concepcion Llanes Avendaã±O
16.	Amor Victorina Granados Palaganas
17.	Angelito Ragasa Santos
18.	Anthony Gilbert Lustico Antiquiera N/A
19.	Anthony Villarin Rosete
20.	Antonio Mano Abuel Jr
21.	Antonio Rivera Geronilla
22.	Armando Aviles Prado
23.	Arnel Borres Maquiling
24.	Baby Nelly Esteban Manalo
25.	Benjamin Umerez Cusi
26.	Bernardo Panganiban Cambel
27.	Benedicto L. Borbon Mr
28.	Bernadette Batangan Baetiong
29.	Brenda Monta Noynay
30.	Carmelo Seco Gatla
31.	Cecilia Virata Datayan Ms.
32.	Camilo Bulanhagui Balita
33.	Candida Cardenas Caya
34.	Carmela Joy Alfabeto Asuncion
35.	Catherine Yanto Viray
36.	Christine Ferrer Infantado
37.	Corintha Santiago Tapia
38.	Corintha Santiago Tapia
39.	Danilo Maratas Larosa
40.	Delmar Nathaniel Tantamco
41.	Demetrio Bullen
42.	Danielle Joy Badar
43.	Danilo Maderazo Pilapil
44.	Danilo Riboroso Ignacio Mr
45.	Danny Garcia Ferrer

46.	David Bunagan Acedo
47.	Dennis De Jesus Ramos
48.	Eduardo De Jesus Tablan
49.	Eva Corpuz Hugo
50.	Edna Teano Gumba
51.	Edward Co Yao Mr
52.	Edwin Francis Hernandez Cruz
53.	Efren Nievera Hipolito Na
54.	Elpidio Cea Borja Jr
55.	Elvira Dagumboy Vecino
56.	Emerson Solis Asuncion
57.	Emmanuel V Mayrena
58.	Erlinda Atienza Reyes
59.	Ernesto Francisco Cruz
60.	Esmeralda D. Terrado
61.	Eugene Jude Denis Gerard Enriquez Alabanza
62.	Frederick Dy Go
63.	Ferdinand Orcullo Geluz
64.	Florante Francisco Aberia
65.	Florante Talimayen Sadorra
66.	Flordeliza Mallari Figueroa Miss
67.	Fontefer Fontelo Ferraren
68.	Fortunato Buasan Bronoza
69.	Fred Lorenz Geolagon Ramos
70.	Froilan Jusayan Savet
71.	Gerardo Marinay
72.	Gaudencio Nario De Leon
73.	Gemma Balagot Singian Ms..
74.	Genaro Vincent Belarmino Quinto Jr.
75.	George Soteli Abellera
76.	Gerardo Federico Dela Paz
77.	Gerly Lapura Ringor N/A
78.	Grace Buenaseda Aquilizan
79.	Hector Barnachea Holgado
80.	Heidee Silvestre Arguelles
81.	Henry Robles Sia
82.	Ireneo Bonifacio Acuã‘A Mr.
83.	James L Go
84.	Jean Vecida Lagrada
85.	Jessica Masa Garcia
86.	Jose Ma. K. Lim
87.	Joycelyn Alcazar Panganiban
88.	Jameson Santos Agub
89.	Jean Villaver Eugenio
90.	Jennifer Joy Sto. Tomas Sengson
91.	Jennifer Santos Gutierrez
92.	Jesly Ramos Quiambao

93.	Jesse Roble Diaz
94.	Jesus Castro Cinco Jr
95.	Jose Fernando Ubaldo Campaã±A
96.	Jose Jaena Naranjo
97.	Jose Luis Alberto Alejar Bernardo
98.	Joseph De Lumen Amosco
99.	Joven Bautista Roberto
100.	Krizel Gallinero
101.	Kim Huy Chua Uy
102.	Kirby Y Hartigan-Go
103.	Kirby Yu Hartigan-Go
104.	Lance Yu Gokongwei
105.	Leandra Carzon Cordova
106.	Leonardo Caina Rivera
107.	Lourdes R Privado
108.	Lydia B. Echauz
109.	Leilani Gonzales Anastacio
110.	Leticia Talabucon Martin
111.	Lilian Pili Umipig
112.	Loreme Oriã±O Co
113.	Ma. Lourdes Marcelo Manlugon
114.	Ma. Miel Cristina Gamalinda Lanting
115.	Ma. Miriam Manito
116.	Ma. Victoria Mesina Geronilla
117.	Manuel Velez Pangilinan
118.	Maria Teresa Del Rosario Mamalateo
119.	Marvin Gallinero Gonsalves
120.	Melissa Paltao Montecastro
121.	Ma Geminia Dagumboy Vecino
122.	Ma. Teresita Te Bueno
123.	Mae Christine C. Peraro
124.	Manuel Macaraeg Galvan
125.	Manuel Vito Cruz Dael Mr
126.	Marcelo Dionisio Magno Jr
127.	Maria Criselda Eusebio Sampaga
128.	Maria Luisa Pante Jimenez
129.	Maria Luisa Pante Jimenez
130.	Maria Teresa Agno Adriano
131.	Marian Antonette Cabuniag Villafuerte
132.	Marian Boylan Santos
133.	Marie Jo Dagumboy Vecino
134.	Marilou Mendoza
135.	Mario Madrilejo Dumayag
136.	Marissa Navarro Banaynal
137.	Mary Ann Bagadiong Cabangon
138.	Mary Anne De Quiroz Barcelona
139.	Mary Anne Duran Arroyo

140.	Michael Majam Panis
141.	Michelle Fatima Santos Sanchez
142.	Nestor Antonio Cacnio
143.	Neil Valenci Santiago
144.	Nida Ocampo Magno
145.	Noel Arbasa Villena
146.	Pedro Emilio O. Roxas
147.	Quennie Clarisse Alcantara
148.	Rameses C Orosco
149.	Ramona Fe Cajipe Aguirre
150.	Ray Celis Espinosa
151.	Rowena Nicolas Gutierrez
152.	Ramon Rina Yap
153.	Randy Uyeg Cortez
154.	Raul Acayan Ramirez Na
155.	Raymundo Ramiro Acorda
156.	Remedios Fontamillas
157.	Rizaldy Sioson Enriquez
158.	Rodolfo Dizon Ungson Mr
159.	Rolina Aldaba Santiago
160.	Romeo Dekit
161.	Romeo Galang Manalo
162.	Rosa Maria Yator Billones
163.	Rosa Mendoza Bacal
164.	Rosalia San Pedro Kempis
165.	Rosemarie Fernandez Ramos
166.	Rowena Bernadette Belino Reyes
167.	Sheena Marie Sarmiento Amurao
168.	Shilo Fuerte Manzanilla
169.	Simeon Ken Rigor Ferrer
170.	Simon Cesar Caballero Abaga
171.	Stephen Samuel Paraã±Os Pia
172.	Su Sin Te Go
173.	Teodoro Gallinero
174.	Teresita Talan Parcon
175.	Teresita Badua Sombrito N/A
176.	Tessie Caranay Ricafort
177.	Therese Cay Vasquez Macapagal
178.	Thom Ryan Ortega
179.	Uldarico Obligar Absalud
180.	Valdoz Manayon Ma. Concepcion
181.	Valerie Joy Peret Berber
182.	Victorico P. Vargas
183.	Vilma Villanueva Padilla
184.	Wendy Co Go
185.	Wilfred Jan Reyes Posadas
186.	Wilfredo Aquino Baetiong

187.	Wilfredo Cruz
188.	Wilson Manzano
189.	Zyryl Rivera Rodriguez
190.	Aurora Lavin Lanuza
191.	Elvira Alzaga Gonio
192.	Lorinda Lumberio Capiral
193.	Normita Supan Gonzales
194.	Philip Roldan Gargar Landicho

MERALCO

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The Management of Manila Electric Company (the Company) is responsible for the preparation and fair presentation of the consolidated financial statements, including the schedules attached therein, as at December 31, 2022 and 2021, and for each of the three years ended December 31, 2022, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Company's financial reporting process.

The Board of Directors reviews and approves the consolidated financial statements, including the schedules attached therein, and submits the same to the stockholders.

SyCip Gorres Velayo & Co., the independent auditor appointed by the stockholders, has audited the consolidated financial statements of the Company in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

MANUEL V. PANGILINAN
Chairman of the Board

RAY C. ESPINOSA
President and Chief Executive Officer

BETTY C. SIY-YAP
Chief Finance Officer

22 MAR 2023

SUBSCRIBED AND SWORN to before me this ___ day of _____ 2023 in Pasig City, by the above-named persons who exhibited to me their respective Tax Identification Numbers as follows:

NAME	**Tax Identification Number**
Manuel V. Pangilinan	914-481-801
Ray C. Espinosa	113-248-897
Betty C. Siy-Yap	102-100-627

Doc. No. 33;
Page No. 8;
Book No. XXVI;
Series of 2023.

ATTY. CORNELIO MANUEL [illegible]
Notary Public
Pasig San Juan and Pateros
Issued on May 30, 2022
Appointment No. 62 (2022-2023)
[illegible] No. 45053/ IBP No. 293602 01/10/2023 RSM Chapter
PTR No. 174307 01/16/2023 Pasig City
[illegible] Roll No. 0[illegible] 10/17/2019

SGV
Building a better working world

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 8891 0307
Fax: (632) 8819 0872
ey.com/ph

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and the Stockholders
Manila Electric Company and Subsidiaries
Lopez Building, Ortigas Avenue
Barangay Ugong, Pasig City, Metro Manila

Opinion

We have audited the consolidated financial statements of Manila Electric Company (the Company) and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2022 and 2021, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2022, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2022 and 2021, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2022 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including those in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Revenue from sale of electricity

The Group's revenue from its electricity distribution business represents 93% of its consolidated revenues and arise from its service contracts with a large number of customers that are classified as either commercial, industrial or residential, located within the Group's franchise area. This matter is significant to our audit because the revenue recognized depends on (a) the complete capture of electric consumption based on the meter readings over the franchise area taken on various dates; (b) the propriety of rates computed and applied across customer classes including the application of adjustments promulgated by the Energy Regulatory Commission (ERC); and (c) the reliability of the information technology (IT) systems involved in processing the billing transactions.

Notes 2, 23, 24, 30 and 32 provide the relevant disclosures related to the rate-making regulations and regulatory policies of the ERC.

Audit response

We obtained an understanding and evaluated the design of, as well as tested the controls over, the customer master file maintenance, accumulation and processing of meter data, and interface of data from the billing system to the financial reporting system. In addition, we performed a test recalculation of the bill amounts using the ERC-approved rates, adjustments and formulae, as well as actual pass-through costs incurred, and compared them with the amounts reflected in the billing statements. We involved our internal specialist in understanding the IT processes and in understanding and testing the IT general controls over the IT systems supporting the revenue process.

Adequacy of allowance for expected credit losses for receivables

Under PFRS 9, *Financial Instruments*, the Group is required to estimate the expected credit loss (ECL) for its financial assets, particularly its trade receivables, which represent 10% of the consolidated assets of the Group as of December 31, 2022. The allowance for ECL and the provision for ECL as at and for the year ended December 31, 2022 amounted to ₱7,115 million and ₱2,311 million, respectively.

The Group's use of the ECL model is significant to our audit as it involves the exercise of significant management judgment. Key areas of judgment include: segmenting the Group's credit risk exposures; defining default; determining assumptions to be used in the ECL model; and incorporating forward-looking information (called overlays), including the impact of the coronavirus pandemic, in calculating ECL.

The disclosures in relation to allowance and provisions for ECL using the ECL model are included in Notes 5, 13 and 27 to the consolidated financial statements.

Audit response

We obtained an understanding of the methodologies and models used for the Group's varying credit exposures and assessed whether these considered the requirements of PFRS 9 to reflect an unbiased and probability-weighted outcome and the best available forward-looking information.

We (a) assessed the Group's segmentation of its credit risk exposures based on homogeneity of credit risk characteristics; (b) tested the definition of default against historical analysis of accounts and credit risk management policies and practices in place, (c) tested historical loss rates by inspecting historical collections, recoveries and write-offs (d) checked the classification of outstanding exposures to their corresponding aging buckets; and (e) checked the forward-looking information used for overlay through statistical test and corroboration using publicly available information and our understanding of the Group's receivable portfolios and industry practices, including the impact of the coronavirus pandemic.

Further, we checked the data used in the ECL models, such as the historical aging analysis and default and recovery data, by reconciling data from the billing system to the loss allowance analysis/models and financial reporting systems. To the extent that the loss allowance analysis is based on credit exposures that have been disaggregated into subsets with similar risk characteristics, we traced the disaggregation from source systems to the loss allowance analysis.

We reviewed the completeness of the disclosures made in the consolidated financial statements.

Retirement and other long-term post-employment benefits

The Group has defined retirement and other long-term post-employment benefits plans covering all regular employees. The valuation of the retirement benefits obligation involves significant management judgment in the use of assumptions. The valuation also requires the assistance of an external actuary whose calculations depend on certain assumptions, such as discount rates and future salary increases, which could have a material impact on the results. Thus, we considered this as a key audit matter.

Note 26 to the consolidated financial statements provides the relevant disclosures related to this matter.

Audit response

We involved our internal specialist in the review of the scope, bases, methodology and results of the work by the external actuary, whose professional qualifications, capabilities and objectivity were also taken into consideration. We evaluated the key assumptions used by comparing the employee demographics and attrition rates against the Group's human resource data, and the discount rate and mortality rate against external data. We inquired from management about the basis of salary increase rate and compared it against the Group's historical data and future plans. Moreover, we reviewed the required disclosures in the consolidated financial statements.

Provisions and contingencies

The Group is involved in certain proceedings and claims for which it has recognized provisions for probable costs and/or expenses and/or has disclosed relevant information about such contingencies. This matter is significant to our audit because the determination of whether any provision should be recognized and the estimation of the potential liability resulting from these assessments require significant judgment by management. The inherent uncertainty over the outcome of these matters is brought about by the differences in the interpretation and implementation of the relevant laws and regulations.

Notes 2, 19, 22 and 29 to the consolidated financial statements provide the relevant disclosures related to this matter.

Audit response

We examined the bases of management's assessment of the possible outcomes and the related estimates of the probable costs and/or expenses that are recognized and/or disclosed in the Group's consolidated financial statements and involved our internal specialists when necessary. We discussed with management the status of the claims and/or assessments and obtained correspondences with the relevant authorities and opinions from the internal and external legal counsels. We evaluated the position of the Group by considering the relevant laws, rulings and jurisprudence. We also reviewed the disclosures on provisions and contingencies in the Group's consolidated financial statements.

Accounting for business combination

As disclosed in Note 3 to the consolidated financial statements, in 2021, MERALCO PowerGen Corporation, a wholly owned subsidiary of the Company, acquired an additional 86% interest in Global Business Power Corporation (GBPC) for a total consideration of ₱32,575 million. The acquisition was accounted for as a business combination under PFRS 3, *Business Combinations* and reported in the 2021 consolidated financial statements based on provisional purchase price allocation. In 2022, the fair values of the net assets acquired were remeasured and the purchase price allocation was thus finalized. Apart from the significance of the amounts involved, we consider the accounting for this acquisition as a key audit matter because the determination of the fair values of the assets acquired and liabilities assumed from GBPC requires significant management judgment and estimation based on the available information, specifically about the acquired property and equipment and intangible assets, as at the acquisition date.

Audit response

We reviewed the share purchase agreements covering the acquisition and assessed whether the acquisition has been appropriately accounted for. We reviewed the final purchase price allocation and evaluated management's basis in determining the fair values of the assets acquired and liabilities assumed from GBPC using the available information as of the acquisition date. We assessed the competence, capabilities and objectivity of the external appraiser who was engaged to prepare the appraisal report used in the final purchase price allocation, by considering their qualifications, experience and reporting responsibilities. We involved our internal specialist in evaluating the methodologies and assumptions used in arriving at the fair values of the property and equipment and intangible assets. We also assessed the adequacy of the related disclosures in Note 3 to the consolidated financial statements.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2022 but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2022 are expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with PFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related

disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Narciso T. Torres, Jr.

SYCIP GORRES VELAYO & CO.

Narciso T. Torres, Jr.
Partner
CPA Certificate No. 84208
Tax Identification No. 102-099-147
BOA/PRC Reg. No. 0001, August 25, 2021, valid until April 15, 2024
SEC Partner Accreditation No. 84208-SEC (Group A)
Valid to cover audit of 2021 to 2025 financial statements of SEC covered institutions
SEC Firm Accreditation No. 0001-SEC (Group A)
Valid to cover audit of 2021 to 2025 financial statements of SEC covered institutions
BIR Accreditation No. 08-001998-111-2020, November 27, 2020, valid until November 26, 2023
PTR No. 9566006, January 3, 2023, Makati City

February 27, 2023

MANILA ELECTRIC COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	December 31	
		2022	2021 (As restated - Note 3)
		(Amounts in millions)	
ASSETS			
Noncurrent Assets			
Utility plant, generation plant and others	*7 and 10*	**₱243,323**	₱225,326
Investments in associates and interests in joint ventures	*8 and 23*	**31,888**	23,317
Investment properties	*9*	**1,495**	1,496
Intangible assets	*7 and 10*	**21,691**	15,054
Deferred tax assets – net	*28*	**22,657**	27,143
Financial and other noncurrent assets	*2, 11, 15, 26, 27 and 30*	**43,920**	53,125
Total Noncurrent Assets		**364,974**	345,461
Current Assets			
Cash and cash equivalents	*12 and 27*	**55,832**	55,007
Trade and other receivables	*13, 24 and 27*	**54,683**	45,013
Inventories	*14*	**10,629**	9,817
Financial and other current assets	*11, 15, 23 and 27*	**33,143**	28,317
Total Current Assets		**154,287**	138,154
Total Assets		**₱519,261**	₱483,615
EQUITY AND LIABILITIES			
Equity Attributable to Equity Holders of the Parent			
Common stock	*16*	**₱11,273**	₱11,273
Additional paid-in capital		**4,111**	4,111
Equity reserve		**(111)**	(116)
Employee stock purchase plan	*16*	**1,049**	1,049
Unrealized fair value gains on financial assets at fair value through other comprehensive income ("*FVOCI*")	*11*	**311**	502
Remeasurement adjustments on retirement and other post-employment liabilities	*26*	**7,282**	2,681
Share in remeasurement adjustments on associates' retirement liabilities	*8*	**(16)**	(25)
Cumulative translation adjustments of associates	*8*	**(30)**	306
Cumulative translation adjustments of subsidiaries		**51**	40
Treasury shares	*16*	**(11)**	(11)
Retained earnings	*16*	**85,755**	75,394
Equity Attributable to Equity Holders of the Parent		**109,664**	95,204
Non-controlling Interests	*3 and 16*	**14,445**	10,124
Total Equity		**124,109**	105,328

(Forward)

	Note	December 31	
		2022	2021 (As restated - Note 3)
		(Amounts in millions)	
Noncurrent Liabilities			
Interest-bearing long-term financial liabilities - net of current portion	*17 and 27*	**₱68,757**	₱52,720
Customers' deposits - net of current portion	*18, 22 and 27*	**31,590**	30,901
Long-term employee benefits	*26*	**2,893**	10,257
Provisions	*19, 22 and 29*	**12,657**	13,554
Refundable service extension costs - net of current portion	*22 and 27*	**4,653**	5,334
Deferred tax liabilities - net	*28*	**5,427**	5,959
Other noncurrent liabilities	*2, 5, 7, 24 and 29*	**63,450**	97,981
Total Noncurrent Liabilities		**189,427**	216,706
Current Liabilities			
Notes payable	*21 and 27*	**29,491**	28,834
Trade payables and other current liabilities	*16, 22, 23, 27 and 29*	**163,902**	119,067
Customers' refund	*2, 20 and 27*	**2,905**	2,929
Income tax payable		**92**	1,637
Current portion of long-term employee benefits	*26*	**3,750**	–
Current portion of interest-bearing long-term financial liabilities	*17 and 27*	**5,585**	9,114
Total Current Liabilities		**205,725**	161,581
Total Liabilities		**395,152**	378,287
Total Liabilities and Equity		**₱519,261**	₱483,615

See accompanying Notes to Consolidated Financial Statements.

MANILA ELECTRIC COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

		Years Ended December 31		
	Note	**2022**	2021	2020
		(Amounts in millions, except per share data)		
REVENUES				
Sale of electricity	*6, 23, 24, 30 and 32*	**₱413,950**	₱309,238	₱267,946
Sale of other services	*23*	**12,579**	9,309	7,358
		426,529	318,547	275,304
COSTS AND EXPENSES				
Purchased power	*24 and 30*	**322,645**	224,915	204,420
Coal and fuel		**22,577**	8,793	–
Depreciation and amortization	*7, 9, 10 and 25*	**16,031**	12,499	8,555
Salaries, wages and employee benefits	*25 and 26*	**15,836**	15,892	12,301
Contracted services		**8,440**	7,074	6,348
Provision for probable losses and expenses from claims	*2, 19 and 29*	**5,831**	10,175	15,526
Taxes, fees and permits		**2,132**	1,939	1,069
Power plant operations and maintenance cost		**1,906**	1,103	–
Provision for expected credit losses ("*ECL*")	*13*	**2,498**	506	1,827
Other expenses	*23 and 25*	**8,452**	6,312	4,267
		406,348	289,208	254,313
OTHER INCOME (EXPENSES)				
Equity in net earnings of associates and joint ventures	*8*	**12,035**	3,127	1,233
Interest and other financial charges	*17, 18 and 21*	**(3,754)**	(3,728)	(1,594)
Interest and other financial income	*11 and12*	**2,063**	2,197	2,323
Foreign exchange gains (losses)		**1,011**	487	(839)
Others	*2, 5, 7, 8, 23, 30 and 32*	**3,700**	1,573	301
		15,055	3,656	1,424
INCOME BEFORE INCOME TAX		**35,236**	32,995	22,415
PROVISION FOR (BENEFIT FROM) INCOME TAX	*28*			
Current		**4,122**	8,728	10,295
Deferred		**2,526**	184	(4,029)
		6,648	8,912	6,266
NET INCOME		**₱28,588**	₱24,083	₱16,149
Attributable To				
Equity holders of the Parent	*31*	**₱28,431**	₱23,498	₱16,316
Non-controlling interests		**157**	585	(167)
		₱28,588	₱24,083	₱16,149
Earnings Per Share Attributable to Equity Holders of the Parent	*31*			
Basic		**₱25.23**	₱20.85	₱14.48
Diluted		**25.23**	20.85	14.48

See accompanying Notes to Consolidated Financial Statements.

MANILA ELECTRIC COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

		Years Ended December 31		
	Note	**2022**	2021	2020
			(Amounts in millions)	
NET INCOME		**₱28,588**	₱24,083	₱16,149
OTHER COMPREHENSIVE INCOME				
Items that will be reclassified to profit or loss in subsequent years:				
Unrealized fair value gains (losses) on fair value through other comprehensive ("*FVOCI*") financial assets	*11*	**(280)**	139	100
Cumulative translation gains (losses) of subsidiaries		**11**	18	(10)
Cumulative translation gains (losses) of associates		**(336)**	300	(756)
Net other comprehensive income (loss) that will be reclassified to profit or loss in subsequent years		**(605)**	457	(666)
Items that will not be reclassified to profit or loss in subsequent years:				
Remeasurement gains (losses) on retirement and other post-employment liabilities	*26*	**6,135**	8,671	(5,186)
Income tax effect		**(1,534)**	(2,168)	1,557
		4,601	6,503	(3,629)
Unrealized fair value gains (losses) on equity securities at *FVOCI*		**99**	43	(3)
Income tax effect		**(10)**	(4)	–
		89	39	(3)
Share in remeasurement gains (losses) on associates' retirement liabilities	*8*	**9**	(12)	(1)
Net other comprehensive income (loss) that will not be reclassified to profit or loss in subsequent years		**4,699**	6,530	(3,633)
OTHER COMPREHENSIVE INCOME (LOSS), NET OF INCOME TAX		**4,094**	6,987	(4,299)
TOTAL COMPREHENSIVE INCOME, NET OF INCOME TAX		**₱32,682**	₱31,070	₱11,850
Total Comprehensive Income Attributable To				
Equity holders of the Parent		**₱32,525**	₱30,485	₱12,017
Non-controlling interests		**157**	585	(167)
		₱32,682	₱31,070	₱11,850

See accompanying Notes to Consolidated Financial Statements.

MANILA ELECTRIC COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2022, 2021 AND 2020

	Equity Attributable to Equity Holders of the Parent													
	Common Stock (Note 16)	**Additional Paid-in Capital**	**Equity Reserve**	**Employee Stock Purchase Plan** (Note 16)	**Unrealized Fair Value Gains (Losses) on Financial Assets at *FVOCI*** (Note 11)	**Remeasure-ment Adjustments on Retirement and Other Post-Employment Liabilities** (Note 26)	**Share in Remeasure-ment Adjustments on Associates' Retirement Liabilities** (Note 8)	**Cumulative Translation Adjustments of Associates** (Note 8)	**Cumulative Translation Adjustments of Subsidiaries**	**Treasury Shares** (Note 16)	**Retained Earnings** (Note 16)	**Equity Attributable to Equity Holders of the Parent**	**Non-controlling Interests** (Note 3 and 6)	**Total Equity**
	(Amounts in millions)													
At January 1, 2022	**₱11,273**	**₱4,111**	**(₱116)**	**₱1,049**	**₱502**	**₱2,681**	**(₱25)**	**₱306**	**₱40**	**(₱11)**	**₱75,394**	**₱95,204**	**₱10,124**	**₱105,328**
Net income	–	–	–	–	–	–	–	–	–	–	**28,431**	**28,431**	**157**	**28,588**
Other comprehensive income (loss)	–	–	–	–	**(191)**	**4,601**	**9**	**(336)**	**11**	–	–	**4,094**	–	**4,094**
Total comprehensive income (loss)	–	–	–	–	**(191)**	**4,601**	**9**	**(336)**	**11**	–	**28,431**	**32,525**	**157**	**32,682**
Dividends	–	–	–	–	–	–	–	–	–	–	**(18,070)**	**(18,070)**	**(95)**	**(18,165)**
Others	–	–	**5**	–	–	–	–	–	–	–	–	**5**	**4,259**	**4,264**
	–	–	**5**	–	–	–	–	–	–	–	**(18,070)**	**(18,065)**	**4,164**	**(13,901)**
At December 31, 2022	**₱11,273**	**₱4,111**	**(₱111)**	**₱1,049**	**₱311**	**₱7,282**	**(₱16)**	**(₱30)**	**₱51**	**(₱11)**	**₱85,755**	**₱109,664**	**₱14,445**	**₱124,109**
At January 1, 2021	₱11,273	₱4,111	(₱116)	₱1,049	₱324	(₱3,822)	(₱13)	₱6	₱22	(₱11)	₱66,414	₱79,237	₱1,494	₱80,731
Net income	–	–	–	–	–	–	–	–	–	–	23,498	23,498	585	24,083
Other comprehensive income (loss)	–	–	–	–	178	6,503	(12)	300	18	–	–	6,987	–	6,987
Total comprehensive income (loss)	–	–	–	–	178	6,503	(12)	300	18	–	23,498	30,485	585	31,070
Dividends	–	–	–	–	–	–	–	–	–	–	(14,518)	(14,518)	(1,358)	(15,876)
Effect of consolidation of Global Business Power Corporation ("*GBPC*")	–	–	–	–	–	–	–	–	–	–	–	–	9,359	9,359
Others	–	–	–	–	–	–	–	–	–	–	–	–	44	44
	–	–	–	–	–	–	–	–	–	–	(14,518)	(14,518)	8,045	(6,473)
At December 31, 2021	₱11,273	₱4,111	(₱116)	₱1,049	₱502	₱2,681	(₱25)	₱306	₱40	(₱11)	₱75,394	₱95,204	₱10,124	₱105,328

	Equity Attributable to Equity Holders of the Parent													
	Common Stock (Note 16)	**Additional Paid-in Capital**	**Equity Reserve**	**Employee Stock Purchase Plan** (Note 16)	**Unrealized Fair Value Gains (Losses) on Financial Assets at *FVOCI*** (Note 11)	**Remeasure-ment Adjustments on Retirement and Other Post-Employment Liabilities** (Note 26)	**Share in Remeasure-ment Adjustments on Associates' Retirement Liabilities** (Note 8)	**Cumulative Translation Adjustments of Associates** (Note 8)	**Cumulative Translation Adjustments of Subsidiaries**	**Treasury Shares** (Note 16)	**Retained Earnings** (Note 16)	**Equity Attributable to Equity Holders of the Parent**	**Non-controlling Interests** (Note 6)	**Total Equity**
	(Amounts in millions)													
At January 1, 2020	₱11,273	₱4,111	(₱116)	₱1,049	₱227	(₱193)	(₱12)	₱762	₱32	(₱11)	₱67,108	₱84,230	₱1,011	₱85,241
Net income	–	–	–	–	–	–	–	–	–	–	16,316	16,316	(167)	16,149
Other comprehensive income (loss)	–	–	–	–	97	(3,629)	(1)	(756)	(10)	–	–	(4,299)	–	(4,299)
Total comprehensive income (loss)	–	–	–	–	97	(3,629)	(1)	(756)	(10)	–	16,316	12,017	(167)	11,850
Dividends	–	–	–	–	–	–	–	–	–	–	(17,010)	(17,010)	644	(16,366)
Others	–	–	–	–	–	–	–	–	–	–	–	–	6	6
	–	–	–	–	–	–	–	–	–	–	(17,010)	(17,010)	650	(16,360)
At December 31, 2020	₱11,273	₱4,111	(₱116)	₱1,049	₱324	(₱3,822)	(₱13)	₱6	₱22	(₱11)	₱66,414	₱79,237	₱1,494	₱80,731

See accompanying Notes to Consolidated Financial Statements.

MANILA ELECTRIC COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Note	Years Ended December 31		
		2022	2021	2020
			(Amounts in millions)	
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax		**₱35,236**	₱32,995	₱22,415
Adjustments for:				
Provision for probable losses and expenses from claims – net	*2 and 29*	**(15,022)**	7,951	14,473
Depreciation and amortization	*7, 9 and 10*	**16,031**	12,499	8,555
Interest and other financial charges	*17, 18 and 21*	**3,754**	3,728	1,594
Interest and other financial income	*11 and12*	**(2,063)**	(2,197)	(2,323)
Equity in net earnings of associates and joint ventures	*8*	**(12,035)**	(3,127)	(1,233)
Impairment losses		**2,601**	–	–
Provision for expected credit losses ("*ECL*")		**2,548**	557	1,827
Others		**(592)**	12	(151)
Operating income before working capital changes		**30,458**	52,418	45,157
Decrease (increase) in:				
Trade and other receivables		**(15,083)**	11,127	(27,922)
Inventories		**(812)**	(2,136)	(926)
Financial and other current assets		**(4,100)**	(2,573)	184
Increase (decrease) in:				
Trade payables and other current liabilities		**18,253**	(12,832)	18,215
Customers' deposits		**1,143**	1,244	1,282
Customers' refund		**(24)**	(20)	(83)
Long-term employee benefits		**(1,336)**	2,855	1,573
Cash generated from operations		**28,499**	50,083	37,480
Income tax paid		**(3,317)**	(6,902)	(7,608)
Net cash flows provided by operating activities		**25,182**	43,181	29,872
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition of Global Business Power Corporation ("*GBPC*") – net of *GBPC*'s cash upon acquisition	*3*	**–**	(16,476)	–
Additions to:				
Debt securities at amortized cost	*11*	**(18,587)**	(23,115)	(15,949)
Financial assets at *FVOCI*	*11*	**(26,267)**	(42,458)	(92,057)
Utility plant, generation plant and others	*7*	**(33,663)**	(26,260)	(19,662)
Intangible assets	*10*	**(8,533)**	(976)	(896)
Investments in associates and interests in joint ventures	*8*	**(504)**	(992)	(466)
Short-term investments		**(2,784)**	(435)	(5,472)
Investment properties	*9*	**(3)**	(1)	–
Proceeds from maturity of:				
Financial assets at *FVOCI*		**30,396**	43,070	85,268
Debt securities at amortized cost		**22,707**	14,059	23,999
Short-term investments		**3,025**	–	23,680
Interest and other financial income received		**2,033**	2,184	2,657
Proceeds from disposal of utility plant, generation plant and others		**914**	161	353
Dividends received from associates and joint ventures		**4,039**	1,778	475
Increase (decrease) in minority interests		**4,164**	(1,364)	651
Decrease in financial and other noncurrent assets		**982**	1,358	195
Net cash provided by (used in) investing activities		**(22,081)**	(49,467)	2,776

(Forward)

	Note	Years Ended December 31		
		2022	2021	2020
			(Amounts in millions)	
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from availment of:				
Interest-bearing long-term financial liabilities	*17*	**₱32,507**	₱24,513	₱2,578
Notes payable	*21*	**2,920**	22,880	179
Payments of:				
Notes payable		**(2,263)**	(17,419)	(199)
Dividends	*16*	**(16,890)**	(13,748)	(16,796)
Interest-bearing long-term financial liabilities	*17*	**(18,679)**	(7,388)	(3,669)
Interest and other financial charges		**(241)**	(215)	(1,446)
Proceeds from disposal of non-controlling interests		**6**	–	–
Increase (decrease) in other noncurrent liabilities		**367**	2,238	(938)
Net cash provided by (used in) financing activities		**(2,273)**	10,861	(20,291)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**825**	4,575	12,357
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**55,007**	50,912	38,262
NET UNREALIZED FOREIGN EXCHANGE LOSSES (GAINS)		**–**	(480)	293
CASH AND CASH EQUIVALENTS AT END OF YEAR	*12*	**₱55,832**	₱55,007	₱50,912

See accompanying Notes to Consolidated Financial Statements.

1. Corporate Information

The businesses of Manila Electric Company ("*MERALCO*") and its subsidiaries (the "*MERALCO Group*") consist of the unregulated and regulated segments of the energy supply chain; engineering design services; construction and consulting services; payment fulfilment and bills collection services; after-the-meter and energy management services; and telecommunication and information technology services.

The regulated and unregulated segments of the energy supply chain of the *MERALCO Group* consist of electricity distribution, power generation, retail electricity supply, and management of electric distribution facilities.

As a distribution utility ("*DU*"), *MERALCO* holds a 25-year congressional franchise under Republic Act ("*RA*") No. 9209 valid through June 28, 2028 to construct, operate, and maintain the electric distribution system in the cities and municipalities of Bulacan, Cavite, Metro Manila, and Rizal and certain cities, municipalities and barangays in the provinces of Batangas, Laguna, Pampanga, and Quezon. The Energy Regulatory Commission ("*ERC*") granted *MERALCO* a consolidated Certificate of Public Convenience and Necessity ("*CPCN*") for the operation of electric service within its franchise area, which shall be valid within the franchise period.

Clark Electric Distribution Corporation ("*Clark Electric*"), a 65%-owned subsidiary of *MERALCO* is a registered private distribution utility with a franchise granted by Clark Development Corporation ("*CDC*") to own, operate and maintain the electric distribution system within the Clark Freeport Zone and the sub-zones. The *Clark Electric* franchise is valid through October 2047.

Through a 60% owned subsidiary, Shin Clark Power Holdings, Inc. ("*Shin Clark*"), *MERALCO* together with a consortium, composed of Axia Power Holdings Philippines Corporation (a wholly-owned subsidiary of Marubeni Corporation), KPIC Netherlands BV [a wholly-owned subsidiary of the Kansai Electric Power, Inc. ("*Kansai*")], and Chubu Electric Power Co., Inc. ("*Chubu*"), hold a 90% interest in Shin Clark Power Corporation ("*Shin Clark Power")*. *Shin Clark Power* is a company formed with Bases Conversion and Development Authority ("*BCDA*") through a 25-year joint venture agreement to provide electricity distribution services within the New Clark City ("*NCC*"). *NCC* consists of a 9,450 hectare development within the Clark Special Economic Zone located in Capas and Bamban towns in the Tarlac province.

MERALCO also manages the electric distribution facilities of Pampanga Electric Cooperative II ("*PELCO II*") through Comstech Integration Alliance, Inc. ("*Comstech*") under a 25-year Investment Management Contract ("*IMC*") and that of the Cavite Economic Zone ("*CEZ*") under a 25-year concession agreement with Philippine Economic Zone Authority ("*PEZA*").

MERALCO Group's participation in retail electricity supply ("*RES*") is directly through the local *RES* units, *MPower* and *Cogent Energy,* and indirectly through affiliate *RES* entities, Vantage Energy Solutions and Management, Inc. ("*Vantage*"), MeridianX Inc. ("*MeridianX*"), Phoenix Power Solutions, Inc. ("*Phoenix Power*") and Global Energy Supply Corporation ("*GESC*"). Clarion Energy Management Inc. ("*Clarion*"), a wholly owned subsidiary of *Clark Electric,* is awaiting issuance of license by the *ERC*.

MERALCO PowerGen Corporation ("*MGen*") is *MERALCO*'s power generation investment vehicle. Global Business Power Corporation ("*GBPC*"), which has 970 *MW* of coal and diesel capacities, is a wholly owned subsidiary of *MGen.* Through MGen Renewable Energy, Inc. ("*MGreen*"), *MGen* has 80 *MW*dc/50 *MWac* utility scale solar facility in San Miguel, Bulacan and is in the process of developing 143 *MWac* of renewable power plants. *MGen* also holds a 58% interest in PacificLight Power Pte Ltd. ("*PacificLight Power*"), which owns and operates a 2 x 400 MW liquefied natural gas plant in Jurong Island, Singapore.

MERALCO's related businesses include engineering, design, construction and consulting services, bill collection services, distribution and energy management services, development, leasing and management of communication towers and infrastructure, and communication, information system and technology services.

MERALCO is owned directly by two (2) major shareholder groups, Metro Pacific Investments Corporation ("*Metro Pacific*") and JG Summit Holdings, Inc. ("*JG Summit*"). As at December 31, 2022, *Metro Pacific* has combined direct equity interests in *MERALCO* and indirect ownership through its wholly owned subsidiary, Beacon Electric Asset Holdings, Inc. *Metro Pacific*'s combined direct and indirect ownership interests in *MERALCO* totaled 47.46% while *JG Summit* has 26.37% direct ownership interest in *MERALCO.* First Philippine Holdings Corporation ("*First Holdings*") and First Philippine Utilities Corporation have a combined direct equity ownership of 3.95% in *MERALCO.* The balance of *MERALCO*'s common shares is held by institutional investors and the public.

The shares of *MERALCO* are listed and traded in the Philippine Stock Exchange ("*PSE*") with ticker symbol, *MER.*

The registered office address of *MERALCO* is Lopez Building, Ortigas Avenue, Barangay Ugong, Pasig City, Metro Manila, Philippines.

The consolidated financial statements were approved and authorized for issue by the *BOD* on February 27, 2023.

2. Rate Regulations

As distribution utilities ("*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 and business taxes as modified by Rules on Recovery of Pass-Through Taxes (Real Property, Local Franchise, and Business Taxes) of Distribution Utilities; and [ii] the "Rules for the Setting of Distribution Wheeling Rates" ("*RDWR*"), as modified, which govern the determination of *MERALCO*'s distribution, supply, and metering charges.

The following is a discussion of matters related to rate-setting of *MERALCO* and *Clark Electric*:

Performance-Based Regulations ("*PBR*")

MERALCO

MERALCO is among the Group A entrants to the *PBR*, together with two (2) other private *DU*s.

Rate-setting under *PBR* is governed by the *RDWR*. Under *PBR*, tariffs are set once every Regulatory Period ("*RP*") based on a rate setting framework which includes the regulatory asset base ("*RAB*") of each *DU*, and the required operating and capital expenditures to meet operational performance and service level requirements responsive to the need for adequate, reliable and quality power, efficient service, and growth of all customer classes in the franchise area as approved by the *ERC. PBR* also employs a mechanism that penalizes or rewards a *DU* depending on its network and service performance.

Rate filings and settings are done on a *RP* basis. One (1) *RP* consists of four (4) Regulatory Years ("*RY*s"). A *RY* for *MERALCO* begins on July 1 and ends on June 30 of the following year.

Maximum Average Price ("MAP") for the 3rd RP

After rate setting process for a *RP*, *MERALCO* goes through a rate verification process to set the *MAP* for each *RY* within the *RP*. In each of *RY*s 2012, 2013, 2014 and 2015, *MERALCO* filed for the respective *MAP* with the *ERC*. The *ERC* provisionally approved the *MAP*s for each of the *RY*.

On April 29, 2022, *MERALCO* received an Order from the *ERC* dated March 8, 2022, which resolved the true-up value of *MERALCO*'s regulatory asset base for the 3rd *RP*. On such basis, the *ERC* adjusted the *MAP*s for *RY*s 2012, 2013, 2014 and 2015. The *ERC* then granted interim relief, which among other things, directed *MERALCO* to implement the refund of ₱7.8 billion or equivalent to ₱0.2583 per *kWh*. *MERALCO* implemented the refund beginning its May 2022 billing. In a Decision dated June 10, 2022, the interim approval of the *ERC* was rendered permanent and *MERALCO* was directed to continue implementing the refund. As at December 31, 2022, the amount has been fully refunded.

Interim Average Rate beginning RY 2016

On July 10, 2015, the *ERC* provisionally approved an interim average rate ("*IAR*") of ₱1.3810 per *kWh* (excluding efficiency adjustment) and the rate translation per customer class, which was reflected in the customer bills starting July 2015.

In a letter dated July 4, 2019, the *ERC* authorized the continued implementation of the interim average rate but directed *MERALCO*, as well as other *DU*s, to refund any remaining amount pertaining to regulatory reset costs for the previous *RP*s.

On July 13, 2022, *MERALCO* received the June 16, 2022 Decision of the *ERC* which approved a revised and final *IAR* of ₱1.3522 per *kWh* as the final distribution rate for the period from July 1, 2015 to June 30, 2022. The *ERC* likewise approved the corresponding distribution rate structure based thereon. *MERALCO* was authorized to continue implementing the *ERC*-approved *IAR* of ₱1.3522 per *kWh* until otherwise directed. *MERALCO* implemented the Decision beginning its August 2022 billing.

MERALCO recognized provisions for any resulting over-recoveries. The movements in and the balance of the "Other noncurrent liabilities" and "provision for probable losses and expenses from claims" accounts in the consolidated statements of financial position and "consolidated statements of income" include these provisions, consistent with the limited disclosure as allowed in Philippine Financial Reporting Standards ("*PFRS*s") as it may prejudice the position of *MERALCO*.

Distribution Rate True-Up ("DRTU") Applications

On January 27, 2021, the *ERC* approved *MERALCO*'s application to refund to its customers ₱13,886 million of over-recoveries (*DRTU* 1) representing the difference between the Actual Weighted Average Tariff ("*AWAT*") for the period July 1, 2015 to November 2020 and the then *IAR* of ₱1.3810 per *kWh*, as provisionally approved by the *ERC* on July 10, 2015.

Thereafter, there were three (3) other *DRTU* refunds ordered: (a) *DRTU* 2 totaling ₱4,837 million representing the difference between the *AWAT* for the period December 2020 to December 2021 and the then IAR of ₱1.3810 per *kWh*; (b) *DRTU* 3 of ₱7,755 million related to 3*RP* asset true-up adjustments; and (c) *DRTU* 4 amounting to ₱21,769 million based on *ERC* approved revised and final *IAR* of ₱1.3522 per *kWh*.

MERALCO implemented the foregoing refunds. As at December 31, 2022, a total of ₱38.3 billion have been credited to the bills of customers.

As at December 31, 2022, the outstanding balance of *DRTU* for refund amounted to ₱9,581 million, presented as part of "Provisions" under "Trade payables and other current liabilities" account in the consolidated statement of financial position.

CAPEX for 4th RP, RY 2020 *to RY* 2022

Absent the final rules governing the 4th *RP* and 5th *RP* rate setting, *MERALCO* filed its applications for approval of authority to implement its *CAPEX* program for each of the *RY*s beginning July 1, 2015. This is consistent with the provisions of Section 20(b) of Commonwealth Act No. 146, as amended, otherwise known as the Public Service Act.

Except with respect to partial approval by the *ERC* of the *RY* 2016 *CAPEX* amounting to ₱15,466 million and provisional authority granted by the *ERC* to implement certain projects for *RY* 2017 amounting to ₱8,758 million, all other applications remain pending with the *ERC*. As at February 27, 2023, *MERALCO* is awaiting the final resolution of the *ERC*.

Pending *ERC*'s approval, *MERALCO* manifested several projects as "urgent" or "emergency in nature" and proceeded with the implementation of said *CAPEX*.

Regulatory Reset Process Application

On March 16, 2022, *MERALCO* filed its application for the approval of its annual revenue requirement and performance incentive scheme for the 5th *RP* (July 1, 2022 to June 30, 2026) based on *ERC*-promulgated *RDWR*. As at February 27, 2023, hearings on the case are ongoing.

Clark Electric

Clark Electric is among the four (4) Group D entrants to the *PBR*. Similar to *MERALCO*, it is subject to operational performance and service level requirements approved by the *ERC*. The *RY* for *Clark Electric* begins on October 1 and ends on September 30 of the following year.

3rd and 4th RP PBR Reset for Clark Electric

Pending the issuance by the *ERC* of the final rules to govern the 3rd and 4th *RPs* of Group D entrants, *Clark Electric* continued to bill its customers using the last approved *MAP* for *RY* 2015. Similarly, *Clark Electric* filed and manifested as urgent its *CAPEX* requirements with the *ERC* to be able to implement such projects immediately.

As at February 27, 2023, the applications remain pending with the *ERC*.

Clark Electric recognized provisions for any resulting over-recoveries. The movements in and the balance of the "Other noncurrent liabilities" and "provision for probable losses and expenses from claims" accounts in the consolidated statements of financial position and "consolidated statements of income" include these provisions, consistent with the limited disclosure as allowed in Philippine Financial Reporting Standards ("PFRSs") as it may prejudice the position of *Clark Electric*.

Supreme Court ("*SC*") *Decision on Unbundling Rate Case*

On May 30, 2003, the *ERC* issued an Order approving *MERALCO*'s unbundled tariffs that resulted in a total increase of ₱0.17 per *kWh* over the May 2003 tariff levels. However, on August 4, 2003, *MERALCO* received a Petition for Review of the *ERC*'s ruling filed by certain consumer and civil society groups before the Court of Appeals ("*CA*"). On July 22, 2004, the *CA* set aside the *ERC*'s ruling on *MERALCO*'s rate unbundling and remanded the case to the *ERC.* Further, the *CA* opined that the *ERC* should have asked the Commission on Audit ("*COA*") to audit the books of *MERALCO.* The *ERC* and *MERALCO* subsequently filed separate motions asking the *CA* to reconsider its decision. As a result of the denial by the *CA* of the motions on January 24, 2005, the *ERC* and *MERALCO* elevated the case to the *SC*.

In an En Banc decision promulgated on December 6, 2006, the *SC* set aside and reversed the *CA* ruling saying that a *COA* audit was not a prerequisite in the determination of a utility's rates. However, while the *SC* affirmed *ERC*'s authority in rate-fixing, the *SC* directed the *ERC* to request *COA*'s assistance to undertake a complete audit of the books, records and accounts of *MERALCO*. In compliance with the directive of the *SC*, the *ERC* requested *COA* to conduct an audit of the books, records and accounts of *MERALCO* using calendar years 2004 and 2007 as test years.

The *COA* audit, which began in September 2008, was completed with the submission to the *ERC* of its report on November 12, 2009.

On February 15, 2010, the *ERC* issued its Order directing *MERALCO* and all intervenors in the case to submit, within 15 days from receipt of the Order, their respective comments on the *COA* report.

On June 21, 2011, the *ERC* maintained and affirmed its findings and conclusions in its Decision dated March 20, 2003 and Order dated May 30, 2003. The *ERC* stated that the *COA* recommendation to apply disallowances under *PBR* to rate unbundling violates the principle against retroactive rate-making. An intervenor group filed a *MR* of the said Order. On September 5, 2011, *MERALCO* filed its comment on the intervenor's *MR*. On February 4, 2013, the *ERC* denied the intervenor's *MR*. The intervenor filed a Petition for Review before the *CA* and *MERALCO* filed its comment thereon on May 29, 2014. In compliance with the *CA*'s directive, *MERALCO* filed its Memorandum in August 2015. In a Resolution dated September 29, 2015, the *CA* declared the case submitted for decision. In a Decision dated February 29, 2016, the *CA* dismissed the Petition for Review and affirmed the orders dated June 21, 2011 and February 4, 2013 of the *ERC*.

On March 22, 2016, the intervenors filed a *MR* on the *CA* Decision dated February 29, 2016. The same was denied by the *CA* through a Resolution dated August 8, 2016.

On October 11, 2016, *MERALCO* received a Petition for Review on Certiorari filed by the intervenors before the *SC* appealing the dismissal of its Petition. *MERALCO*, *COA* and the *ERC* have filed their respective comments to the Petition. On June 22, 2017, *MERALCO* received the Motion for Leave to Intervene and Admit Comment-in-Intervention filed by other *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 from finality of the Decision, (1) the valuation of the *RAB* of *MERALCO*; and (2) the parameters whether expenses that are not directly and entirely related to the operation of a *DU* shall be passed on wholly or partially to consumers.

MERALCO, the other *DU*s and the *ERC* filed their respective motions for reconsideration which are pending before the *SC*. Two (2) new *DU*s filed their respective motions for leave to intervene and to file their motions for reconsideration. As at February 27, 2023, the case is pending before the *SC*.

Applications for the Confirmation of Under- or Over-recoveries of Pass-through Charges

MERALCO

The *ERC* issued resolutions to govern the recovery of pass-through costs, including under- or over-recoveries with respect to the following bill components: generation charge, transmission charge, *SL* charge, lifeline and inter-class rate subsidies, senior citizen discounts, local franchise and business taxes, including the timelines for *DU*s to file their respective application and post-verification.

On various dates, the *ERC* provisionally approved *MERALCO*'s applications for net over-recoveries of generation, transmission, net lifeline subsidy, *SL* and net senior citizens discount totalling ₱657.4 million (February 2011 to October 2013) and ₱6,927 million (January 2014 to December 2016). As at February 27, 2023, hearings covering the provisional approval are still ongoing.

Separately, *MERALCO* also filed for recovery of net under-recoveries of generation charge for special programs of ₱250.7 million, excluding carrying charges, covering the period March 2007 to December 2011. As at February 27, 2023, the *ERC* has not acted on such application.

Further, on September 1, 2020, *MERALCO* filed an application with the *ERC* to confirm its net generation charge under-recoveries of ₱2,382 million, net transmission charge over-recoveries of

₱440 million, net lifeline subsidy over-recoveries of ₱31 million, net *SL* over-recoveries of ₱971 million, and net senior citizen discount over-recoveries of ₱3 million from January 2017 to December 2019. In an Order dated December 16, 2020, the *ERC* granted interim relief to implement the refund/collection. *MERALCO* started implementation of the Order in its January 2021 billing. Hearings have been completed on January 21, 2021.

Clark Electric

Clark Electric filed an application for the approval of the calculations for the Automatic Cost Adjustment and True-up Mechanism for generation, transmission and system loss rates on April 1, 2014 covering the period January 2011 to December 2013 in conformity with *ERC* resolutions. After a Clarificatory Meeting with the *ERC, Clark Electric* filed a Manifestation for the implementation of the January 2017 *ERC* Decision starting in its March 2022 billing. Refund is ongoing.

Clark Electric also completed *ERC* orders to refund/collect over- and under-recoveries related to generation, transmission, system loss charges covering the years 2014 to 2019.

Application for Approval of the Staggered Recovery and Payment of the Differential Generation Charge for February 2017 Supply

On January 31, 2017, *MERALCO* filed an Application seeking the *ERC*'s approval of the staggered recovery and payment scheme for the generation charge for the February 2017 supply month to mitigate the impact of scheduled outages and maintenance of certain generation power plants. On March 6, 2017, the *ERC* provisionally approved the recovery of the incremental fuel cost through a staggered scheme. The incremental fuel cost was included in the March 2017 until May 2017 billings to customers. As at February 27, 2023, the *ERC* has not issued its decision.

Application for the Recovery of Differential Generation Costs

On February 17, 2014, *MERALCO* filed for the recovery of the unbilled generation costs for December 2013 supply month amounting to ₱11,075 million. An amended application was filed on March 25, 2014 to adjust the unbilled generation costs for recovery to ₱1,310 million, following the receipt of the Wholesale Electricity Spot Market ("*WESM*") billing adjustments based on regulated Luzon *WESM* prices. The first hearing was conducted on May 26, 2014. The *ERC* suspended the proceedings, pending resolution of issues of related cases at the *SC* involving generation costs for the November and December 2013 supply months and the regulated *WESM* prices for the said period. As at February 27, 2023, the proceedings remain suspended and *MERALCO* is awaiting further action of the *ERC* on this matter. However, the *SC* issued a Decision dated August 3, 2021 which voided the March 3, 2014 Order of the *ERC* which imposed regulated *WESM* prices for the November and December 2013 supply months. The Decision is now final and executory with the issuance by the *SC* of its Resolution dated October 11, 2022 which denied the motions for reconsideration filed by the *ERC* and the petitioners.

Deferred Purchase Price Adjustment

On October 12, 2009, the *ERC* released its findings on *MERALCO*'s implementation of the collection of the approved pass-through cost under-recoveries for the period June 2003 to January 2007. The *ERC* directed *MERALCO* to refund to its customers ₱268 million of deferred purchased power adjustment ("*PPA*") transmission line costs related to Quezon Power (Philippines) Limited Company ("*QPPL*") and deferred accounting adjustments incurred along with ₱184 million in carrying charges, or an equivalent ₱0.0169 per *kWh*. *MERALCO* implemented the refund beginning November 2009

until September 2010. However, the *ERC* has yet to rule on *MERALCO*'s deferred *PPA* under-recoveries of ₱106 million, which is not a transmission line fee. On November 4, 2009, *MERALCO* filed an *MR* with the *ERC*. As at February 27, 2023, the *MR* is still pending resolution by the *ERC.*

Applications for Recovery of Local Franchise Tax ("LFT")

MERALCO has filed distinct applications with request for provisional authority to implement new *LFT* rates based on Ordinances from the cities of Manila, Quezon, Binan, Makati, Valenzuela, Taguig and Pasig. Some hearings have been completed and are awaiting final approval. Applications for recovery of taxes paid have been filed and pending decision of the *ERC*.

SC Decision on the ₱0.167 per kWh Refund

Following the *SC*'s final ruling that directed *MERALCO* to refund affected customers ₱0.167 per *kWh* for billings made from February 1994 to April 2003, the *ERC* approved the release of the refund in four (4) phases. On December 18, 2015, *MERALCO* filed a Motion seeking the *ERC*'s approval for the continuation of the implementation of the refund to eligible accounts or customers under Phases I to IV, three (3) years from January 1, 2016 or until December 31, 2018. In said Motion, *MERALCO* likewise manifested to the *ERC* that, in order to give eligible customers, the opportunity to claim their refund, and, so as not to disrupt the *SC* Refund process, *MERALCO* shall continue implementing the refund even after the December 2015 deadline, until and unless the *ERC* directs otherwise. In its Order dated December 18, 2019, the *ERC* granted *MERALCO*'s Motion and authorized *MERALCO* to continue with the implementation of the *SC* Refund to eligible accounts or customers under Phases I to IV until June 30, 2019 and submit a proposed scheme on how the unclaimed refund will be utilized for purposes of reducing the distribution rates of customers. On February 18, 2019, *MERALCO* filed a Partial Compliance with Manifestation and Motion. On March 8, 2019, *MERALCO* filed a Compliance with Manifestation and Motion. On July 12, 2019, *MERALCO* filed its Compliance with Manifestation informing the *ERC* that on July 1, 2019, *MERALCO* deposited all the unclaimed amounts of the *SC* Refund as of June 30, 2019 in a separate bank account. *MERALCO* further manifested in said Compliance that it shall continue with the processing of the refund claims of eligible customers and should the refund claims of these customers be evaluated to be valid, *MERALCO* shall, for the benefit of the customers, withdraw the refund amount from the bank account, release the same to the concerned customers and accordingly inform the *ERC* of the refunds paid. On September 10, 2019, *MERALCO* filed an Urgent Manifestation and Motion with respect to the Order dated December 19, 2018 of the *ERC*. The *ERC* has yet to rule on the Urgent Manifestation and Motion by *MERALCO*. In its letter dated July 23, 2020, *MERALCO* informed the *ERC* of the updated balance of the *SC* Refund. As at February 27, 2023, *MERALCO* continues to process the refund claims of eligible customers.

In a letter dated February 3, 2021, the *ERC* informed *MERALCO* that it will be undertaking an audit and verification of *MERALCO*'s refunds, which included *MERALCO*'s *SC* refund. The audit has been completed and as at February 27, 2023, *MERALCO* is awaiting further action of the *ERC* on the matter.

See Note 20 – Customers' Refund.

Violation of the ERC's Advisories during the Enhanced Community Quarantine ("ECQ") and Modified ECQ

In a Decision dated August 20, 2020, the *ERC* imposed a ₱19 million fine on *MERALCO* for alleged violation of the following *ERC*'s directives: (1) failure to clearly indicate that the bills were estimated; and (2) failure to comply with the mandated installment payment arrangement.

In addition, the *ERC* also directed *MERALCO* to set to zero the distribution, supply, and metering ("*DSM*") charges of lifeline consumers whose monthly energy consumption do not exceed 100 *kWh* for one (1) month billing cycle effective in the next billing cycle immediately upon receipt of the *ERC* Decision. The cost of the discount shall not be charged to the non-lifeline consumers.

On September 11, 2020, *MERALCO* filed its Motion for Partial Reconsideration with respect to the directive to set to zero the *DSM* charges of lifeline consumers. On the same date, *MERALCO* also paid the ₱19 million fine imposed by the *ERC*. As at February 27, 2023, the Motion for Partial Reconsideration remains pending with the *ERC*. However, *MERALCO* implemented the directive to set to zero the *DSM* charges of lifeline consumers in its October 2020 billing subject to the resolution of its Motion for Partial Reconsideration.

3. Basis of Preparation and Statement of Compliance

Basis of Preparation

The accompanying consolidated financial statements have been prepared on a historical cost basis, except for *MERALCO*'s utility plant and others and investment properties acquired before January 1, 2004, which are carried at deemed cost; and fair value through other comprehensive income ("*FVOCI*") financial assets, which are measured at fair value.

All values are rounded to the nearest million peso, except when otherwise indicated.

Statement of Compliance

The consolidated financial statements of *MERALCO* and its subsidiaries have been prepared in compliance with *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:

Subsidiaries	Place of Incorporation	Principal Business Activity	**2022** Percentage of Ownership Direct	**2022** Percentage of Ownership Indirect	2021 Percentage of Ownership Direct	2021 Percentage of Ownership 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*")	Philippines	Bills payment collection	**–**	**95**	–	95
Meralco Energy, Inc. ("*MServ*")	Philippines	Energy systems management	**100**	**–**	100	–
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[1]	Philippines	Power generation	**–**	**100**	–	100
Atimonan Land Ventures Development Corporation	Philippines	Real estate	**–**	**100**	–	100
Atimonan One Energy, Inc. ("*A1E*") [2]	Philippines	Power generation	**–**	**100**	–	100
MPG Holdings Phils., Inc.	Philippines	Holding company	**–**	**100**	–	100
MPG Asia Limited ("*MPG Asia*")	British Virgin Islands	Holding company	**–**	**100**	–	100
Solvre, Inc. [1]	Philippines	Retail electricity supplier	**–**	**100**	–	100
MGen Renewable Energy, Inc. ("*MGreen*")	Philippines	Renewable energy	**–**	**100**	–	100
LagunaSol Corporation ("*LagunaSol*") [1]	Philippines	Renewable energy	**–**	**100**	–	100
Nortesol III Inc. ("*NorteSol*") [1]	Philippines	Renewable energy	**–**	**70**	–	70
Powersource First Bulacan Solar, Inc. ("*First Bulacan*")	Philippines	Renewable energy	**–**	**60**	–	60
Greentech Solar Energy, Inc. *("GSEI")*	Philippines	Renewable energy	**–**	**100**	–	100
CACI Power Corporation	Philippines	Power generation	**–**	**60**	–	60
PH Renewables Inc. ("*PHRI*")	Philippines	Power generation	**–**	**60**	–	60
Greenergy For Global Inc. ("*Greenergy*")	Philippines	Renewable energy	**–**	**57**	–	28
GBPC	Philippines	Holding company	**–**	**100**	–	100
ARB Power Ventures, Inc.	Philippines	Holding company	**–**	**100**	–	100
Toledo Power Company ("*TPC*")	Philippines	Power generation	**–**	**100**	–	100
Toledo Holdings Corporation	Philippines	Real estate		**100**		100
Global Trade Energy Resources Corp.	Philippines	Trading of coal	**–**	**100**	–	100
Panay Power Holdings Corporation	Philippines	Holding company	**–**	**89**	–	89
Panay Energy Development Corporation ("*PEDC*")	Philippines	Power generation	**–**	**89**	–	89
Panay Power Corporation	Philippines	Power generation		**89**		89
GBH Power Resources, Inc.	Philippines	Power generation	**–**	**100**	–	100
Global Formosa Power Holdings, Inc.	Philippines	Holding company	**–**	**93**	–	93
Cebu Energy Development Corporation ("*CEDC*")	Philippines	Power generation	**–**	**52**	–	52
GESC	Philippines	Retail electricity supplier	**–**	**100**	–	100
Mindanao Energy Development Corporation	Philippines	Power generation	**–**	**100**	–	100
Global Hydro Power Corporation	Philippines	Power generation	**–**	**100**	–	100
Global Luzon Energy Development Corporation ("*GLEDC*")	Philippines	Power generation	**–**	**57**	–	57
Lunar Power Core, Inc.	Philippines	Holding company	**–**	**57**	–	57
Global Renewable Power Corporation	Philippines	Renewable energy	**–**	**100**	–	100

(*Forward*)

Subsidiaries	Place of Incorporation	Principal Business Activity	**2022** Percentage of Ownership Direct	**2022** Indirect	2021 Direct	2021 Indirect
MSpectrum, Inc. (“*Spectrum*”)	Philippines	Renewable energy	**100**	**–**	100	–
Vantage	Philippines	Retail electricity supplier	**100**	**–**	100	–
Meralco Financial Services Corporation (“*Finserve*”)	Philippines	Property management and leasing	**100**	**–**	100	–
Lighthouse Overseas Insurance Limited (“*LOIL*”)	Bermuda	Insurance	**100**	**–**	100	–
MRAIL, Inc. (“*MRail*”)	Philippines	Engineering, construction and maintenance of mass transit system	**100**	**–**	100	–
eSakay, Inc. (“*eSakay*”)	Philippines	Maintenance and operation of transport service networks	**100**	**–**	100	–
MIESCOR[2]	Philippines	Engineering, construction and consulting services	**100**	**–**	99	–
Miescor Builders Inc. (“*MBI*”)	Philippines	Electric transmission and distribution operation and maintenance services	**–**	**100**	–	99
Miescor Logistics Inc. (“*MLI*”)	Philippines	General services, manpower/maintenance	**–**	**100**	–	99
Miescor Infrastructure Development Corporation (“*MIDC*”)[3]	Philippines	Construction and leasing of communication towers and other infrastructure	**–**	**51**	–	99
Clark Electric	Philippines	Power distribution	**65**	**–**	65	–
Clarion Energy Management Inc. (“*Clarion*”)[1]	Philippines	Retail electricity supplier	**–**	**65**	–	65
Comstech	Philippines	Management of power distribution	**60**	**–**	60	–
MeridianX Inc.	Philippines	Retail electricity supplier	**–**	**60**	–	60
Meridian Power Ventures Limited (“*MPV Limited*”)[1]	Hongkong	Investment holdings	**100**	**–**	100	–
Shin Clark	Philippines	Holding company	**60**	**–**	60	–
Shin Clark Power	Philippines	Power distribution	**–**	**54**	–	–
Phoenix Power[1]	Philippines	Retail electricity supplier	**100**	**–**	100	–

[1] *Has not started commercial operations.*
[2] *MIESCOR Retirement Fund has less than 1% equity interest in MIESCOR.*
[3] *On April 8, 2022, MIESCOR signed a 51%-49% joint venture agreement with Connect Infrastructure (Philippines) Pte. Limited, to develop a common tower business and use MIDC as the vehicle.*

The *MERALCO Group* controls an investee if and only if it has (a) power over the investee; (b) exposure, or rights, to variable returns from its involvement with the investee; and (c) the ability to use its power over the investee to affect its returns.

When the *MERALCO Group* has less than majority of the voting or similar rights of an investee, it considers all relevant facts and circumstances in assessing whether it has power over an investee, including (a) the contractual arrangement with the other vote holders of the investee; (b) rights arising from other contractual arrangements; and (c) the *MERALCO Group*’s voting rights and potential voting rights.

The *MERALCO Group* re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one (1) or more of the three (3) elements of control. Consolidation of a subsidiary begins when the *MERALCO Group* obtains control over the subsidiary and ceases when it loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date it gains control until the date it ceases to control the subsidiary.

The consolidated financial statements are prepared using uniform accounting policies for like transactions and other events with similar circumstances. All intra-group balances, income and expenses, unrealized gains and losses and dividends resulting from intra-group transactions are eliminated in full.

Non-controlling interests represent the portion of profit or loss and net assets of subsidiaries not attributed, directly or indirectly, to *MERALCO*.

Non-controlling interests is presented separately in the consolidated statement of income, consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from equity attributable to equity holders of the parent.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if such results in a deficit.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. In transactions where the non-controlling interest is acquired or sold without loss of control, any excess or deficit of consideration paid over the carrying amount of the non-controlling interest is recognized as part of "Equity reserve" account in the equity attributable to the equity holders of the parent.

If the *MERALCO Group* loses control over a subsidiary, it: (a) derecognizes the assets (including goodwill) and liabilities of the subsidiary; (b) derecognizes the carrying amount of any non-controlling interest; (c) derecognizes the cumulative translation adjustments deferred in equity; (d) recognizes the fair value of the consideration received; (e) recognizes the fair value of any investment retained; (f) recognizes any surplus or deficit in profit or loss; and (g) reclassifies *MERALCO*'s share of components previously recognized in the consolidated statement of comprehensive income to the consolidated statement of income.

Business Combination

Effective March 31, 2021, *MGen* has a 100% interest in *GBPC* upon the acquisition of the combined 86% interests of Beacon Powergen Holdings Inc. ("*BPHI*"), a wholly owned subsidiary of *Metro Pacific* and *JG Summit* in *GBPC* to *MGen* for consideration of ₱21,212 million and ₱11,363 million, respectively, net of adjustments in accordance with the terms of the respective Share Purchase Agreements ("*SPA*").

In 2022, *MGen* settled 100% of the total purchase price consideration in accordance with the terms of *SPA*.

The details of the purchase consideration are as follows:

	Amounts In millions
Cash paid	₱19,545
Liability	13,030
Total purchase consideration	₱32,575

The net assets recognized in the December 31, 2021 financial statements were based on a provisional assessment of their fair values while *MERALCO* sought an independent valuation for the land and buildings owned by *GBPC*. The valuation had not been completed on the date the 2021 consolidated financial statements were approved for issue by the *BOD*.

In March 2022, the valuation was completed and the 2021 comparative information was restated to reflect the adjustments to the provisional amounts. The fair values of the assets and liabilities of *GBPC* as at the date of acquisition are as follow (amounts in millions):

	As previously reported	As restated
Generation plant and others	₱47,218	₱46,765
Investment in associates	10,447	10,314
Intangible assets	13,833	13,500
Deferred tax assets	765	682
Cash and cash equivalents	9,584	9,584
Trade and other receivables	5,247	5,247
Inventories	2,197	2,197
Other assets	2,153	3,288
Interest-bearing long-term financial liabilities	(28,323)	(28,323)
Deferred tax liabilities	(5,265)	(5,502)
Retirement benefits liability	(1,055)	(1,055)
Trade and other payables	(7,518)	(7,529)
Other liabilities	(1,932)	(1,932)
Net identifiable assets acquired	47,351	47,236
Less:		
Non-controlling interests	9,474	9,359
Fair value of pre-existing 14% ownership in *GBPC*	5,302	5,302
Net assets acquired	₱32,575	₱32,575

MERALCO elected to measure the non-controlling interest in the acquiree at the proportionate share of its interest in the acquiree's identifiable net assets.

The remeasurement of the fair value of *MGen*'s existing 14% ownership in *GBPC* resulted in a gain of ₱228 million. This amount has been recognized as part of "Other income" account in the 2021 consolidated statement of income.

From the date of acquisition, *GBPC* contributed ₱18,191 million of revenue and ₱306 million net income in *MERALCO Group*'s revenues and net income, respectively, in 2021. If the acquisition had taken place at the beginning of 2021, the *MERALCO Group*'s consolidated revenues and net income would have been ₱323,559 million and ₱24,666 million, respectively.

4. Significant Accounting Policies, Changes and Improvements

Changes in Accounting Policies and Disclosures

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those of previous year except with respect to the adoption of the following new standards and amendments and improvements to existing standards, which were effective beginning January 1, 2022.

Amendments to PFRS 3, Reference to the Conceptual Framework

The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The amendments added an exception to the recognition principle of *PFRS 3*, *Business Combinations* to avoid the issue of potential 'day 2'gains or losses arising for liabilities and contingent liabilities that would be within the scope of *PAS 37*, *Provisions, Contingent Liabilities and Contingent Assets* or Philippine-*IFRIC 21*, *Levies*, if incurred separately.

At the same time, the amendments add a new paragraph to *PFRS 3* to clarify that contingent assets do not qualify for recognition at the acquisition date.

The amendments are effective for annual reporting years beginning on or after January 1, 2022 and apply prospectively. The amendments do not have material effect on the consolidated financial statements of the *MERALCO Group*.

Amendments to PAS 16, Plant and Equipment: Proceeds before Intended Use

The amendments prohibit entities from deducting the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting years beginning on or after January 1, 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest year presented when the entity first applies the amendment.

The amendments do not have impact on the consolidated financial statements of the *MERALCO Group*.

Amendments to PAS 37, Onerous Contracts – Costs of Fulfilling a Contract

The amendments specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting years beginning on or after January 1, 2022. The amendments do not have material impact on the consolidated financial statements of the *MERALCO Group*.

Annual Improvements to PFRSs 2018-2020 Cycle

Amendments to PFRS 1, First-time Adoption of Philippines Financial Reporting Standards, Subsidiary as a first-time adopter

The amendment permits a subsidiary that elects to apply paragraph D16(a) of *PFRS 1* to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to *PFRS.* This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of *PFRS 1*.

The amendment is effective for annual reporting years beginning on or after January 1, 2022 with earlier adoption permitted. The amendments do not have material impact on the consolidated financial statements of the *MERALCO Group*.

Amendments to PFRS 9, Financial Instruments, Fees in the '10 per cent' test for derecognition of financial liabilities

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting year in which the entity first applies the amendment.

The amendment is effective for annual reporting years beginning on or after January 1, 2022 with earlier adoption permitted. The amendments do not have material impact on the consolidated financial statements of the *MERALCO Group*.

Amendments to PAS 41, Agriculture, Taxation in fair value measurements

The amendment removes the requirement in paragraph 22 of *PAS 41* that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of *PAS 41*.

An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting year beginning on or after January 1, 2022 with earlier adoption permitted. The amendments do not have material impact on the consolidated financial statements of the *MERALCO Group.*

Effective beginning on or after January 1, 2023

Amendments to PAS 12, Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The amendments narrow the scope of the initial recognition exception under *PAS 12*, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.

The amendments also clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognized in the financial statements (and interest expense) or to the related asset component (and interest expense).

An entity applies the amendments to transactions that occur on or after the beginning of the earliest comparative year presented for annual reporting periods on or after January 1, 2023. The amendments are not expected to have a material impact on the consolidated financial statements of the *MERALCO Group*.

Amendments to PAS 8, Definition of Accounting Estimates

The amendments introduce a new definition of accounting estimates and clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, the amendments clarify that the effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors.

An entity applies the amendments to changes in accounting policies and changes in accounting estimates that occur on or after January 1, 2023 with earlier adoption permitted. The amendments are not expected to have a material impact on the consolidated financial statements of the *MERALCO Group*.

Amendments to PAS 1 and PFRS Practice Statement 2, Disclosure of Accounting Policies

The amendments provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by:

- Replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies, and
- Adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures

The amendments to the Practice Statement provide non-mandatory guidance. Meanwhile, the amendments to *PAS 1* are effective for annual periods beginning on or after January 1, 2023. Early application is permitted as long as this fact is disclosed. The amendments are not expected to have a material impact on *MERALCO Group*.

Effective beginning on or after January 1, 2024

Amendments to PAS 1, Classification of Liabilities as Current or Non-current

The amendments clarify paragraphs 69 to 76 of *PAS 1*, *Presentation of Financial Statements*, to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting year
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting years beginning on or after January 1, 2024 and must be applied retrospectively.

The *MERALCO Group* is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

Effective beginning on or after January 1, 2025

PFRS 17, Insurance Contracts

a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, *PFRS 17* will replace *PFRS 4*, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

The overall objective of *PFRS 17* is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in *PFRS 4*, which are largely based on grandfathering previous local accounting policies, *PFRS 17* provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of *PFRS 17* is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

On December 15, 2021, the *FRSC* amended the mandatory effective date of *PFRS 17* from January 1, 2023 to January 1, 2025. This is consistent with Circular Letter No. 2020-62 issued by the Insurance Commission which deferred the implementation of *PFRS 17* by two (2) years after its effective date as decided by the *IASB*.

PFRS 17 is effective for reporting periods beginning on or after January 1, 2025, with comparative figures required. Early application is permitted. The *MERALCO Group* is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

Deferred Effectivity

Amendments to PFRS 10, Consolidated Financial Statements, and PAS 28, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between *PFRS 10* and *PAS 28* in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in *PFRS 3*. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

On January 13, 2016, the Financial Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the *IASB* completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

The *MERALCO Group* is currently assessing the impact of adopting the amendments.

Significant Accounting Policies

The principal accounting policies adopted in the preparation of the consolidated financial statements are as follows:

Utility Plant, Generation Plant and Others

Utility plant, generation plant and others, except land, are stated at cost, net of accumulated depreciation, amortization and impairment losses, if any. Costs include the cost of replacing part of such utility plant, generation plant and other properties when such cost is incurred, if the recognition criteria are met. All other repair and maintenance costs are recognized as incurred in the consolidated statement of income. The present value of the expected cost for the decommissioning of the asset after use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Land is stated at cost less any impairment in value.

The *MERALCO Group*'s utility plant, generation plant and others acquired before January 1, 2004 are stated at deemed cost. The revalued amount recorded as at January 1, 2004 was adopted as deemed cost as allowed by the transition provisions of *PFRS 1*. The balance of revaluation increment was closed to the retained earnings account.

See *Note 16 – Equity* for the related discussion.

Depreciation and amortization of utility plant, generation plant and others are computed using the straight-line method over the following estimated useful lives:

Asset Type	Estimated Useful Lives
Subtransmission and distribution	10-40 years, depending on the life of the significant parts
Boilers and powerhouse	3-25 years
Communication towers, buildings and improvements	15-40 years
Data transmission cables and communication equipment	5-15 years
Office furniture, fixtures and other equipment	5-20 years
Transportation equipment	5-10 years
Others	2-20 years

An item of utility plant, generation plant and others is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising as a result of the derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of income in the year the asset is derecognized.

The asset's residual values, useful lives and methods of depreciation and amortization are reviewed, and adjusted prospectively, if appropriate, at each reporting year to ensure that the residual values, periods and methods of depreciation and amortization are consistent with the expected pattern of economic benefits from items of utility plant, generation plant and others.

Construction in Progress

Construction in progress is stated at cost, which includes cost of construction, plant and equipment, capitalized borrowing costs and other direct costs. Construction in progress is not depreciated until such time that the relevant assets are substantially completed and available for their intended use.

Borrowing Costs

Borrowing costs are capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Capitalization of borrowing costs commences when the activities necessary to prepare the qualifying asset for its intended use or sale have been undertaken and expenditures and borrowing costs have been incurred. Borrowing costs are capitalized until the asset is substantially completed and available for its intended use.

Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds, as well as any exchange differences arising from any foreign currency denominated borrowings used to finance the projects, to the extent that they are regarded as an adjustment to interest costs.

All other borrowing costs are expensed as incurred.

Investments in Associates and Interests in Joint Ventures

An associate is an entity where *MERALCO Group* has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but has no control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

Investments in associates and interests in joint ventures are accounted for using the equity method of accounting and are initially recognized at cost.

Under the equity method, the investment in an associate or interest in a joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

If the *MERALCO Group*'s share of losses of an associate or a joint venture equals or exceeds its interest in the associate or joint venture, the *MERALCO Group* discontinues recognizing its share of further losses. The interest in an associate or joint venture is the carrying amount of the investment or joint venture determined using the equity method together with any long-term interest that in substance forms part of the *MERALCO Group*'s net investment in associate or joint venture. After the *MERALCO Group*'s interest is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the *MERALCO Group* has incurred legal or constructive obligation or made payments in behalf of the associate of joint venture. If the associate or joint venture subsequently reports profits, the *MERALCO Group* resumes recognizing its share of their profits only after its share of the profit equals the share of loss not recognized.

The consolidated statement of income reflects the *MERALCO Group*'s share in the results of operations of the associate or joint venture. Any change in the other comprehensive income ("*OCI*") of those investees is presented as part of the *MERALCO Group*'s *OCI*. In addition, when there has been a change recognized directly in the equity of the associate or joint venture, the *MERALCO Group* recognizes its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealized gains and losses resulting from transactions between the *MERALCO Group* and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the *MERALCO Group*'s share in the profit or loss of its associates and joint ventures is shown on the face of the consolidated statement of income and represents profit or loss after tax.

The financial statements of the associate or joint venture are prepared for the same reporting year as the *MERALCO Group*. When necessary, adjustments are made to bring the accounting policies in line with those of the *MERALCO Group*.

After application of the equity method, the *MERALCO Group* determines whether it is necessary to recognize an impairment loss on its investment in associate or interest in joint venture. At each reporting date, the *MERALCO Group* determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the *MERALCO Group* calculates the amount of impairment as the difference between the recoverable amount of the investment in associate or interest in joint venture and its carrying value, then recognizes the loss as part of equity in net earnings of an associate or a joint venture in the consolidated statement of income.

Upon loss of significant influence over the associate or joint control over the joint venture, the *MERALCO Group* measures and recognizes any remaining investment at its fair value. Any difference between the carrying amount of the investment in associate or interest in joint venture upon loss of significant influence or joint control and the fair value of the remaining investment and proceeds from disposal is recognized in profit or loss.

Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition-date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the *MERALCO Group* elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs in a business combination are recognized as expense.

When a business is acquired, an assessment is made of the identifiable assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic and other pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquirer's previously held equity interest in the acquiree is remeasured at fair value as at acquisition date and any resulting gain or loss is recognized in profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration, which is deemed to be an asset or liability will be recognized in accordance with *PFRS 9* in profit or loss. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred, any non-controlling interest in the acquiree and, in a business combination achieved in stages, the acquisition-date fair value of the previously held equity interest in the acquiree, over the fair value of net identifiable assets acquired. If the difference is negative, such difference is recognized as gain in the consolidated statement of income.

If the initial accounting for a business combination is incomplete by the end of the reporting date in which the business combination occurs, the provisional amounts of the items for which the accounting is incomplete are reported in the consolidated financial statements. During the measurement period, which shall be no longer than one (1) year from the acquisition date, the provisional amounts recognized at acquisition date are retrospectively adjusted to reflect new facts and circumstances obtained that existed as at the acquisition date and, if known, would have affected the measurement of the amounts recognized as of that date. During the measurement period,

additional assets or liabilities are also recognized if new information is obtained about facts and circumstances that existed as at the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as at that date.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from acquisition date, allocated to each of the cash generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units, beginning on the acquisition date.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of, is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in such circumstance is measured based on relative values of the operation disposed and the portion of the cash-generating unit retained.

Business combinations involving entities under common control are accounted for similar to the pooling-of-interests method. The assets and liabilities of the combining entities are reflected at their carrying amounts reported in the consolidated financial statements of the controlling company. Any difference between the consideration paid and the share capital of the "acquired" entity is reflected within equity as additional paid-in capital. The consolidated statement of income reflects the results of the combining entities for the full year, irrespective of when the combination takes place. Comparatives are presented as if the entities had always been combined since the date the entities were under common control.

Investment Properties

Investment properties, except land, are stated at cost, net of accumulated depreciation and accumulated impairment loss, if any. The carrying amount includes transaction costs and costs of replacing part of an existing investment property at the time such costs are incurred if the recognition criteria are met and excludes the costs of day-to-day servicing of an investment property.

Investment properties include properties that are being constructed or developed for future use.

Land classified as investment property is carried at cost less any impairment in value.

The *MERALCO Group*'s investment properties acquired before January 1, 2004 are stated at deemed cost.

See *Note 16 – Equity* for the related discussions.

Investment properties, except land, are being depreciated on a straight-line basis over the useful life of 40 years.

Investment properties are derecognized either when they have been disposed of or when these are permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss from the derecognition of the investment properties is recognized in the consolidated statement of income in the year these are disposed or retired.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner-occupation or the commencement of an operating lease to another party. If owner-occupied property becomes an investment property, the *MERALCO Group* accounts for such

property in accordance with the policy stated under utility plant, generation plant and others up to the date of the change in use. Transfers are made from investment property when, and only when, there is a change in use, evidenced by the commencement of owner-occupation or the commencement of development with a view to sale. Transfers from investment property are recorded using the carrying amount of the investment property as at the date of change in use.

Intangible Assets

Intangible assets acquired separately are initially measured at cost. Following initial recognition, intangible assets are carried at cost less accumulated amortization and any accumulated impairment loss. The useful lives of intangible assets are assessed at the individual asset level as having either finite or indefinite useful lives.

Intangible assets with finite lives are amortized over the useful economic lives of five (5) to 30 years using the straight-line method and assessed for impairment whenever there is an indication that the intangible assets may be impaired. At a minimum, the amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at each reporting date. Changes in the expected useful life or the expected consumption pattern of future economic benefit embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and treated as change in accounting estimates. The amortization expense of intangible assets with finite lives is recognized in the consolidated statement of income.

Intangible assets with indefinite useful lives are not amortized, but are assessed for impairment annually either individually or at the cash-generating unit level. The assessment of intangible assets with indefinite useful life is done annually at every reporting date to determine whether such indefinite useful life continues to exist. Otherwise, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in the consolidated statement of income.

Intangible assets generated within the business are not capitalized and expenditures are charged to profit or loss in the year these are incurred.

Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either (a) in the principal market for the asset or liability, or (b) in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible to the *MERALCO Group*.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a nonfinancial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The *MERALCO Group* uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

i. Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
ii. Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
iii. Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the *MERALCO Group* determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting date.

For the purpose of fair value disclosures, the *MERALCO Group* has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy.

Impairment of Nonfinancial Assets

The *MERALCO Group* assesses at each reporting date whether there is an indication that a nonfinancial asset [utility plant, generation plant and others, intangible assets, investment properties, investments in associates and interests in joint ventures and receivable from the Bureau of Internal Revenue ("*BIR*")] other than goodwill and intangible assets with indefinite useful life, may be impaired. If any such indication exists, the *MERALCO Group* makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an individual asset's or a cash generating unit's fair value less costs to sell and its value in use. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. The fair value is the amount obtainable from the sale of the asset in an arm's-length transaction. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation factors/parameters, quoted share prices for publicly traded securities or other available fair value indicators. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses are recognized in the consolidated statement of income.

An assessment is also made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If any such indication exists, the *MERALCO Group* estimates the individual asset's or cash generating unit's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If a reversal of impairment loss is to be recognized, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined had no impairment loss has been recognized for the asset in prior year. Such reversal is recognized in the consolidated statement of income. After such reversal, the

depreciation and amortization expense are adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Intangible assets with indefinite useful lives are tested for impairment annually at every reporting date or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired, either individually or at the cash generating unit level, as appropriate. The amount of impairment is calculated as the difference between the recoverable amount of the intangible asset and its carrying amount. The impairment loss is recognized in the consolidated statement of income. Impairment losses relating to intangible assets may be reversed in future years.

Goodwill is reviewed for impairment annually at every reporting date or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of the cash generating unit or group of cash generating units, to which the goodwill relates. Where the recoverable amount of the cash generating unit or group of cash generating units is less than the carrying amount of the cash generating unit or group of cash generating units to which goodwill has been allocated, an impairment loss is recognized. Impairment losses relating to goodwill shall not be reversed in future years.

If the allocation of goodwill acquired in a business combination to cash generating units or group of cash generating units is incomplete, an impairment testing of goodwill is only carried out when impairment indicators exist. Where impairment indicators exist, impairment testing of goodwill is performed at a level at which the acquirer can reliably test for impairment.

Financial Instruments - Initial Recognition and Subsequent Measurement

Financial Assets

Initial Recognition and Measurement

At initial recognition, financial assets are classified and measured at amortized cost, *FVOCI*, and fair value through profit or loss ("*FVPL*").

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the *MERALCO Group*'s business model for managing them. With the exception of trade receivables that do not contain a significant financing component, the *MERALCO Group* initially measures a financial asset at its fair value, and in the case of a financial asset not at *FVPL*, plus transaction costs.

In order for a financial asset to be classified and measured at amortized cost or *FVOCI*, it needs to give rise to cash flows that are solely payments of principal and interest ("*SPPI*") on the principal amount outstanding. This assessment is referred to as the *SPPI* test and is performed at an instrument level.

The *MERALCO Group*'s business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the *MERALCO Group* commits to purchase or sell the asset.

Subsequent Measurement

For purposes of subsequent measurement, financial assets are classified in four (4) categories:

- Financial assets at amortized cost (debt instruments)
- Financial assets at *FVOCI* with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at *FVOCI* with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at *FVPL*

Financial Assets at Amortized Cost (Debt Instruments)

This category is the most relevant to the *MERALCO Group*. The *MERALCO Group* measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are *SPPI* on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured using the effective interest rate ("*EIR*") method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired. The *MERALCO Group*'s financial assets at amortized cost include cash and cash equivalents, trade and other receivables, short-term investments, debt securities at amortized cost and advance payments to a supplier.

Financial Assets at FVOCI (Debt Instruments)

The *MERALCO Group* measures debt instruments at *FVOCI* if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are *SPPI* on the principal amount outstanding.

For debt instruments at *FVOCI*, interest income, foreign exchange revaluation and impairment losses or reversals are recognized in the consolidated statement of profit or loss and computed in the same manner as for financial assets measured at amortized cost. The remaining fair value changes are recognized in *OCI*. Upon derecognition, the cumulative fair value change recognized in *OCI* is recycled to profit or loss. The *MERALCO Group*'s debt instruments at *FVOCI* include investments in government securities and investments in corporate bonds.

Financial Assets Designated at FVOCI (Equity Instruments)

Upon initial recognition, the *MERALCO Group* can elect to classify irrevocably its equity investments as equity instruments designated at *FVOCI* when they meet the definition of equity under *PAS 32*, *Financial Instruments: Presentation*, and are not held for trading. The classification is determined on an instrument by instrument basis. Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognized as other income in the consolidated statement of income when the right to receive payment has been established, except when the *MERALCO Group* benefits from such proceeds as a partial recovery of the cost of the financial asset, in which case, such gains are recorded in *OCI*. Equity instruments designated at *FVOCI* are not subject to impairment assessment.

The *MERALCO Group* elected to classify irrevocably its non-listed equity investments and investment in club shares under this category.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the *MERALCO Group*'s consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired;
- The *MERALCO Group* has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the *MERALCO Group* has transferred substantially all the risks and rewards of the asset, or (b) the *MERALCO Group* has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the *MERALCO Group* has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership.

When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the *MERALCO Group* continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the *MERALCO Group* also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the *MERALCO Group* has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the *MERALCO Group* could be required to repay.

Modification of Financial Assets

The *MERALCO Group* derecognizes a financial asset when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new asset, with the difference between its carrying amount and the fair value of the new asset recognized as a derecognition gain or loss in profit or loss, to the extent that an impairment loss has not already been recorded.

The *MERALCO Group* considers both qualitative and quantitative factors in assessing whether a modification of financial asset is substantial or not. When assessing whether a modification is substantial, the *MERALCO Group* considers the following factors, among others:

- Change in currency
- Introduction of an equity feature
- Change in counterparty
- If the modification results in the asset no longer considered "solely payment for principal and interest"

The *MERALCO Group* also performs a quantitative assessment similar to that being performed for modification of financial liabilities. In performing the quantitative assessment, the *MERALCO Group* considers the new terms of a financial asset to be substantially different if the present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the present value of the remaining cash flows of the original financial asset.

When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset, the *MERALCO Group* recalculates the gross carrying amount of the financial asset as the present value of the renegotiated or modified contractual cash flows discounted at the original *EIR* (or credit-adjusted *EIR* for purchased or originated credit-impaired financial assets) and recognizes a modification gain or loss in the statement of comprehensive income.

When the modification of a financial asset results in the derecognition of the existing financial asset and the subsequent recognition of a new financial asset, the modified asset is considered a 'new ' financial asset. Accordingly, the date of the modification shall be treated as the date of initial recognition of that financial asset when applying the impairment requirements to the modified financial asset. The newly recognized financial asset is classified as Stage 1 for *ECL* measurement purposes, unless the new financial asset is deemed to be purchased or originated credit-impaired financial assets ("*POCI*").

Impairment of Financial Assets

The *MERALCO Group* recognizes an allowance for expected credit losses ("*ECLs*") for all debt instruments not held at *FVPL*. *ECLs* are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the *MERALCO Group* expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

*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, *MERALCO* applies a simplified approach in calculating *ECLs*. Therefore, *MERALCO* does not track changes in credit risk, instead recognizes a loss allowance based on lifetime *ECLs* of each customer segment (e.g. residential, commercial, industrial, etc.) at each reporting date. *MERALCO* has established a provision matrix that is based on its current credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. In determining the *ECL*s of trade receivables, the credit loss experience for each contract status of customers for the current year, adjusted for forwarding looking factors as well as the economic environment was considered.

For debt instruments, the *MERALCO Group* applies the low credit risk simplification. At every reporting date, the *MERALCO Group* evaluates whether the debt instrument is considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the *MERALCO Group* reassesses the internal credit rating of the debt instrument. In addition, the *MERALCO Group* considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The *MERALCO Group*'s debt instruments at *FVOCI* comprise solely of quoted bonds that are graded in the top investment category and, therefore, are considered to be low credit risk investments. It is the *MERALCO Group*'s policy to measure *ECLs* on such instruments on a 12-month basis. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the expected lifetime credit losses.

Credit losses are recognized based on 12-month *ECL* for debt investment securities that are assessed to have low credit risk at the reporting date. A financial asset is considered to have low credit risk if:

- the financial instrument has a low risk of default
- the borrower has a strong capacity to meet its contractual cash flow obligations in the near term
- adverse changes in economic and business conditions in the longer term, may, but will not necessarily, reduce the ability of the borrower to fulfill its contractual cash flow obligations.

At each reporting date, the *MERALCO Group* assesses whether there has been a significant increase in credit risk for financial assets since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. The *MERALCO Group* considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and forward-looking analysis.

Exposures that have not deteriorated significantly since origination, or where the deterioration remains within the *MERALCO Group*'s investment grade criteria, are considered to have a low credit risk. The provision for credit losses for these financial assets is based on a 12-month *ECL*. The low credit risk exemption has been applied on debt investments that meet the investment grade criteria of the *MERALCO Group* from the time of origination.

An exposure will migrate through the *ECL* stages as asset quality deteriorates. If, in a subsequent year, asset quality improves and also reverses any previously assessed significant increase in credit risk since origination, then the loss allowance measurement reverts from lifetime *ECL* to 12-months *ECL*.

MERALCO considers a financial asset in default when contractual payments are 300 days past due (average days to terminate customer contract). In certain cases, the *MERALCO Group* may also consider a financial asset to be in default when internal or external information indicates that the *MERALCO Group* is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the *MERALCO Group*. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial Liabilities

Initial Recognition and Measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at *FVPL*, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The *MERALCO Group*'s financial liabilities include interest-bearing long-term financial liabilities, customer deposits and refunds, refundable service extension costs, notes payable and trade and other payables.

Subsequent Measurement

Financial liabilities at FVPL

Financial liabilities at *FVPL* include financial liabilities held for trading and financial liabilities designated upon initial recognition as at *FVPL*.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the *MERALCO Group* that are not designated as hedging instruments in hedge relationships as defined by *PFRS 9*. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognized in the consolidated statement of profit or loss. Financial liabilities designated upon initial recognition at *FVPL* are designated at the initial date of recognition, and only if the criteria in *PFRS 9* are satisfied. The *MERALCO Group* has not designated any financial liability as at *FVPL*.

Loans and borrowings

This is the category most relevant to the *MERALCO Group*. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the *EIR* method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the *EIR* amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the *EIR*. The *EIR* amortization is included as finance costs in the consolidated statement of income. This category generally applies to interest-bearing loans and borrowings.

Derecognition

A financial liability (or a part of a financial liability) is derecognized when the obligation under the liability is discharged, cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability or a part of it are substantially modified, such an exchange or modification is treated as a derecognition of the original financial liability and the recognition of a new financial liability, and the difference in the respective carrying amounts is recognized in the statement of comprehensive income.

Exchange or Modification of Financial Liabilities

The *MERALCO Group* considers both qualitative and quantitative factors in assessing whether a modification of financial liabilities is substantial or not. The terms are considered substantially different if the present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the present value of the remaining cash flows of the original financial liability. However, under certain circumstances, modification or exchange of a financial liability may still be considered substantial, even where the present value of the cash flows under the new terms is less than 10% different from the present value of the remaining cash flows of the original financial liability. There may be situations where the modification of the financial liability is so fundamental that immediate derecognition of the original financial liability is appropriate (e.g., restructuring a financial liability to include an embedded equity component).

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the fair value of the new liability is recognized in profit or loss.

When the exchange or modification of the existing financial liability is not considered as substantial, the *MERALCO Group* recalculates the gross carrying amount of the financial liability as the present value of the renegotiated or modified contractual cash flows discounted at the original *EIR* and recognizes a modification gain or loss in profit or loss.

If modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognized as part of the gain or loss on the extinguishment. If the modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the financial instrument and are amortized over the remaining term of the modified financial instrument.

The *MERALCO Group* has not availed of any reliefs and has not renegotiated the terms of its existing loan agreements with its lenders.

Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

Redeemable Preferred Stock

MERALCO's peso-denominated redeemable preferred stock has characteristics of a liability and is thus recognized as a liability in the consolidated statement of financial position. The corresponding dividends on those shares are recognized as part of "Interest and other financial charges" account in the consolidated statement of income. Dividends no longer accrue when such shares have been called for redemption.

Inventories

Inventories are stated at the lower of cost and net realizable value. Costs of acquiring materials and supplies including costs incurred in bringing each item to their present location and condition are accounted using the moving average and weighted average cost method, as applicable. Net realizable value is the estimated selling price in the ordinary course of business less the estimated cost to sell or the current replacement cost of the asset.

Prepayments

Prepayments are expenses paid in advance and recorded as asset before they are utilized. Prepayments that are expected to be realized within 12 months from the reporting date are classified as current assets. Otherwise, these are classified as noncurrent assets.

Value-Added Tax ("VAT")

Input *VAT* pertains to the 12% indirect tax paid in the course of trade or business on purchases of goods or services.

Output *VAT* pertains to the 12% tax due on the local sale of goods or services.

If at the end of any taxable month, the output *VAT* exceeds the input *VAT*, the outstanding balance is included under "Trade payables and other current liabilities" account. If the input *VAT* exceeds the output *VAT*, the excess shall be carried over to the succeeding months and included under "Financial and other current assets" account.

Provisions

Provisions are recognized when the *MERALCO Group* has a present obligation, legal or constructive, as a result of a past event, and when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the *MERALCO Group* expects a provision, or a portion, to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statement of income, net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liabilities.

Retirement Benefits

MERALCO and certain subsidiaries have distinct, funded, noncontributory defined benefit retirement plans covering all permanent employees. *MERALCO*'s retirement plan provides for post-retirement benefits in addition to a lump sum payment to employees hired as at December 31, 2003. Retirement benefits for employees of *MERALCO* hired beginning January 1, 2004 were amended to provide for a defined lump sum payment only upon retirement of qualified employees. *MERALCO* also has a contributory provident plan introduced in January 2009 whereby employees hired beginning January 1, 2004 may elect to participate.

The net defined benefit liability or asset of the retirement plan is the aggregate of the present value of the defined benefit obligation at the end of the reporting date reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise of (i) service costs; (ii) net interest on the net defined benefit liability or asset; and (iii) remeasurements of the net defined benefit liability or asset.

Service costs, which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in the consolidated statement of income. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the year in the net defined benefit liability or asset that arises from the passage of time, which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in the consolidated statement of income.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in *OCI* in the year in which they arise. Remeasurements are not reclassified to profit or loss in subsequent year.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the *MERALCO Group*, nor can they be paid directly to the *MERALCO Group*. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The *MERALCO Group*'s right to be reimbursed for some or all of the expenditures required to settle a defined benefit obligation is recognized as a separate asset at fair value when, and only when, reimbursement is virtually certain.

The retirement costs under the defined contribution plan are recorded based on *MERALCO Group*'s contribution to the defined contribution plan as services are rendered by the employee.

Termination Benefits

Termination benefits are provided in exchange for its severance as a result of either an entity's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment.

A liability and expense for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of those benefits and when the entity recognizes related restructuring costs. Initial recognition and subsequent changes to termination benefits are measured in accordance with the nature of the employee benefit, as either post-employment benefits, short-term employee benefits, or other long-term employee benefits.

Employee Leave Entitlements

Employee entitlements to annual leave are recognized as a liability when such accrues to the employees. The undiscounted liability for leave expected to be settled wholly before 12 months after the end of the reporting year is recognized for services rendered by employees up to the end of the reporting year.

Unused sick leaves are accumulated, up to a certain limit, and commuted to cash upon separation or retirement. An actuarial valuation of the obligations on the accumulated unused sick leaves is conducted periodically in accordance with the relevant accounting standards.

Long-term Incentive Plan

The liability relating to the long-term incentive plan comprises the present value of the obligation at the end of the reporting date.

Equity

Common stock is measured at par value for all shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown as a deduction from equity, net of any related tax. The amount of proceeds and/or fair value of consideration received, net of incremental costs incurred directly attributable to the issuance of new shares in excess of par value, is recognized as additional paid-in capital.

Employee stock purchase plan cost represents the cumulative compensation expense recognized based on the amount determined using an option pricing model.

Change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction and presented as "Equity Reserve" in the consolidated statement of financial position.

OCI comprises items of income and expense, which are not recognized in profit or loss as required or permitted by *PFRS*.

Cumulative translation adjustment represents the resulting exchange differences in the remeasurement of accounts due to change in functional currency.

Treasury shares are recognized at cost and deducted from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the *MERALCO Group*'s own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized in additional paid-in capital.

Retained earnings include net income attributable to the equity holders of the Parent, reduced by dividends declared on common stock. Dividends are recognized as liability and deducted from retained earnings when they are declared. Dividend declarations approved after the financial reporting date are disclosed as events after the financial reporting date.

Non-controlling interests represent the portion of profit or loss and net assets of subsidiaries not attributed, directly or indirectly, to *MERALCO*.

Revenue Recognition

Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the *MERALCO Group* expects to be entitled in exchange for those goods or services. The *MERALCO Group* assesses its revenue arrangements against specific criteria to determine if it is acting as a principal or as an agent. *MERALCO Group* has concluded that it is acting as principal in majority of its revenue arrangements.

The following specific recognition criteria must also be met before revenue from contracts with customers is recognized:

Sale of Electricity

As distribution utilities, revenues are recognized upon supply of power to the customers and are stated at amounts invoiced to customers, inclusive of pass-through components, and net of discounts and/or rebates. The Uniform Filing Requirements ("*UFR*") on the rate unbundling released by the *ERC* on October 30, 2001 specified the following bill components: (a) generation charge, (b) transmission charge, (c) *SL* charge, (d) distribution charge, (e) supply charge, (f) metering charge, (g) Currency Exchange Rate Adjustment ("*CERA*") I and II, where applicable and (h) inter-class rate and lifeline subsidies. *VAT*, business taxes such as *LFT*, *RPT* (beginning March 2021), the Power Act Reduction (for residential customers) adjustment, universal charges, and Feed-in-Tariff - Allowance ("*FiT-All*") are also separately presented in the customer's billing statement. Taxes billed and collected on behalf of the national governments and local government units, universal charges and *FiT-All* [billed and collected on behalf of Power Sector Assets and Liabilities Management Corporation ("*PSALM*") and National Transmission Corporation ("*TransCo*"), respectively] do not form part of *MERALCO* and *Clark Electric*'s revenues. Revenues are adjusted for the over and/or under-recoveries of pass-through charges.

Revenue from Contracts with Customers - Recognized Over Time

The *MGen Group* has contracts with customers in the form of Electric Power Purchase Agreement ("*EPPAs*"), Ancillary Services Procurement Agreement ("*ASPAs*"), and sale of electricity to *WESM*.

The *MGen* Group recognizes revenue when it satisfies an identified performance obligation by transferring a promised good or service to a customer. A good or service is considered to be transferred when the customer obtains control. The *MGen Group* determines, at contract inception, whether it will transfer control of a promised good or service over time. If the *MGen Group* does not satisfy a performance obligation over time, the performance obligation is satisfied at a point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

Revenue from contracts with customers is consummated whenever the electricity generated by the *MGen Group* is transmitted through the transmission line designated by the buyer, for a consideration.

Revenue from sale of electricity is recognized monthly based on the actual energy delivered and made available to customers or minimum energy off take or contracted capacity, adjusted by actual days of downtime, whichever is higher.

Revenue from sale of electricity through ancillary services to the National Grid Corporation of the Philippines ("*NGCP*") is recognized monthly based on the capacity scheduled and/or dispatched and provided.

Energy fees derived from trading operations are recognized based on actual delivery of such electricity supplied and made available to customers multiplied by the applicable tariff rate as agreed with its customers.

Revenue from Contracts with Customers - Recognized at the Point in Time

Revenues from the following are recognized at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods:

Coal Sales

Coal sales are recognized at point in time when the coal is delivered, the legal title has passed to the customer. Coal sales are presented as part of sale of electricity in the consolidated statement of income.

Service Fees

Service fee pertains to fees charged to customers and clients for coal transaction related services. The service fee is recognized at point in time. Service fees are presented as part of sale of other services in the consolidated statement of income.

Sale of Services

The *MERALCO Group* recognizes revenue from construction contracts over time on the basis of direct measurements of the value to customers of the goods or services transferred to date, relative to the remaining goods or services promised under the contract (output method). Progress is measured based on the monthly project accomplishment which integrates the performance to date of the construction activities.

Construction contracts are generally accounted for as a single performance obligation and are not segmented between types of services. For engineering and construction contracts, these two (2) are combined into one performance obligation since these are not distinct within the context of the contract. The combined performance obligation qualifies as a good or service (or a bundle of goods or services) that is distinct.

Interest Income

Interest income is recognized as interest accrues, using the *EIR* method. The *EIR* is the rate that discounts estimated future cash receipts through the expected life of the financial instrument.

Lease Income

Income arising from lease of investment properties, communication tower assets and pole positions is accounted for on a straight-line basis over the lease term.

Lease income is included under "Revenues – Sale of other services" account in the consolidated statement of income.

Receivables

Receivables represent the *MERALCO Group*'s right to all amounts of consideration that are unconditional (i.e., only the passage of time is required before payment of the consideration is due).

Contract Assets

A contract asset is the right to consideration in exchange for goods and services transferred to the customer. If the *MERALCO Group* performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognized for the earned consideration that is conditional.

The *MERALCO Group*'s contract assets include unbilled receivables and under-recoveries of pass-through charges.

Contract Liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the *MERALCO Group* has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the *MERALCO Group* transfers good or services to the customer, a contract liability is recognized when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognized as revenue when the *MERALCO Group* performs under the contract.

The following are considered as contract liabilities:

Assets Funded by Customers

In accordance with the Distribution Services and Open Access Rule ("*DSOAR*"), the costs of non-standard connection facilities to connect the customers to *MERALCO*'s distribution network and to provide the customers with ongoing access to the supply of electricity are funded by the customers. *MERALCO* assesses whether the constructed or acquired non-standard connection facilities meet the definition of an asset in accordance with *PAS 16*. If the definition of an asset is met, *MERALCO* recognizes such asset at its acquisition or construction cost with an equivalent credit to the liability account. Such liability to the customers is included under "Other noncurrent liabilities" account in the consolidated statement of financial position, and is recognized as income over the average duration of relationship with the customer. Assets funded by customers do not form part of *MERALCO*'s regulatory asset base until amounts are refunded.

Net Over-recoveries of Pass-through Charges

Generation, transmission and *SL* over-recoveries which resulted from the difference in the power suppliers' billings and recovery of such pass-through costs from consumers are included in "Other noncurrent liabilities" account in the consolidated statement of financial position.

Cost and Expense Recognition

Expenses are decreases in economic benefits during the financial reporting date in the form of outflows or decrease of assets or incurrence of liabilities that result in decrease in equity, other than those relating to distributions to equity participants. These are recognized when incurred.

MERALCO Group recognizes contract costs relating to satisfied performance obligations as these are incurred. Contract costs principally include all direct materials, labor costs and indirect costs related to contract performance. Project mobilization costs and incremental costs of obtaining a contract with a customer are recognized as an asset if the *MERALCO Group* expects to recover them and the contract term is for more than one year. The project mobilization costs and costs of obtaining a contract are amortized over the expected construction period following the pattern of revenue recognition. Costs incurred prior to obtaining a contract with a customer are not capitalized but are expensed as incurred. Expected losses on contracts are recognized immediately when it is probable that the total contract costs will exceed total contract revenues. The amount of such loss is determined irrespective of whether or not work has commenced on the contract, based on the stage of completion of the contract activity, or the amount of profits expected to arise on other contracts which are not treated as a single construction contract.

Total contract costs incurred and estimated earnings recognized in excess of total billings are recognized as an asset.

Lease Liabilities

At the commencement date of the lease, the *MERALCO Group* recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the *MERALCO Group* and payments of penalties for terminating a lease, if the lease term reflects the *MERALCO Group* exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the year which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the *MERALCO Group* uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term Leases and Leases of Low-value Assets

The *MERALCO Group* applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the leases of low-value

assets recognition exemption to leases of office equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

Leases

The *MERALCO Group* considers whether a contract is, or contains a lease at the inception of a contract. A lease is a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange of a consideration.

Company as Lessee

At commencement date of the lease, the *MERALCO Group* recognizes a right-of-use ("*ROU*") asset and a corresponding lease liability on the statements of financial position, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the *MERALCO* Group recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Lease liability is measured at the present value of the unpaid lease payments, discounted using the interest rate implicit in the lease (if readily available) or the *MERALCO Group*'s incremental borrowing rate. Incremental borrowing rate is the rate of interest that the *MERALCO Group* would have to pay to borrow over a similar term and with a similar security the funds necessary to obtain an asset of a similar value to the right-of-use-asset in a similar economic environment.

Lease payments included in the measurement of the lease liability consists of fixed payments, variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee, and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, lease liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in the fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the *ROU* asset, or profit and loss if the *ROU* asset is already reduced to zero.

ROU asset is measured at cost, which consist of the initial measurement of the lease liability, any initial direct costs incurred, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date.

The *MERALCO Group* depreciates *ROU* assets on a straight-line basis using the expected useful life or lease term whichever is shorter. The *MERALCO Group* also assesses the *ROU* asset for impairment when such indicators exist.

Company as Lessor

Leases where the *MERALCO Group* does not transfer substantially all the risk and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the year in which these are earned.

Foreign Currency-Denominated Transactions and Translations

The consolidated financial statements are presented in Philippine peso, which is also *MERALCO*'s functional and presentation currency. The Philippine peso is the currency of the primary economic environment in which the *MERALCO Group* operates, except for *LOIL* and *MPG Asia*. This is also the currency that mainly influences the revenue from and cost of rendering services. Each entity in the *MERALCO Group* determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

The functional currency of *LOIL* and *MPG Asia* is the United States ("*U.S.*") dollar.

Transactions in foreign currencies are initially recorded in the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are re-translated using functional currency closing rate of exchange prevailing at the end of the reporting date. All differences are recognized in the consolidated statement of income except for foreign exchange differences that relate to capitalizable borrowing costs on qualifying assets. Nonmonetary items that are measured in terms of historical cost in foreign currency are translated using the exchange rate as at the date of the initial transactions.

As at the reporting date, the monetary assets and liabilities of subsidiaries, *LOIL* and *MPG Asia* whose functional currency is other than Philippine peso, are translated into Philippine peso at the rate of exchange prevailing at the end of the reporting date, and income and expenses are translated monthly using the weighted average exchange rate for the month. The exchange differences arising on translation are recognized as a separate component of *OCI* as cumulative translation adjustments. On the disposal of a subsidiary, the amount of cumulative translation adjustments recognized in *OCI* is recognized in the consolidated statement of income.

Income Taxes

Current Income Tax

Current income tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authority. The tax rate and tax laws used to compute the amount are those that are enacted or substantively enacted as at the reporting date.

Deferred Income Tax

Deferred income tax is provided on all temporary differences at the reporting date between the income tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilized. Unrecognized deferred income tax assets are reassessed at each reporting date and are recognized to the extent these have become probable that future taxable profit will allow the deferred income tax assets to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply when the assets are realized or the liabilities are settled, based on tax rates and tax laws that are enacted or substantively enacted as at the reporting date.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Deferred income tax items are recognized in correlation to the underlying transaction either in profit or loss or directly in equity.

Earnings per Share

Basic earnings per share is calculated by dividing the net income for the year attributable to equity holders of the parent by the weighted average number of common shares outstanding during the year.

Diluted earnings per share is calculated by dividing the net income for the year attributable to equity holders of the parent by the weighted average number of shares outstanding, adjusted for the effects of any dilutive potential common shares.

Contingencies

Contingent liabilities are not recognized in the consolidated financial statements. These are disclosed in the notes to consolidated financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized unless the realization of the assets is virtually certain. These are disclosed in the notes to consolidated financial statements when an inflow of economic benefits is probable.

Events After the Reporting Date

Post reporting date events that provide additional information about the *MERALCO Group*'s financial position at the reporting date (adjusting events) are reflected in the consolidated financial statements. Post reporting date events that are non-adjusting events are disclosed in the notes to consolidated financial statements, when material.

5. Significant Judgments, Accounting Estimates and Assumptions

The preparation of the *MERALCO Group*'s consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the accompanying disclosures, and the disclosure of contingent assets and liabilities, at the end of the reporting date. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amounts of the assets or liabilities affected in future years.

Judgments

In the process of applying the *MERALCO Group*'s accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the consolidated financial statements.

Determination of Functional Currency

The functional currencies of the entities under the *MERALCO Group* are the currencies of the primary economic environment in which each entity operates. It is the currency that mainly influences the revenue and cost of rendering services.

Based on the economic substance of the underlying circumstances, the functional and presentation currency of *MERALCO* and its subsidiaries, except *LOIL* and *MPG Asia*, is the Philippine peso. The functional and presentation currency of *LOIL* and *MPG Asia* is the U.S. dollar.

Uncertain Tax Position

The *MERALCO Group* assesses whether it has any uncertain tax position in accordance with *IFRIC 23*. The *MERALCO Group* applies significant judgement in identifying uncertainties over its income tax treatments. The *MERALCO Group* determined, based on its review and assessment of its income tax computations and filings, in consultation with external tax expert, that it is not probable that its uncertain tax treatments will be accepted by the taxation authorities. The *MERALCO Group* quantified the effect of each uncertain tax treatment using the most likely amount which the *MERALCO Group* expects to better predict the resolution of the uncertainty.

Operating Lease Commitments

As Lessor

The *MERALCO Group* has several lease arrangements as a lessor. Based on the terms and conditions of the arrangements, it has evaluated that the significant risks and rewards of ownership of such properties are retained by the *MERALCO Group*. The lease agreements do not transfer ownership of the assets to the lessees at the end of the lease term and do not give the lessees a bargain purchase option over the assets. Consequently, the lease agreements are accounted for as operating leases.

As Lessee

The *MERALCO Group* has entered into various operating lease agreements used for its operations.

For the *MERALCO Group*'s lease under *PFRS 16*, the *MERALCO Group* recognizes *ROU* assets and lease liabilities measured at the present value of lease payments to be made over the lease term using the *MERALCO Group*'s incremental borrowing rate.

The *MERALCO Group* availed exemption of *PFRS 16* for its short-term lease with the term of 12 months or less and low value assets. Accordingly, lease payments on these leases are recognized as expense on a straight-line basis over the lease term.

Arrangement that Contains a Lease

Based on *MERALCO*'s assessment, the *PPA*s and *PSA*s do not qualify to be accounted for as lease and are accounted for as ordinary service contracts, since *MERALCO* does not have the right to direct the use, operate and was not involved in the design of the identified assets.

Principal versus Agent

The *MERALCO Group*'s revenue recognition requires the *MERALCO Group* to make certain judgments on its arrangements with power generation companies such as *PPA*s and *PSA*s. The *MERALCO Group* has concluded that it is acting as a principal in its revenue arrangements.

Revenue from sale of electricity requires *MERALCO* and *Clark Electric* to bill customers based on various billing cycle cut-off dates, while recording of related purchased power cost is based on calendar month as provided in the terms of the *PPA*s and *PSA*s. The difference between the amounts initially billed to customers and the settlement of the actual billings with power generation companies is adjusted to revenue at month end based on *ERC* Resolution No. 16, *A Resolution Adopting the Rules Governing the Automatic Cost Adjustment and True-up Mechanisms and Corresponding Confirmation Process for Distribution Utilities*.

Moreover, *MERALCO* and *Clark Electric* assessed that revenues from electricity, re-connection and other non-standard connection services arise from a single performance obligation which will be satisfied over the period when the services are expected to be provided.

Entity in which the MERALCO Group Holds more than the Majority of the Voting Rights Accounted for as a Joint Venture

MERALCO, through *MGen*, has a 51% interest in *SBPL.* While *MERALCO* owns majority of the voting rights in *SBPL,* it does not have sole control of *SBPL*. *MERALCO's* investment in *SBPL* is accounted for as a joint venture since key operating and financial decisions of *SBPL* require the unanimous vote and consent of the parties sharing control.

Entity in which the MERALCO Group Holds more than the Majority of the Voting Rights Accounted for as an Associate

MERALCO, through *MGen*, has a total of 58% direct and indirect interest in *PacificLight.* *MERALCO's* investment in *PacificLight* is accounted for as an associate since the relevant and significant activities and policies of *PacificLight* require the majority votes of the *BOD* and *MGen* does not hold the majority of the *BOD*.

Entity in which the MERALCO Group Holds less than 20% of the Voting Rights Accounted for as an Associate

MERALCO, through *Finserve*, has 10% interest in AF Payments, Inc. ("*AF Payments*"). *AF Payments* is considered an associate and, thus, *MERALCO/Finserve*'s interest in *AF Payments* is accounted for using the equity method as *MERALCO/Finserve* is deemed to have significant influence as evidenced by its representation in the *BOD* which guarantees *MERALCO*'s participation in the decision making and policy making process of *AF Payments*.

Acquisitions

The *MERALCO Group* evaluates each investment under *PFRS 3* to determine whether to treat an acquisition as an asset acquisition or a business combination. For those transactions treated as asset acquisitions, the purchase price is allocated to the assets acquired, with no recognition of goodwill. For those acquisitions that meet the definition of a business combination, *MERALCO Group* apply the acquisition method of accounting where assets acquired and liabilities assumed are recorded at fair value at the date of each acquisition, and the results of operations are included with our results from the dates of the respective acquisitions. When determining the fair value of tangible assets acquired, age, condition and the economic useful life of the asset are taken into consideration to determine the estimated cost to replace the asset. When determining the fair value of intangible assets acquired, the applicable discount rate and the timing and amount of future cash flows, including rate and terms of renewal and attrition are considered.

Contingencies

The *MERALCO Group* has possible claims from or obligation to other parties from past events and whose existence may only be confirmed by the occurrence or non-occurrence of one (1) or more uncertain future events not wholly within its control. Management has determined that the present obligations with respect to contingent liabilities and claims with respect to contingent assets do not meet the recognition criteria, and therefore has not recorded any such amounts.

See *Note 29 – Contingencies and Legal Proceedings*.

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty as at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial reporting date are discussed as follows:

Estimating Useful Lives of Utility Plant, Generation Plant and Others, Intangible Assets with Finite Lives and Investment Properties

The *MERALCO Group* estimates the useful lives of utility plant, generation plant and others, intangible assets with finite lives and, investment properties based on the periods over which such assets are expected to be available for use. The estimate of the useful lives of the utility plant, generation plant and others, intangible assets with finite lives and investment properties is based on management's collective assessment of industry practice, internal technical evaluation and experience with similar assets. The estimated useful lives are reviewed at least at each financial reporting date and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limitations on the use of such assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in the factors mentioned in the foregoing. The amounts and timing of

recorded expenses for any year would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of utility plant, generation plant and others, intangible assets with finite lives and investment properties would increase recorded operating expenses and decrease noncurrent assets.

The total depreciation and amortization expense of utility plant, generation plant and others amounted to ₱14,117 million, ₱10,846 million and ₱8,065 million for the years ended December 31, 2022, 2021 and 2020, respectively. Total carrying values of utility plant, generation plant and others, net of accumulated depreciation and amortization, amounted to ₱243,323 million and ₱225,326 million as at December 31, 2022 and 2021, respectively.

Total depreciation of investment properties amounted to ₱4 million for each of the years ended December 31, 2022, 2021 and 2020. Total carrying values of investment properties, net of accumulated depreciation, amounted to ₱1,495 million and ₱1,496 million as at December 31, 2022 and 2021, respectively.

Total amortization of intangible assets with finite lives amounted to ₱1,910 million, ₱1,649 million and ₱486 million for the years ended December 31, 2022, 2021 and 2020, respectively. Total carrying values of intangible assets with finite lives, net of accumulated amortization, amounted to ₱21,691 million and ₱15,054 million as at December 31, 2022 and 2021, respectively.

See *Note 7 – Utility Plant, Generation Plant and Others, Note 9 – Investment Properties* and *Note 10 – Intangible Assets*.

Impairment of Nonfinancial Assets

PFRS requires that an impairment review be performed when certain impairment indicators are present. These conditions include obsolescence, physical damage, significant changes in the manner by which an asset is used, worse than expected economic performance, drop in revenues or other external indicators, among others. In the case of goodwill, at a minimum, such asset is subject to an annual impairment test and more frequently whenever there is an indication that such asset may be impaired. This requires an estimation of the value in use of the cash generating unit to which the goodwill is allocated. Estimating the value in use requires preparation of an estimate of the expected future cash flows from the cash generating unit and choosing an appropriate discount rate in order to calculate the present value of those cash flows.

Determining the recoverable amount of utility plant, generation plant and others, intangible assets, investment properties, investments in associates and interests in joint ventures, goodwill and financial and other noncurrent assets, requires (i) the determination of future cash flows expected to be generated from the continued use as well as ultimate disposition of such assets and (ii) making estimates and assumptions that can materially affect the consolidated financial statements. Future events may cause management to conclude that utility plant, generation plant and others, intangible assets, investment properties, investments in associates and interests in joint ventures, goodwill and financial and other noncurrent assets are impaired. Any resulting impairment loss or reversal of previously recognized impairment loss could have material adverse impact on the *MERALCO Group*'s consolidated financial position and financial performance.

The preparation of estimated future cash flows involves significant estimations and assumptions. While management believes that the assumptions are appropriate and reasonable, significant changes in the assumptions may materially affect the assessment of recoverable values and may lead to future impairment charges under *PFRS*s.

The carrying values of nonfinancial assets subject to impairment review are as follows:

Account	**2022**	2021
	(Amounts in millions)	
Utility plant, generation plant and others	**₱243,323**	₱225,326
Investments in associates and interests in joint ventures	**31,888**	23,317
Intangible assets	**21,691**	15,054
Investment properties	**1,495**	1,496
Receivable from the *BIR*	**181**	181
Goodwill	**35**	35

See *Note 7 – Utility Plant, Generation Plant and Others, Note 8 – Investments in Associates and Interests in Joint Ventures, Note 9 – Investment Properties and Note 10 – Intangible Assets.*

Realizability of Deferred Income Tax Assets

The *MERALCO Group* reviews the carrying amounts of deferred income tax assets at the end of each reporting year and reduces these to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax assets to be utilized.

Assessment on the recognition of deferred income tax assets on deductible temporary differences is based on the level and timing of forecasted taxable income for the subsequent reporting date. This forecast is based on past results and future expectations on revenues and expenses as well as future tax planning strategies. Management believes that sufficient taxable profit will be generated to allow all or part of the recorded or recognized deferred tax assets to be utilized. The amounts of the deferred income tax assets considered realizable could be adjusted in the future if estimates of taxable income are revised.

Based on the foregoing assessment, following are the relevant consolidated information with respect to deferred income tax assets:

	2022	2021
	(Amounts in millions)	
Recognized deferred income tax assets	**₱32,032**	₱34,660
Unrecognized deferred income tax assets	**2,694**	1,444

See *Note 28 – Income Taxes and Local Franchise Taxes*.

Provision for ECL of Receivables and Contract Assets

The *MERALCO Group* applies the *PFRS 9* simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all trade and other receivables and contract assets.

The economic impact of *COVID-19* pandemic to *MERALCO* consumers together with advisories and issuances from the *DOE* and *ERC* directing *MERALCO* and other *DU*s to extend payment terms and suspend service disconnection activities necessitated reassessment of *MERALCO*'s *ECL* model in 2020. *MERALCO* considered resegmentation of all its customer bills starting from the *ECQ* period with the objective of identifying customer groups which were significantly affected by *COVID-19* pandemic based on accumulated number of unpaid bills and measured the expected credit losses considering the deferred payment arrangements and expected default upon resumption of service disconnection activities. In 2021, *MERALCO* continued to extend the suspension of disconnection

activities in areas under *ECQ, MECQ* and granular lockdowns, and extended installment payment arrangements to certain customers. In 2022, *MERALCO* provided *ECL* on certain identified trade receivables which have been the subject of disputes from customers. In determining the *ECL*s of trade receivables, *MERALCO* considered the credit loss experience for each contract status of customers for the current year, adjusted for forwarding looking factors, and taking into account the economic environment. The contract assets relate to unbilled receivables and have substantially the same risk characteristics as the trade and other receivables. The *MERALCO Group* has concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for contract assets.

The *MERALCO Group* incorporates forward-looking information in its assessments whether the credit risk has increased significantly since its initial recognition and its measurement of *ECL*. The *MERALCO Group* has considered a range of relevant forward-looking macroeconomic assumptions such as inflation rate, gross domestic product and unemployment rate for the determination of unbiased general industry adjustments and any related specific industry adjustments that support the calculation of *ECL*s.

*ECL*s for trade and other receivables amounted to ₱2,311 million, ₱551 million and ₱1,933 million for the years ended December 31, 2022, 2021 and 2020, respectively. Trade and other receivables, net of allowance for expected credit losses, amounted to ₱54,683 million and ₱45,013 million as at December 31, 2022 and 2021, respectively.

See *Note 13 – Trade and Other Receivables.*

Estimating Net Realizable Value of Inventories

Inventories consist of materials and supplies used in the electricity distribution, power generation and services segments, and are valued at the lower of cost or net realizable value. The cost of inventories is written down whenever the net realizable value of inventories becomes lower than the cost due to damage, physical deterioration, obsolescence, and change in price levels or other causes (i.e., pre-termination of contracts). The lower of cost or net realizable value of inventories is reviewed on a periodic basis. Inventory items identified to be obsolete and no longer usable are written off and charged as expense in the consolidated statement of income.

The carrying values of inventories amounted to ₱10,629 million and ₱9,817 million as at December 31, 2022 and 2021, respectively.

See *Note 14 – Inventories*.

Estimation of Retirement Benefit Costs

The cost of defined benefit retirement plans and other post-employment benefits as well as the present value of the retirement obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates and future retirement benefits increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. Retirement and other post-employment benefits expense amounted to ₱1,686 million, ₱2,241 million and ₱1,610 million for the years ended December 31, 2022, 2021 and 2020, respectively. Retirement and other post-employment benefit liabilities as at December 31, 2022 and 2021 amounted to ₱2,887 million and ₱7,716 million, respectively.

In determining the appropriate discount rate, management considers the interest rates of government bonds in the respective currencies, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The underlying bonds are further reviewed for quality, and those having excessive credit spreads are removed from the population of bonds on which the discount rate is based, on the basis that they do not represent high quality bonds.

The mortality rate is based on publicly available mortality tables for the Philippines and is modified accordingly with estimates of mortality improvements. Future salary increases and retirement benefits increases are based on expected future inflation rates for the Philippines.

See *Note 25 – Expenses and Income* and *Note 26 – Long-term Employee Benefits*.

Provisions

The *MERALCO Group* has various claims, assessments and cases as discussed in *Note 29 – Contingencies and Legal Proceedings* and *Note 2 – Rate Regulations*. The *MERALCO Group*'s estimate for probable costs for the resolution of these claims, assessments and cases has been developed in consultation with external counsel, if any, and internal counsels handling the defense in these claims, assessments and cases and is based upon thorough analysis of potential outcome.

The *MERALCO Group*, in consultation with its external and internal legal counsels, does not believe that these claims and legal proceedings will have a material adverse effect on the consolidated financial statements. It is possible, however, that future financial performance could be materially affected by changes in the estimates or the effectiveness of management's strategies and actions relating to these proceedings.

The *MERALCO Group* recognized net provisions on various claims and assessments amounting to ₱5,831 million, ₱10,175 million and ₱15,526 million for the years ended December 31, 2022, 2021 and 2020, respectively.

Provisions are measured at the present value of management's best estimate of the expenditures required to settle the present obligation at the end of the reporting year. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the liability. As at December 31, 2022 and 2021, provisions and other noncurrent liabilities are presented net of the effect of the time value of money amounting to ₱5,147 million and ₱860 million, respectively.

See *Note 19 – Provisions* and *Note 22 – Trade Payables and Other Current Liabilities.*

Revenue Recognition

The *MERALCO Group*'s revenue recognition policies require the use of estimates and assumptions that may affect the reported amounts of its revenues and receivables.

Revenues from sale of electricity by *MERALCO* and *Clark Electric* are billed based on customer-specific billing cycle cut-off date for each customer, while recording of related purchased power cost is based on calendar month as provided in the terms of the *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 years.

Revenues and costs from construction contracts of *MIESCOR* are recognized based on the output method. This is measured principally on the basis of the estimated completion of a physical proportion of the contract work.

Revenue from Contracts with Customers

The *MGen* Group applied the following judgements that significantly affect the determination of the amount and timing of revenue from contracts with customers:

1) *Identifying Performance Obligations*. The *MGen* Group identifies performance obligations by considering whether the promised goods or services in the contract are distinct goods or services. A good or service is distinct when the customer can benefit from the good or service on its own or together with other resources that are readily available to the customer and the *MGen* Group's promise to transfer the good or service to the customer is separately identifiable from the other promises in the contract.

   The *MGen* Group assesses performance obligations as a series of distinct goods and services that are substantially the same and have the same pattern of transfer if:
   a. each distinct good or services in the series are transferred over time; and
   b. the same method of progress will be used (i.e., units of delivery) to measure the entity's progress towards complete satisfaction of the performance obligation

   For revenue contracts under *EPPA*s, *ASPA*, and spot market sales to *WESM*, these are combined and considered as one (1) performance obligation since these are not distinct within the context of *PFRS 15* as the buyer cannot benefit from the contracted capacity without the corresponding energy and the buyer cannot obtain energy without contracting a capacity.

2) *Determining Method to Estimate Variable Consideration and Assessing the Constraint*. The *MGen* Group includes some or all the amounts of variable consideration estimated but only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. The *MGen* Group considers both the likelihood and magnitude of the revenue reversal in evaluating the extent of variable consideration the *MGen* Group will be subjected to constraint.

   Factors such as the following are considered:
   a. high susceptibility to factors outside the Group's influence;
   b. timing of the resolution of the uncertainty; and
   c. having a large number and broad range of possible outcomes.

   Some contracts with customers provide for volume and prompt payment discounts that give rise to variable consideration. In estimating the variable consideration, the *MGen* Group is required to use either the expected value method or the most likely amount method based on which method better predicts the amount of consideration to which it will be entitled. The expected value method of estimation takes into account a range of possible outcomes while the most likely amount is used when the outcome is binary.

The *MGen* Group determined that the expected value method is the appropriate method to use in estimating the variable consideration given the number of contracts with customers that have similar characteristics and the range of possible outcomes.

3) *Allocation of Variable Consideration*. Variable consideration may be attributable to the entire contract or to a specific part of the contract. For revenue contracts under *EPPA*s, *ASPA* and spot market sales to *WESM*, revenue streams which are considered as series of distinct services that are substantially the same and have the same pattern of transfer, the *MGen* Group allocates the variable amount that is no longer subject to constraint to the satisfied portion (i.e., month or actual electricity delivery) which forms part of the single performance obligation and the monthly billing of the *MGen* Group.

4) *Revenue Recognition*. The *MGen* Group recognizes revenue when it satisfies an identified performance obligation by transferring a promised good or service to a customer. A good or service is considered to be transferred when the customer obtains control. The *MGen* Group determines, at contract inception, whether it will transfer control of a promised good or service over time. If the *MGen* Group does not satisfy a performance obligation over time, the performance obligation is satisfied at a point in time.

   The *MGen* Group concluded that revenue from sale of electricity from contracts with customers are to be recognized over time, since customers simultaneously receive and consume the benefits as the *MGen* Group supplies power.

5) *Identifying Methods for Measuring Progress of Revenue Recognized Over Time*. The *MGen* Group determines the appropriate method of measuring progress which is either through input or output methods. Input method recognizes revenue on the basis of the efforts or inputs to the satisfaction of a performance obligation while output method recognizes revenue on the basis of direct measurements of the value to the customer of the goods or services transferred to date.

The *MGen* Group determined that the output method is the more appropriate way of measuring progress as actual electricity is supplied to customers.

6. Segment Information

Each operating segment of the *MERALCO Group* engages in business activities from which revenues are earned and expenses are incurred (including intercompany transactions with other business segments within the *MERALCO Group*). The operating results of each of the operating segments are regularly reviewed by *MERALCO*'s Management Committee to evaluate how resources are to be allocated to the operating segments and to assess their performances for which discrete financial information is available.

For management purposes, the *MERALCO Group*'s operating businesses are organized and managed separately according to the nature of services provided, with each segment representing a strategic business unit that offers different products and/or services, as follows:

- Power

  The Power segment consists of (a) electricity distribution, (b) power generation and (c) *RES*.

  Electricity distribution – This is principally electricity distribution and supply of power on a pass-through basis covering all captive customers in the *MERALCO* and the *Clark Electric* franchise

areas in Luzon. Electricity distribution within the *MERALCO* franchise area accounts for approximately 52% of the power requirements of the country. *Clark Electric*'s franchise area covers Clark Special Economic Zone and the sub-zones.

Shin Clark manages the development, operation, and maintenance of the electric power distribution system in the 9,450-hectare New Clark City located within the Clark Special Economic Zone in the towns of Capas and Bamban, Tarlac, through a Joint Venture Agreement with the *BCDA*. On May 10, 2022, Shin Clark Power Corporation ("Joint Venture Company") has been incorporated and registered with the Securities and Exchange Commission ("*SEC*") and is awaiting *ERC*'s approval of its *CPCN* to be able to operate as a distribution utility.

Power generation – The *MERALCO Group* has a combined group generating capacity of 2,251 *MW* (net) of coal, liquid natural gas, and oil and diesel plants in the Philippines and Singapore.

MGen owns 51% interest in *SBPL* which operates a 455 *MW* (net) supercritical coal-fired plant in Mauban, Quezon. For the year ended December 31, 2022, it delivered a total of 2,765 *GWh* to *MERALCO* under an *ERC*-approved *PSA*.

GBPC owns 970 *MW* (net) of operating coal and diesel-fired power plants in the Visayas and Mindoro Island. *GBPC* also has a 50% interest in Alsons Thermal Energy Corporation ("*ATEC*"), which holds a 75% interest interest in Sarangani Energy Corporation ("*Sarangani Energy"*). *Sarangani Energy* operates a 2 x 105 *MW* (net) *CFB* plant in Maasim, Sarangani.

MGen Renewable Energy, Inc. ("*MGreen*") is a wholly owned subsidiary of *MGen* engaged in the development, construction and operation of solar-powered generation facilities. It has a 60% equity in *First Bulacan. First Bulacan* owns and operates a 80 *MW*dc/50 *MWac* utility scale solar facility located in San Miguel, Bulacan, the largest single operating solar plant in the country, which began commercial operations on May 12, 2021 and has since delivered solar energy to *MERALCO* under an *ERC*-approved *PSA.* The *PSA* is for a period of 20 years.

MGreen is in the final stages of the construction of its 75 *MWac* solar plant in Baras, Rizal through *PHRI*, a joint venture with Mitsui's local unit Mit-Renewables Philippine Corporation. In August 2022, the project company secured a ₱2,650 million, 15-year term project financing facility to fund the ongoing construction of the solar plant. Also under construction is a 68 *MWac* solar plant in Ilocos Norte in partnership with Pasuquin Energy Holdings, Inc. of Vena Energy Solar PH B.V. ("*Vena Energy*") These two (2) projects are expected to commence operations in the first quarter of 2023.

MGen also has a combined 58% (direct and indirect interests) in PacificLight Power Pte Ltd. ("*PacificLight Power*"). *PacificLight Power* owns and operates a 2 x 400 *MW* combined cycle turbine power plant mainly fueled by liquefied natural gas ("*LNG*") in Jurong Island, Singapore.

See *Note 8 – Investments in Associates and Interests in Joint Ventures.*

RES – covers the sourcing and supply of electricity to qualified contestable customers. *MERALCO* and *Clark Electric* also operate as local retail electricity suppliers within their respective franchise area under a separate business unit, *MPower* and *Cogent Energy*, respectively. Under Retail Competition and Open Access ("*RCOA*"), qualified contestable customers who opt for contestability and elect to be among contestable customers may source their electricity supply from any retail electricity suppliers, including *MPower* and *Cogent Energy*.

The *ERC* granted the following subsidiaries distinct *RES* licenses to operate as retail electricity suppliers within Luzon and Visayas: *Vantage* and *Phoenix Power*, wholly owned subsidiaries of *MERALCO*; *MeridianX*, a wholly owned subsidiary of *Comstech*, and *GESC,* a wholly owned subsidiary of *GBPC*. *Vantage* and *MeridianX*'s *RES* licenses which were issued by the *ERC* are valid for five (5) years up to January 10, 2022 and February 9, 2022, respectively. The validity of their *RES* licenses was extended until July 9, 2023 pending final evaluation by the *ERC* of the renewal applications. *Clarion*, a wholly owned subsidiary of *Clark Electric*, submitted the requirements for its *RES* licensing to *ERC* on November 17, 2017. As at February 27, 2023, the approval of its *RES* licensing is pending with the *ERC. GESC* is a wholly owned subsidiary of *GBPC*. On September 10, 2021, *GESC*'s *RES* license was renewed for another five (5) years beginning September 13, 2021.

- Other Services

  The other services segment is involved principally in electricity-related services, such as, electro-mechanical engineering, construction, consulting and related manpower services, e-transaction and bills collection, telecommunications services, rail-related operations and maintenance services, insurance and re-insurance, e-business development, power distribution management, energy systems management and harnessing renewable energy, construction and leasing of communication towers and electric vehicle and charging infrastructure solutions. These services are provided by *MIESCOR*, *MBI*, *MLI* and *MIDC* (collectively known as "*MIESCOR Group*"), *CIS*, *Bayad* and *CFSI* (collectively referred to as "*CIS Group*"), *e-MVI*, *Paragon* and *Radius* (collectively referred to as "*e-MVI Group*"), *Comstech, MRail*, *LOIL, Finserve*, *MServ*, *Spectrum* and *eSakay*.

The Management Committee evaluates the performance of the business segments based on (i) net income attributable to equity holders of the parent for the year, (ii) consolidated core earnings before interest, taxes, and depreciation and amortization ("consolidated core *EBITDA*"); and (iii) consolidated core net income ("*CCNI*"). Net income is measured consistent with reported net income in the consolidated statement of income.

Consolidated core *EBITDA* is measured as *CCNI* excluding depreciation and amortization, interest and other financial charges, interest and other financial income and provision for income tax.

CCNI for the year is measured as consolidated net income attributable to equity holders of the parent adjusted for foreign exchange gain or loss, mark-to-market gain or loss, impairment or reversal of impairment of noncurrent assets and certain other non-recurring gain or loss, if any, net of tax effect of the foregoing adjustments.

Billings between operating segments are at an arm's-length basis in a manner similar to transactions with third parties. Segment revenues, segment expenses and segment results include transfers among business segments. Those transfers are eliminated upon consolidation.

The *MERALCO Group* operates and generates substantially all of its revenues in the Philippines (i.e., one (1) geographical location). Thus, geographical segment information is not presented. None of its revenues from transactions with a single external customer accounts for 10% or more of its revenues from external customers.

		Power			Other Services			Inter-segment Transactions			Total		
	Note	**2022**	2021	2020	**2022**	2021	2020	**2022**	2021	2020	**2022**	2021	2020
						(Amounts in millions)							
Revenues		**₱413,950**	₱309,238	₱267,946	**₱17,012**	₱15,250	₱10,382	**(₱4,433)**	(₱5,941)	(₱3,024)	**₱426,529**	₱318,547	₱275,304
Segment results		**₱44,946**	₱50,912	₱42,074	**₱4,411**	₱3,161	₱2,460	**₱–**	₱–	₱–	**₱49,357**	₱54,073	₱44,534
Provision for probable losses and expenses from claims		**(5,799)**	(10,120)	(15,511)	**(32)**	(55)	(15)	**–**	–	–	**(5,831)**	(10,175)	(15,526)
Impairment loss		**(2,603)**	–	–	**–**	–	–	**–**	–	–	**(2,603)**	–	–
Depreciation and amortization	*7, 9 and 10*	**(15,084)**	(11,913)	(8,003)	**(947)**	(586)	(552)	**–**	–	–	**(16,031)**	(12,499)	(8,555)
Interest and other financial income	*24*	**1,942**	2,145	2,282	**121**	52	41	**–**	–	–	**2,063**	2,197	2,323
Equity in net earnings (losses) of associates and joint ventures	*8*	**12,053**	3,162	1,276	**(18)**	(35)	(43)	**–**	–	–	**12,035**	3,127	1,233
Interest and other financial charges	*24*	**(3,554)**	(3,633)	(1,490)	**(200)**	(95)	(104)	**–**	–	–	**(3,754)**	(3,728)	(1,594)
Provision for income tax - net	*27*	**(5,841)**	(8,158)	(5,569)	**(807)**	(754)	(697)	**–**	–	–	**(6,648)**	(8,912)	(6,266)
Net income (loss) attributable to non-controlling interests		**–**	–	–	**–**	–	–	**(157)**	(585)	167	**(157)**	(585)	167
Net income attributable to equity holders of the Parent		**₱26,060**	₱22,395	₱15,059	**₱2,528**	₱1,688	₱1,090	**(₱157)**	(₱585)	₱167	**₱28,431**	₱23,498	₱16,316

The inter-segment revenues mainly represent revenues of other services segment earned from the power segment.

The following table shows the reconciliation of the *EBITDA* to net income:

	2022	2021	2020
		(Amounts in millions)	
EBITDA	**₱51,947**	₱46,538	₱31,080
Add (deduct):			
Depreciation and amortization	**(16,031)**	(12,499)	(8,555)
Interest and other financial income net of charges and foreign exchange gains and losses	**(680)**	(1,044)	(110)
Income before income tax	**35,236**	32,995	22,415
Provision for income tax - net	**(6,648)**	(8,912)	(6,266)
Net income	**₱28,588**	₱24,083	₱16,149

The following table shows the reconciliation of the *CCNI* to net income:

	2022	2021	2020
		(Amounts in millions)	
CCNI	**₱27,105**	₱24,608	₱21,711
Add (deduct) non-core items, net of tax:			
Non-core income (expenses)	**591**	(1,487)	(4,556)
Foreign exchange gains (losses)	**735**	377	(839)
Net income for the year attributable to equity holders of the Parent	**28,431**	23,498	16,316
Net income for the year attributable to non-controlling interests	**157**	585	(167)
Net income	**₱28,588**	₱24,083	₱16,149

7. Utility Plant, Generation Plant and Others

The movements in utility plant, generation plant and others are as follows:

		2022									
	Note	Sub-transmission and Distribution	Boilers and Powerhouse	Land	Communication towers, buildings and improvements	Data transmission cables and communi-cation Equipment	Office Furniture, Fixtures and Other Equipment	Transportation Equipment	Others	Construction in Progress	Total
						(Amounts in millions)					
Cost:											
Balance at beginning of year		**₱214,967**	**₱43,337**	**₱17,699**	**₱12,946**	**₱4,611**	**₱4,326**	**₱4,144**	**₱7,113**	**₱25,166**	**₱334,309**
Additions		**520**	**108**	**1,108**	**2,894**	**188**	**578**	**830**	**2,527**	**27,133**	**35,886**
Transfers from construction in progress		**14,659**	**–**	**–**	**198**	**370**	**222**	**7**	**157**	**(15,613)**	**–**
Disposals/retirements		**(7,306)**	**(1,298)**	**–**	**(147)**	**(57)**	**(3)**	**(36)**	**(192)**	**(54)**	**(9,093)**
Reclassifications	*10*	**38**	**(812)**	**–**	**(184)**	**(105)**	**255**	**(26)**	**(141)**	**(74)**	**(1049)**
Balance at end of year		**222,878**	**41,335**	**18,807**	**15,707**	**5,007**	**5,378**	**4,919**	**9,464**	**36,558**	**360,053**
Less accumulated depreciation and amortization:											
Balance at beginning of year		**91,182**	**2,355**	**–**	**3,585**	**2,050**	**3,100**	**2,799**	**3,912**	**–**	**108,983**
Depreciation and amortization		**9,004**	**2,754**	**–**	**607**	**551**	**466**	**267**	**468**	**–**	**14,117**
Disposals/retirements		**(7,277)**	**(502)**	**–**	**(61)**	**(14)**	**(2)**	**(37)**	**(9)**	**–**	**(7,902)**
Reclassifications		**–**	**(1,073)**	**–**	**(48)**	**44**	**(18)**	**(34)**	**(282)**	**–**	**(1,411)**
Balance at end of year		**92,909**	**3,534**	**–**	**4,083**	**2,631**	**3,546**	**2,995**	**4,089**	**–**	**113,787**
Less allowance for impairment loss		**–**	**292**	**–**	**–**	**–**	**–**	**–**	**–**	**2,651**	**2,943**
Net book value		**₱129,969**	**₱37,509**	**₱18,807**	**₱11,624**	**₱2,376**	**₱1,832**	**₱1,924**	**₱5,375**	**₱33,907**	**₱243,323**

		2021 (As restated – see Note 3)									
	Note	Sub-transmission and Distribution	Boilers and Powerhouse	Land	Communi-cation towers, buildings and improvements	Data transmission cables and communi-cation Equipment	Office Furniture, Fixtures and Other Equipment	Transpor-tation Equipment	Others	Construction in Progress	Total
						(Amounts in millions)					
Cost:											
Balance at beginning of year		₱196,793	₱–	₱15,752	₱7,401	₱3,339	₱4,079	₱3,973	₱5,755	₱25,822	₱262,914
Effect of consolidation of *GBPC*	*3*	–	39,901	1,436	4,708	26	10	43	51	590	46,765
Additions		946	3,409	511	493	1,069	206	276	618	19,031	26,559
Transfers from construction in progress		19,302	–	–	344	175	31	2	384	(20,238)	–
Disposals/retirements		(1,969)	–	–	(1)	–	(1)	(151)	(66)	–	(2,188)
Reclassifications	*10*	(105)	27	–	1	2	1	1	371	(39)	259
Balance at end of year		214,967	43,337	17,699	12,946	4,611	4,326	4,144	7,113	25,166	334,309
Less accumulated depreciation and amortization:											
Balance at beginning of year		85,913	–	–	3,237	1,896	2,738	2,673	3,448	–	99,905
Depreciation and amortization		7,238	2,069	–	325	174	363	247	430	–	10,846
Disposals/retirements		(1,969)	–	–	(1)	–	(1)	(121)	(17)	–	(2,109)
Reclassifications		–	286	–	24	(20)	–	–	51	–	341
Balance at end of year		91,182	2,355	–	3,585	2,050	3,100	2,799	3,912	–	108,983
Net book value		₱123,785	₱40,982	₱17,699	₱9,361	₱2,561	₱1,226	₱1,345	₱3,201	₱25,166	₱225,326

As at December 31, 2022 and 2021, the net book values of customer-funded assets included in "Utility plant, generation plant and others" account amounted to ₱5,861 million and ₱5,764 million, respectively. The corresponding liabilities to customers in the same amounts as at December 31, 2022 and 2021 are included in "Other noncurrent liabilities" account in the consolidated statements of financial position.

The power plant complex of *PHRI* and the generation plant and equipment of *First Bulacan*, with aggregate carrying value of ₱6,288 million as at December 31, 2022 are pledged as securities for their long-term debt.

In 2022, *MIDC* recognized ROU assets and corresponding lease liabilities amounting to ₱1,824 milion, covering the lease agreements transferred from Globe and for the agreements entered by *MIDC* for built-to-suit sites.

See *Note 17 – Interest-bearing Long-term Financial Liabilities.*

As at December 31, 2022, the capitalized site preparation expenses for the development of ultra-supercritical pulverized coal-fired power generation plant of *A1E* amounted to ₱12,492 million. In 2022, *A1E* recognized a provision for impairment loss amounting to ₱2,651 million, related to the design and materials for a coal technology, given the planned change in plant configuration from coal to liquified natural gas power plant.

Construction in progress pertains to both electric capital projects ("*ECP*s") and non-*ECP*s. *ECP*s are capital projects involving construction of new electric distribution-related facilities and the upgrade and major rehabilitation of existing electrical facilities. Non-*ECP*s mainly represent construction of *MGen*'s power plant projects, *MIDC*'s communication towers and *Radius*' network expansion projects. Total interest capitalized amounted to ₱398 million, ₱299 million and ₱275 million based on average capitalization rate of 5% for the years ended December 31, 2022, 2021 and 2020, respectively.

8. Investments in Associates and Interests in Joint Ventures

This account consists of the following:

	Place of Incorporation	Principal Activity	**2022**	2021
			Percentage of Ownership	
Associates				
FPM Power Holdings Limited ("*FPM Power*")/ *PacificLight Power*	British Virgin Islands/ Singapore	Investment and holding company/ Power generation	**58**	58
Alsons Thermal Energy Corporation ("*ATEC*")	Philippines	Power generation	**50**	50
Redondo Peninsula Energy Inc. ("*RP Energy*")	Philippines	Power generation	**47**	47
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
Power Distribution Services Ghana Limited ("*PDS Ghana*")	Ghana	Distribution of power	**30**	30

(Forward)

	Place of Incorporation	Principal Activity	**2022** Percentage of Ownership	2021
Indra Philippines, Inc. ("*Indra Philippines*")	Philippines	Management and *IT* consultancy	**25**	25
Greenergy	Philippines	Renewable energy	**57**	28
AF Payments	Philippines	Electronic payment clearing and settlement system operator	**10**	10
Joint Ventures				
SBPL	Philippines	Power generation	**51**	51
Pure Meridian Hydropower Corporation ("*Pure Meridian*")	Philippines	Renewable energy	**50**	50
(Forward)				
MRail-DESCO Joint Venture ("*MDJV*")	Philippines	Maintenance of mass transit system	**51**	51
Nuevo Solar Energy Corporation ("*NSEC*")	Philippines	Power generation	**50**	50
First Balfour-MRail Joint Venture ("*FBMJV*")	Philippines	Maintenance of mass transit system	**49**	49
MPioneer Insurance Inc. ("*MPioneer*")	Philippines	Insurance	**35**	35
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	**2022**	2021 (As restated – see Note 3
			(Amounts in millions)
Acquisition cost:			
Balance at beginning of year		**₱27,247**	₱21,447
Additions		**504**	779
Effect of consolidation of *GBPC*	*3*	**–**	10,314
Reclassification [(1)]	*11 and 23*	**5,713**	(5,293)
Balance at end of year		**33,464**	27,247
Accumulated equity in net earnings (losses):			
Balance at beginning of year		**(4,199)**	(5,752)
Equity in net earnings		**12,035**	3,127
Reclassification [(1)]		**93**	206
Dividends received		**(4,039)**	(1,780)
Balance at end of year		**3,890**	(4,199)
Share in remeasurement adjustments on retirement liabilities			
Balance at beginning of year		**(25)**	(13)
Share in actuarial gains (losses)		**9**	(12)
Balance at end of year		**(16)**	(25)
Share in other comprehensive income and cumulative translation adjustments:			
Balance at beginning of year		**306**	6
Cumulative translation adjustments		**(336)**	300
Balance at end of year		**(30)**	306
Allowance for impairment loss			
Balance at beginning of year		**(12)**	–
Reclassification	*23*	**(5,748)**	–
Provisions		**(467)**	(12)

	Note	2022	2021 (As restated – see Note 3
		(Amounts in millions)	
Reversal		**807**	–
Balance at end of year		**(5,420)**	(12)
		₱31,888	₱23,317

(1) Refer to Note 23 to the consolidated financial statements for the nature of reclassification in 2022. Reclassification in 2021 pertains to the carrying amount of MERALCO's 14% investment in GBPC, which was accounted using equity method and presented as part of investments in associates and interests in joint ventures in 2020.

The carrying values of investments in associates and interests in joint ventures follow:

	Note	2022	2021 (As restated – see Note 3
		(Amounts in millions)	
Associates:			
ATEC	*3*	**₱10,057**	₱10,053
FPM Power/PacificLight Power		**9,627**	2,434
Indra Philippines		**382**	416
Aclara Meters		**87**	59
RP Energy		**119**	706
Greenergy		**–**	35
Joint ventures:			
SBPL		**9,523**	8,138
RBC JV		**1,063**	907
NSEC		**595**	64
MPioneer		**369**	354
Pure Meridian		**–**	123
MDJV		**66**	28
		₱31,888	₱23,317

ATEC

ATEC has the following equity interests: (i) 75% of *Sarangani Energy* which operates a 2 x 118.5 *MW* (gross capacity) baseload coal-fired plant in Maasim, Sarangani Province; (ii) 100% of San Ramon Power, Inc. which is developing a 120 *MW* baseload coal-fired plant in Zamboanga City; and (iii) 100% ACES Technical Services Corporation, which provides operations and maintenance services to *ATEC's* power plants.

FPM Power/PacificLight Power

FPM Power is 40%-owned by *MERALCO* through *MPG Asia* (a wholly-owned subsidiary of *MGen)* and 60%-owned by First Pacific Company Limited ("*First Pacific*"). *FPM Power* has a 70% equity interest in *PacificLight Power*, which owns and operates a 2 x 400 *MW LNG*-fired power plant in Jurong Island, Singapore. *PacificLight Power*'s wholly owned subsidiary, PacificLight Energy Pte. Ltd., is engaged in energy trading.

On July 1, 2021, *MGen* acquired Petronas International Power Corporation's 30% stake in *PacificLight Power* bringing its combined direct and indirect interest to 58%.

The fair values of the identifiable assets and liabilities of *PacificLight Power* as at July 1, 2021, which were based on a provisional assessment, are as follow:

	Amounts in millions
Generation plant and others	₱22,651
Cash and cash equivalents	1,165
Trade and other receivables	4,174
Other assets	4,632
Interest-bearing long-term financial liabilities	(22,187)
Trade and other payables	(5,581)
Other liabilities	(2,424)
Net assets	2,430
Less: *FPM Power's* 70% interest	1,701
Net assets acquired	₱729

Refer to Note 3 to the consolidated financial statements for the comparative information reflecting the adjustments to the provisional amounts.

In 2022, *MGen* re-assessed the estimated recoverable amount of its investment in *FPM Power* in view of the improvement in market condition in Singapore resulting in *PacificLight Power*'s positive operating results. The recoverable amount of *MGen*'s investment in *FPM Power* as at December 31, 2022 amounting to ₱6,071 million was based on its value in use, calculated using the cash flow projections of *PacificLight Power.* Consequently, *MGen* reversed previously recognized provision for impairment loss of ₱807 million in 2022.

See *Note 15 – Financial and Other Current Assets* and *Note 22 – Related Party Transactions.*

RP Energy

RP Energy is a joint venture among *MGen,* Therma Power, Inc. ("*TPI*") and Taiwan Cogeneration International Corporation – Philippine Branch ("*TCIC*") for the construction and operation of a power plant in the Subic Bay Freeport Zone.

In 2022, *MGen* re-assessed the estimated recoverable amount of its investment in *RP Energy* with the continuing suspension of power plant development. A provision for impairment loss of ₱368 million was recognized in 2022.

Aclara Meters

Aclara Meters is 35% owned by *MERALCO* and 65% owned by Aclara Technology LLC. *Aclara Meters* serves the Philippine market for American National Standard Institute ("*ANSI*")-type Watt-hour meters.

Greenergy

On February 3, 2021, *GBPC,* through its subsidiary CACI Power Corporation ("*CACI Power")*, acquired 28% equity interest in *Greenergy*, which is developing a 40 *MWac* solar power plant in Cordon, Isabela. In December 2021, *GBPC* transferred its 60% ownership in *CACI Power* to *MGreen*.

In 2022, *CACI Power* increased its ownership in *Greenergy* to 95%.

SBPL

SBPL, which is a joint venture between *MGen* (51%) and New Growth B.V. (49%), a 100% subsidiary of Electricity Generating Public Company Limited of Thailand ("*EGCO*"), owns and operates a new 455 *MW* (net) supercritical coal-fired power plant in Mauban, Quezon.

SBPL delivers all its plant output to *MERALCO* under a 20-year *PSA* approved by the *ERC*.

RBC JV

RBC JV is a joint venture between Rockwell Land Corporation ("*Rockwell Land*") and *MERALCO* for a pre-agreed cooperation period, pursuant to which *Rockwell Land* built and managed three (3) Business Process Outsourcing-enabled buildings on a non-regulatory asset base property of *MERALCO*. Investment in *RBC JV* represents *MERALCO's* 30% interest in the joint venture, while *Rockwell Land* has 70% interest in *RBC JV*.

Indra Philippines

Indra Philippines is an *IT* service provider in the country and in the Asia Pacific region, with a wide range of services across various industries. *Indra Philippines* provides services which meet certain of *MERALCO*'s *IT* requirements in the area of system development, outsourcing of Information Systems ("*IS*") and *IT* operations and management consulting.

MPioneer

MPioneer is 35% owned by *MERALCO* and 65% owned by Pioneer Insurance and Surety Company. It is engaged in non-life insurance business.

Pure Meridian

On January 7, 2016, *MERALCO* and Repower Energy Development Corporation ("*REDC*") entered into a joint venture through, *Pure Meridian*, for the development of mini-hydroelectric power projects. As of December 31, 2022, the development of the mini-hydroelectric power projects is suspended.

As at December 31, 2022, *MERALCO* recognized impairment on the carrying amount of its investment in *Pure Meridian* with the suspension of the development of its projects.

NSEC

NSEC, a joint venture between *MGreen* and *Vena Energy*, is engaged in the development of an approximately 68 *MWac* solar energy project in Currimao, Ilocos Norte.

MDJV

On June 2, 2014, *MRail* and Desco, Inc. entered into a Joint Venture Agreement for the general overhaul and rehabilitation of three (3) units of diesel electric locomotives by the Philippine National Railways. The project including its warranty period was completed on April 19, 2019. The *MDJV* is in the process of liquidation.

AF Payments

MERALCO, through *Finserve*, has a 10% equity interest in *AF Payments*. *AF Payments* operates and maintains an electronic payment clearing and settlement system through a contactless automated fare collection system for public utility, including generic contactless micropayment solution. It supplies and issues fare media and store value cards or reloadable cards for use in transport and non-transport facilities and operates and maintains the related hardware and software.

Due to the lower than expected penetration rate into the micropayments business, *MERALCO* recognized impairment on the carrying amount of its investment in *AF Payments*. The recoverable amount of the investment in *AF Payments* was measured using the estimate of the value in use of the investment. The valuation analysis involved discounting estimates of free cash flows using the discount rate of 11.9%. The estimated cash flows were based on the most recent financial budgets and forecasts representing best estimate of ranges of economic conditions that will exist over the forecast period. The forecast period covers the remaining service concession agreement term until December 2025. As at December 31, 2022 and 2021, the investment in *AF Payments* is fully impaired.

The condensed statements of financial position of material associates follow:

	2022		
	ATEC	***FPM Power / PacificLight Power***	***RP Energy***
	(Amounts in millions)		
Current assets	**₱4,494**	**₱12,853**	**₱241**
Noncurrent assets	**35,258**	**41,112**	**773**
Current liabilities	**(4,533)**	**(13,035)**	**(6)**
Noncurrent liabilities	**(11,558)**	**(14,533)**	**(22)**
Non-controlling interests	**(3,281)**	–	–
Net assets	**₱20,380**	**₱26,397**	**₱986**

	2021		
	ATEC	*FPM Power / PacificLight Power*	*RP Energy*
	(Amounts in millions)		
Current assets	₱5,665	₱31,570	₱251
Noncurrent assets	33,600	15,140	1,176
Current liabilities	(5,698)	(9,499)	(6)
Noncurrent liabilities	(13,461)	(23,724)	(25)
Net assets	₱20,106	₱13,487	₱1,396

The condensed statements of comprehensive income of material associates are as follows:

	2022			2021				2020	
	ATEC	***FPM Power / PacificLight Power***	***RP Energy***	*ATEC*	*FPM Power / PacificLight Power*	*RP Energy*	*GBPC[1]*	*FPM Power*	*RP Energy*
				(Amounts in millions)					
Revenues	**₱10,077**	**₱99,168**	**₱2**	₱8,270	₱61	₱–	₱21,926	₱19,981	₱4
Costs and expenses	**(8,270)**	**(86,598)**	**(469)**	(6,826)	(59)	(21)	(19,447)	(20,181)	(18)
Net income (loss)	**1,807**	**12,570**	**(467)**	1,444	2	(21)	2,479	(200)	(14)
Non-controlling interests	**(429)**	**–**	**–**	(354)	–	–	(831)	–	–
Net income (loss) attributable to equity holders of the parent	**1,378**	**12,570**	**(467)**	1,090	2	(21)	1,648	(200)	(14)
Other comprehensive income	**–**	**–**	**–**	–	–	–	–	–	–
Total comprehensive income (loss)	**₱1,378**	**₱12,570**	**(₱467)**	₱1,090	₱2	(₱21)	₱1,648	(₱200)	(₱14)
Dividends received	**₱412**	**₱2,988**	**₱–**	₱1,455	₱–	₱–	₱308	₱–	₱–

[1] On March 31, 2021, MERALCO, through MGen, acquired 86% combined equity in GBPC from MPIC and JG Summit, increasing MGen's equity to 100%. The transaction resulted in accounting for the investment in GBPC as a subsidiary. In 2020, investment in GBPC was accounted as investment in an associate.

The reconciliation of the net assets of the foregoing material associates to the carrying amounts of investments and advances in these associates recognized in the consolidated statements of financial position is as follows:

	2022		
	ATEC	***FPM Power / PacificLight Power***	***RP Energy***
	(Amounts in millions, except % of ownership)		
Net assets of associates	**₱20,380**	**₱26,397**	**₱986**
Proportionate ownership in associates (%)	**50**	**58**	**47**
	10,190	**15,310**	**463**
Fair value adjustment and impairment	**(133)**	**(5,563)**	**(368)**
Goodwill	**–**	**–**	**24**
	₱10,057	**₱9,747**	**₱119**

	2021		
	ATEC	*FPM Power / PacificLight Power*	*RP Energy*
	(Amounts in millions, except % of ownership)		
Net assets of associates	₱20,106	₱13,487	₱1,396
Proportionate ownership in associates (%)	50	58	47
	10,053	7,822	656
Fair value adjustment and impairment	–	(5,388)	–
Goodwill	–	–	50
	₱10,053	₱2,434	₱706

The following is the aggregate information of associates that are considered as not individually material:

	2022	2021	2020
		(Amounts in millions)	
Share in net income	**₱81**	₱54	₱20
Share in other comprehensive income (loss)	**9**	(12)	(1)
Share in total comprehensive income	**₱90**	₱42	₱19
Dividends received	**₱100**	₱13	₱19

Joint Ventures

The condensed statements of financial position of material joint ventures follow:

	2022	
	RBC JV	***SBPL***
	(Amounts in millions)	
Cash and cash equivalents	**₱849**	**₱3,141**
Current assets, excluding cash and cash equivalents	**364**	**8,758**
Noncurrent assets	**2,766**	**45,366**
Trade payables	**(3)**	**(2,278)**
Current liabilities, excluding trade payables	**(431)**	**(4,091)**
Noncurrent liabilities	**(2)**	**(32,223)**
Net assets	**₱3,543**	**₱18,673**

	2021	
	RBC JV	*SBPL*
	(Amounts in millions)	
Cash and cash equivalents	₱849	₱3,141
Current assets, excluding cash and cash equivalents	143	6,230
Noncurrent assets	2,507	46,407
Trade payables	(117)	(1,169)
Current liabilities, excluding trade payables	(358)	(3,328)
Noncurrent liabilities	(1)	(35,324)
Net assets	₱3,023	₱15,957

The condensed statements of comprehensive income of material joint ventures are as follows:

	2022		2021		2020	
	RBC JV	***SBPL***	*RBC JV*	*SBPL*	*RBC JV*	*SBPL*
			(Amounts in millions)			
Revenues	**₱835**	**₱27,113**	₱821	₱15,700	₱782	₱12,954
Costs and expenses	**(180)**	**(24,090)**	(172)	(13,178)	(167)	(10,971)
Other income – net	**122**	**433**	3	54	24	7
Provision for (benefit from) income tax - net	**(93)**	**15**	(92)	23	(84)	(23)
Net income	**₱684**	**₱3,471**	₱560	₱2,599	₱555	₱1,967
Dividends received	**₱155**	**₱385**	₱172	₱1,123	₱143	₱–

The foregoing condensed statements of comprehensive income include the following:

	2022		2021		2020	
	RBC JV	***SBPL***	*RBC JV*	*SBPL*	*RBC JV*	*SBPL*
	(Amounts in millions)					
Depreciation	**₱208**	**₱1,478**	₱212	₱1,478	₱209	₱1,467
Interest income	**(7)**	**(4)**	(2)	(4)	(24)	(7)

The reconciliation of the net assets of the foregoing material joint ventures to the carrying amounts of investments in these joint ventures recognized in the consolidated statements of financial position is as follows:

	2022	
	RBC JV	***SBPL***
	(Amounts in millions, except % of ownership)	
Net assets of joint ventures	**₱3,543**	**₱18,673**
Proportionate ownership in joint ventures (%)	**30**	**51**
	₱1,063	**₱9,523**

	2021	
	RBC JV	*SBPL*
	(Amounts in millions, except % of ownership)	
Net assets of joint ventures	₱3,023	₱15,957
Proportionate ownership in joint ventures (%)	30	51
	₱907	₱8,138

The following is the condensed financial information of joint ventures which are considered immaterial:

	2022	2021	2020
		(Amounts in millions)	
Share in net income (loss)	**₱37**	₱33	(₱113)
Share in other comprehensive loss	**–**	–	–
Share in total comprehensive income (loss)	**₱37**	₱33	(₱113)
Dividends received	**₱–**	₱–	₱5

9. Investment Properties

The movements in investment properties are as follows:

	2022		
	Land	**Buildings and Improvements**	**Total**
		(Amounts in millions)	
Cost:			
Balance at beginning of year	**₱1,428**	**₱206**	**₱1,634**
Additions	**–**	**3**	**3**
Balance at end of year	**1,428**	**209**	**1,637**
Less accumulated depreciation:			
Balance at beginning of year	**–**	**138**	**138**
Depreciation	**–**	**4**	**4**
Balance at end of year	**–**	**142**	**142**
	₱1,428	**₱67**	**₱1,495**

	2021		
	Land	Buildings and Improvements	Total
		(Amounts in millions)	
Cost:			
Balance at beginning of year	₱1,427	₱206	₱1,633
Additions	1	–	1
Balance at end of year	1,428	206	1,634
Less accumulated depreciation:			
Balance at beginning of year	–	134	134
Depreciation	–	4	4
Balance at end of year	–	138	138
	₱1,428	₱68	₱1,496

Investment properties consist of real properties held for capital appreciation, former substation sites and other non-regulatory asset base real properties. Some of these investment properties are being leased out.

The aggregate fair values of the investment properties are as follows:

	2022	2021
	(Amounts in millions)	
Land	**₱5,589**	₱4,653
Buildings and improvements	**136**	126

Land pertains primarily to properties where the *Rockwell JV* buildings and "Strip" mall are located. and other non-regulated asset base properties.

The fair values of investment properties were determined by independent, professionally qualified appraisers. The fair value represents the price that would be received to sell an investment property in an orderly transaction between market participants at the measurement date.

The fair value disclosures of the investment properties are categorized as Level 3 as there is no active market for identical or similar properties. The inputs include price per square meter ranging from ₱100 to ₱170,000. There have been no changes in the valuation techniques used.

In conducting the appraisal, the independent professional appraisers used one (1) of the following approaches:

a. Market Data or Comparative Approach

Under this approach, the value of the property is based on sales and listings of comparable property registered within the vicinity. This approach requires the establishment of a comparable property by reducing comparative sales and listings to a common denominator with the subject property. This is done by adjusting the differences between the subject property and those actual sales and listings regarded as comparables. The properties used are either situated within the immediate vicinity or at different floor levels of the same building, whichever is most appropriate to the property being valued. Comparison was premised on the following: location, size and physical attributes, selling terms, facilities offered and time element.

b. Depreciated Replacement Cost Approach

This method of valuation considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets, with allowance for accrued depreciation based on physical wear and tear and obsolescence.

10. Intangible Assets

The movements of intangible assets are as follows:

	2022						
	Software	**Franchise**	**Land and Leasehold Rights**	**Customer Contracts**	**Acquired network location**	**Build-to-suit contracts**	**Total**
	(Amounts in millions)						
Cost:							
Balance at beginning of year	**₱6,873**	**₱63**	**₱570**	**₱13,869**	**₱–**	**₱–**	**₱21,375**
Additions	**801**	**–**	**28**	**–**	**5,661**	**2,058**	**8,548**
Retirement	**(23)**	**–**	**(16)**	**–**	**–**	**–**	**(39)**
Reclassification	**(140)**	**–**	**(24)**	**6**	**–**	**–**	**(158)**
Balance at end of year	**7,511**	**63**	**558**	**13,875**	**5,661**	**2,058**	**29,726**
Less accumulated amortization:							
Balance at beginning of year	**5,051**	**–**	**377**	**893**	**–**	**–**	**6,321**
Amortization	**418**	**–**	**40**	**1,402**	**36**	**14**	**1,910**
Retirement	**(23)**	**–**	**(16)**	**–**	**–**	**–**	**(39)**
Reclassification	**(138)**	**–**	**–**	**(19)**	**–**	**–**	**(157)**
Balance at end of year	**5,308**	**–**	**401**	**2,276**	**36**	**14**	**8,035**
	₱2,203	**₱63**	**₱157**	**₱11,599**	**₱5,625**	**₱2,044**	**₱21,691**

		2021 (As restated – see Note 3)				
	Note	Software	Franchise	Land and Leasehold Rights	Customer Contracts	Total
				(Amounts in millions)		
Cost:						
Balance at beginning of year		₱5,969	₱49	₱932	₱–	₱6,950
Additions		865	–	75	–	940
Effect of consolidation of *GBPC*	*3*	6	–	–	13,494	13,500
Disposals/retirements		(5)	–	(31)	–	(36)
Reclassification	*7*	38	14	(406)	375	21
Balance at end of year		6,873	63	570	13,869	21,375
Less accumulated amortization:						
Balance at beginning of year		4,343	–	374	–	4,717
Amortization		719	–	37	893	1,649
Disposals/retirements		(5)	–	(31)	–	(36)
Reclassification		(6)	–	(3)	–	(9)
Balance at end of year		5,051	–	377	893	6,321
		₱1,822	₱63	₱193	₱12,976	₱15,054

On August 11, 2022, *MIDC* entered into a Sale and Leaseback Agreement with Globe Telecom, Inc. (*"Globe"*) where *MIDC* shall acquire 2,180 telecom towers and related passive infrastructure for a total consideration of ₱26.2 billion. Under the Master Lease Agreement, *Globe* will be the anchor tenant of the towers for an initial period of 15 years. In addition, Globe has commissioned *MIDC* to construct 900 additional build-to-suit towers over the next four years on which *Globe* will be the anchor tenant.

As of December 31, 2022, *MIDC* acquired 860 towers from *Globe* for a total price of ₱10.3 billion and recognized the following identifiable assets:

	Amounts in millions
Telecommunication towers and passive equipment	₱2,601
Acquired network location intangibles	5,661
Build-to-suit contract intangibles	2,058
Total assets acquired	₱10,320

Acquired network location intangibles represent the value to *MIDC* of the incremental revenue growth that could potentially be obtained from leasing the excess capacity on acquired towers to other mobile network operators. The build-to-suit contract intangibles pertain to the contractual commitment of *Globe* to engage *MIDC* in building additional towers to be leased by *Globe*.

11. Financial and Other Noncurrent Assets

This account consists of:

	Note	**2022**	2021
		(Amounts in millions)	
Financial assets:			
Debt securities at amortized cost	*15 and 27*	**₱19,503**	₱24,340
Restricted cash	*27*	**4,478**	4,698
Financial assets at *FVOCI*	*27*	**4,140**	8,467
Advance payments to a supplier	*27 and 30*	**361**	523
Nonfinancial assets:			
Under-recoveries of pass-through charges - net	*2 and 24*	**11,407**	10,597
Finance lease		**973**	565
Rental deposits		**779**	643
Deferred input *VAT*		**457**	1,585
Receivable from the *BIR*		**181**	181
Goodwill		**35**	35
Others		**1,606**	1,491
		₱43,920	₱53,125

Debt Securities at Amortized Cost

The details of debt securities at amortized cost are as follows:

	2022			2021		
	Current Portion (see *Note 15*)	**Noncurrent Portion**	**Total**	Current Portion (see *Note 15*)	Noncurrent Portion	Total
			(Amounts in millions)			
Government securities	**₱16,793**	**₱11,444**	**₱28,237**	₱11,873	₱21,136	₱33,009
Private debt securities	**1,000**	**8,059**	**9,059**	5,248	3,204	8,452
	₱17,793	**₱19,503**	**₱37,296**	₱17,121	₱24,340	₱41,461

This account represents investments in government securities issued by the Republic of Philippines and private debt securities issued by Philippine listed corporations.

Financial Assets at *FVOCI*

The details of financial assets at *FVOCI* are as follows:

	2022	2021
	(Amounts in millions)	
Investments in debt securities:		
Corporate bonds and other investments	**₱2,200**	₱6,569
Government securities	**–**	3
Investments in shares of stock and club shares	**1,940**	1,895
	₱4,140	₱8,467

Interest income from debt and equity securities amounted to ₱1,150 million, ₱1,316 million and ₱1,580 million for the years ended December 31, 2022, 2021 and 2020, respectively.

The rollforward of unrealized fair value gains on quoted *FVOCI* financial assets, net of tax, included in the consolidated statements of financial position follows:

	2022	2021
	(Amounts in millions)	
Balance at beginning of year	**₱502**	₱324
Unrealized fair value gains (losses) on fair value changes on:		
Debt securities	**(280)**	139
Equity securities	**89**	39
Balance at end of year	**₱311**	₱502

Net Under-Recoveries of Pass-through Charges

This account represents generation, transmission and other pass-through costs incurred by *MERALCO* and *Clark Electric* as *DU*s determined based on *ERC*-approved recovery mechanism, which shall be billed to customers, upon confirmation by the *ERC*. The balance also includes other net under-recoveries of generation, transmission and other pass-through charges of current and prior years, which are the subject of various applications for recovery and approval by the *ERC*.

Allowance for *ECL* on net under -recoveries of pass-through charges amounted to ₱2,925 million and ₱3,078 million as at December 31, 2022 and 2021, respectively.

See *Note 13 - Trade and Other Receivables*.

Deferred Input VAT

The amount includes portion of input *VAT* incurred and paid in connection with purchase of capital assets in excess of ₱1 million per month. As provided for under *RA* No. 9337 ("*EVAT Law*"), said portion of input *VAT* shall be deferred and credited evenly over the estimated useful lives of the related capital assets or 60 months, whichever is shorter, against the output *VAT* due. Under the Tax Reform for Acceleration and Inclusion ("*TRAIN*") Law that was signed by President Duterte on December 19, 2017, input *VAT* on capital goods purchased after December 31, 2021 shall be fully recognized outright and may be claimed as input tax credits against output tax. The deferred input *VAT* as of December 31, 2021 will continue to be amortized.

Finance Lease

Spectrum entered into bilateral *PSA*s to lease out solar power generation systems to its customers under a finance lease arrangement for a period of 25 years.

Spectrum recognized finance lease receivables equivalent to its net investments under the lease. Net investment in the lease is the fair value of the asset and the present value of the minimum lease payments, whichever is lower. The average implicit interest rate of the lease arrangements ranges from 7.07% to 12.52% per annum at the inception of the lease.

Minimum lease payment pertains to the price of estimated energy output that the asset can produce and deliver to the lessee. The difference of actual and minimum lease payments from finance lease arrangements is recognized under "Other income (expense)" account in the consolidated statement of income.

The lease payments made by the lessees consist of interest and principal determined using the effective interest rate method. The lease receivable is reduced by the principal received.

12. Cash and Cash Equivalents

This account consists of:

	2022	2021
	(Amounts in millions)	
Cash on hand and in banks	**₱17,198**	₱20,888
Cash equivalents	**38,634**	34,119
	₱55,832	₱55,007

Cash in banks earn interest at prevailing bank deposit rates. Cash equivalents are temporary cash investments, which are made for varying periods up of to three (3) months depending on *MERALCO Group*'s immediate cash requirements and earn interest at the prevailing short-term investment rates.

Interest income on cash in banks and cash equivalents amounted to ₱765 million, ₱515 million and ₱595 million for the years ended December 31, 2022, 2021 and 2020, respectively.

13. Trade and Other Receivables

This account consists of:

	Note	**2022**	2021
		(Amounts in millions)	
Trade:			
Electricity sold	*23 and 27*	**₱41,695**	₱35,264
Energy generated	*27*	**7,594**	5,087
Service contracts		**3,183**	3,814
Unbilled receivables	*24*	**3,118**	2,647
Nontrade	*23 and 27*	**6,208**	4,125
		61,798	50,937
Less allowance for expected credit losses		**7,115**	5,924
		₱54,683	₱45,013

Movements in allowance for expected credit losses for trade and other receivables are as follows:

	2022			
	Balance at Beginning of Year	**Provisions**	**Write-offs**	**Balance at End of Year**
		(Amounts in millions)		
Trade:				
Electricity sold	**₱3,751**	**₱2,137**	**(₱1,119)**	**₱4,769**
Energy generated	**1,120**	**(11)**	**(1)**	**1,108**
Other trade receivables	**785**	**1**	**–**	**786**
Nontrade receivables	**268**	**184**	**–**	**452**
	₱5,924	**₱2,311**	**(₱1,120)**	**₱7,115**

	2021				
	Balance at Beginning of Year	Provisions	Write-offs	Effect of Consolidation of *GBPC*	Balance at End of Year
	(Amounts in millions)				
Trade:					
Electricity sold	₱3,492	₱259	₱–	₱–	₱3,751
Energy generated	–	52	(34)	1,102	1,120
Other trade receivables	783	2	–	–	785
Nontrade receivables	30	238	–	–	268
	₱4,305	₱551	(₱34)	₱1,102	₱5,924

	2022					2021				
	Trade – Electricity Sold	**Trade – Energy Generated**	**Other Trade Receivables**	**Nontrade Receivables**	**Total**	Trade – Electricity Sold	Trade – Energy Generated	Other Trade Receivables	Nontrade Receivables	Total
	(Amounts in millions)									
Individually impaired	**₱2,420**	**₱–**	**₱786**	**₱452**	**₱3,658**	₱1,086	₱–	₱785	₱268	₱2,139
Collectively impaired	**2,349**	**1,108**	–	–	**3,457**	2,665	1,120	–	–	3,785
	₱4,769	**₱1,108**	**₱786**	**₱452**	**₱7,115**	₱3,751	₱1,120	₱785	₱268	₱5,924

Trade Receivables – Electricity Sold

Trade receivables of *MERALCO* and *Clark Electric* include charges for pass-through costs. Pass-through costs of *MERALCO* as *DU* consist of generation, transmission and *SL* charges, which represent 66%, 9% and 5%, respectively, of the total billed amount in 2022 and 58%, 9% and 4%, respectively, of the total billed amount in 2021. Billed receivables are due 10 days after bill date. *MERALCO*'s and *Clark Electric*'s trade receivables are noninterest-bearing and are substantially secured by bill deposits. Electricity consumed after the meter reading cut-off dates, which will be billed to customers in the immediately following billing period, is included as part of trade receivables.

See *Note 27 – Financial Assets and Financial Liabilities.*

Trade Receivables – Energy Generated

Trade receivables – Energy generated represent non-interest-bearing outstanding billings for energy fees and pass-through fuel costs arising from the delivery of electricity to customers and energy sales to the *WESM* by power generation subsidiaries. Normal credit term is 15 to 30 days from the date of receipt of billing.

Trade Receivables – Service Contracts

Service contracts receivable arise from contracts entered into by the *MIESCOR Group*, *e-MVI Group*, *CIS Group*, *MRail*, *MServ*, *Finserve*, *Comstech, eSakay* and *Spectrum* for construction, engineering, consulting and related manpower, light rail maintenance, telecommunications and data transport, e-transactions and bills collection, tellering and e-business development, energy systems management and harnessing renewable energy to third parties.

Receivables from service contracts and others are noninterest-bearing and are generally on 30- to 90-day terms.

See *Note 11 – Financial and Other Noncurrent Assets*.

14. Inventories

	2022	2021
	(Amounts in millions)	
Materials and supplies:		
At cost	**₱10,867**	₱10,057
At net realizable value ("*NRV*")	**10,629**	9,817
Materials and supplies at *NRV*	**₱10,629**	₱9,817

The net realizable value of inventories is net of allowance for inventory obsolescence of ₱238 million and ₱240 million as at December 31, 2022 and 2021, respectively. No item of inventory has been written off for the years ended December 31, 2022, 2021 and 2020.

See *Note 25 – Expenses and Income.*

15. Financial and Other Current Assets

	Note	**2022**	2021 (As restated – see Note 3
		(Amounts in millions)	
Financial assets:			
Debt securities at amortized cost	*11 and 27*	**₱17,793**	₱17,121
Short-term investments		**204**	444
Current portion of advance payments to a supplier	*27*	**199**	182
Nonfinancial assets:			
Prepayments		**3,962**	4,101
Input *VAT*		**6,057**	2,570
Prepaid tax		**3,714**	1,511
Others		**1,214**	2,388
		₱33,143	₱28,317

Short-term investments are temporary cash placements for varying periods beyond three (3) months but not exceeding 12 months and earn interest at the prevailing short-term placement investment rates.

16. **Equity**

Common Stock

	2022	2021
	(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 41,338 and 41,689 shareholders of *MERALCO*'s common shares as at December 31, 2022 and 2021, respectively.

Unappropriated Retained Earnings

The unappropriated retained earnings include accumulated earnings of subsidiaries, associates and joint ventures, the balance of *MERALCO*'s revaluation increment in utility plant, generation plant and others and investment properties carried at deemed cost, deferred tax assets and unrealized foreign exchange gains totaling to ₱66,595 million and ₱57,591 million as at December 31, 2022 and 2021, respectively. These amounts are restricted for dividend declaration purposes as of the close of the respective reporting year.

The following are the cash dividends declared on common shares for the years ended December 31, 2022, 2021 and 2020:

Declaration Date	Record Date	Payment Date	Dividend Per Share	Amount
				(In millions)
July 25, 2022	August 23, 2022	September 14, 2022	₱5.81	₱6,544
February 28, 2022	March 30, 2022	April 26, 2022	10.23	11,526
July 26, 2021	August 23, 2021	September 15, 2021	5.06	5,700
March 1, 2021	March 30, 2021	April 26, 2021	7.82	8,818
July 27, 2020	August 20, 2020	September 15, 2020	4.70	5,294
February 24, 2020	March 20, 2020	April 15, 2020	10.40	11,716

The *BOD*-approved dividend policy of *MERALCO* consists of (i) regular cash dividends equivalent to 50% of *CCNI* for the year, and (ii) special dividend determined on a "look-back" basis. Declaration and payment of special dividend are dependent on the availability of unrestricted retained earnings and free cash. The declaration, record and payment dates shall be consistent with the guidelines and regulations of the Philippine *SEC*.

Treasury Shares

Treasury shares represent 172,412 subscribed shares and the related rights of employees who have opted to withdraw from the *ESPP* in accordance with the provisions of the *ESPP* and which *MERALCO* purchased.

17. **Interest-bearing Long-term Financial Liabilities**

This account consists of the following:

	2022	2021
	(Amounts in millions)	
Long-term portion of interest-bearing financial liabilities - long-term debt	**₱68,757**	₱52,720
Current portion of interest-bearing financial liabilities:		
Long-term debt	**4,118**	7,644
Redeemable preferred stock	**1,467**	1,470
	5,585	9,114
	₱74,342	₱61,834

All of the redeemable preferred shares have been called as at June 30, 2011, consistent with the terms of the Preferred Shares Subscription Agreement. Accrued interests amounted to ₱249 million as at December 31, 2022 and 2021. Interest is no longer accrued from the time such preferred shares were called for redemption.

The details of interest-bearing long-term financial liabilities are as follows:

	2022	2021
	(Amounts in millions)	
MERALCO		
₱10.0 Billion Term Loan	**₱10,000**	₱–
12-year Puttable Bonds	**7,000**	7,000
₱7.2 Billion Note	**4,320**	4,680
MGen Group		
₱18.0 Billion Term Loan	**17,460**	17,910
₱11.6 Billion Term Loan	**11,099**	–
₱16.0 Billion Term Loan	**4,930**	5,510
₱4.5 Billion Term Loan	**3,860**	4,150
₱3.5 Billion Term Loan	**3,338**	–
₱3.0 Billion Term Loan	**2,907**	2,841
₱2.0 Billion Term Loan	**2,000**	–
₱1.5 Billion Term Loan	**460**	614
₱7.0 Billion Term Loan	**–**	3,869
₱11.0 Billion Term Loan	**–**	7,829
₱14.0 Billion Term Loan	**–**	4,200
Radius		
₱700 Million Term Loan	**700**	–
$2.9 Million Medium-Term Loan	**108**	–
MServ		
₱600 Million Term Loan	**450**	480
₱350 Million Note	**70**	140

(Forward)

	Note	2022	2021
		(Amounts in millions)	
MIESCOR			
₱4,444 Million Term Loan		**₱4,444**	₱–
₱375 Million Term Loan		**295**	383
eSakay			
₱27 Million Term Loan		**19**	23
Total long-term debt		**73,460**	59,629
Less unamortized debt issue costs		**934**	357
		72,526	59,272
Redeemable Preferred Stock		**1,467**	1,470
Fair value adjustment in relation to the purchase of *GBPC*	*3*	**349**	1,092
		74,342	61,834
Less current portion		**5,585**	9,114
Long-term portion of interest-bearing financial liabilities		**₱68,757**	₱52,720

The scheduled maturities of the outstanding long-term debt at nominal values as at December 31, 2022 are as follows:

	Amount
	(In millions)
Less than one (1) year	₱4,195
One (1) year up to two (2) years	7,820
More than two (2) years up to three (3) years	11,118
More than three (3) years up to four (4) years	4,482
More than four (4) years up to five (5) years	4,648
More than five (5) years	41,197
	₱73,460

MERALCO

₱10.0 Billion Term Loan

In December 2022, *MERALCO* obtained a ₱10,000 million, 10-year floating rate loan due in December 2032. The related interest is payable quarterly. The principal is payable in nominal annual amortizations with a balloon payment upon final maturity.

12-year Puttable Bonds

The ₱7,000 million 12-year Puttable Bond is the balance of the total ₱18,000 million Puttable Bonds issued in December 2013, puttable in 10 years. This also includes a call option, whereby *MERALCO* may redeem (in whole but not in part only) the outstanding bonds on the 7th year from issue date at the early redemption price of 101.0%. The call option was not exercised. The put and call options are clearly and closely related to the host instruments, and thus, were not recognized separately.

₱7.2 Billion Note

MERALCO's ₱7,200 million, 10-year Fixed Rate Note Facility is due in February 2024. The principal is payable in nominal annual amortizations with a balloon payment upon final maturity.

MGen Group

₱18 Billion Term Loan

GBPC has a ₱18,000 million, 15-year term loan due in May 2036. Interest rate is subject to repricing on the 5th year. The principal is payable semi- annually until maturity.

₱11.6 Billion Term Loan

On April 28, 2022, *PEDC* obtained a ₱11,580 million, 12-year term loan due in April 2034. The principal and related interest are payable semi-annually. The proceeds of this loan were used to refinance its ₱11.0 billion and ₱14.0 billion term loans, that were to mature in 2027 and 2022, respectively.

₱16.0 Billion Term Loan

CEDC's ₱5.8 Billion Term Loan represents a restructured loan from the original project financing obligation. This restructured loan is payable over 10 years until June 2031.

₱4.5 Billion Term Loan

This bilateral term loan with a consortium of banks was used to finance the acquisition of a 50% less one share in *ATEC*. The loan is a fixed rate 12-year facility with quarterly principal repayment commencing three (3) years from the drawdown date.

₱3.5 Billion Term Loan

On July 18, 2022, *TPC* obtained a ₱3,500 million, 5-year term loan due in July 2027. The principal and related interest are payable quarterly. The proceed of this loan was used to pre-terminate the ₱7.0 billion term loan due in 2025.

₱3.0 Billion Term Loan

First Bulacan obtained a ₱3,039 million, 15-year term loan with interest repricing on the 10th year and the principal amount payable until November 2034.

₱2.0 Billion Term Loan

On September 1, 2022, *PHRI* obtained a ₱2,000 million, 15-year term loan due in September 2037. The principal and related interest are payable semi-annually.

₱1.5 Billion Term Loan

This ₱1,500 million loan of *CEDC* was used for general financing and other corporate requirements. The principal and related interest are payable semi-annually until December 2025.

Radius

₱700 Million Term Loan

On August 9, 2022, *Radius* obtained a ₱700 million, 7-year term loan. The principal and interest are payable quarterly until August 2029.

$2.9 Million Medium-Term Loan

In 2022, *Radius* obtained a $2.9 million, medium-term loan. The principal and interest are payable quarterly until July 2024.

MServ

₱600 Million Term Loan

MServ obtained a ₱600 million, 10-year fixed rate term loan. The principal is payable annually until January 2027 while the related interest is payable semi-annually.

₱350 Million Note

MServ has a ₱350 million fixed rate note payable to a local bank. The principal is payable semi-annually until July 2023.

MIESCOR

MIDC drew ₱4,444 million out of the total ₱27,000 million floating rate term loan facility. The principal and related interest are payable quarterly until October 2037.

₱375 Million Term Loan

On June 17, 2021, *MIESCOR* obtained a ₱375 million, fixed rate term loan, payable semi-annually until June 2028.

eSakay

₱27 Million Term Loan Facility

On November 8, 2019, *eSakay* obtained a ₱27 million, seven (7)-year fixed rate term loan, with principal amount payable until November 2026.

The annual interest rates of the interest-bearing financial liabilities range from 4.50% to 6.90% and 4.50% to 10.81% as at December 31, 2022 and 2021, respectively.

Debt Covenants

MERALCO's loan agreements require compliance with debt service coverage of 1.1 times calculated on specific measurement dates. The agreements also contain restrictions with respect to the creation of liens or encumbrances on assets, issuance of guarantees, mergers or consolidations, disposition of a significant portion of its assets and related party transactions.

Under their respective loan agreements, *MERALCO*'s subsidiaries are required to meet certain pre-agreed financial ratios at all times until full payment of the obligation. *GBPC* is prohibited from entering into merger or consolidation, unless *GBPC* is the surviving entity.

As at December 31, 2022 and 2021, the *MERALCO Group* is in compliance with all of the covenants of the loan agreements.

Interest expense on interest-bearing long-term financial liabilities amounted to to ₱2,760 million, ₱2,265 million and ₱473 million for the years ended December 31, 2022, 2021 and 2020, respectively.

Unamortized Debt Issue Costs

The following presents the changes to the unamortized debt issue costs:

	Note	**2022**	2021
		(Amounts in millions)	
Balance at beginning of year		**₱357**	₱78
Additions		**705**	205
Effect of consolidation of *GBPC*	*3*	**–**	125
Amortization charged to interest and other financial charges	*24*	**(128)**	(51)
Balance at end of year		**₱934**	₱357

Redeemable Preferred Stock

The movements in the number of shares of the redeemable preferred stock, which have all been called, are as follows:

	2022	2021
Balance at beginning of year	**147,015,281**	147,158,808
Redemptions	**(352,940)**	(143,527)
Balance at end of year	**146,662,341**	147,015,281

The original "Terms and Conditions" of *MERALCO*'s Special Stock Subscription Agreement, which required an applicant to subscribe to preferred stock with 10% dividend to cover the cost of extension of, or new, distribution facilities, have been amended by the *Magna Carta* and the *DSOAR,* effective June 17, 2004 and January 18, 2006, respectively. The amendment sets forth the guidelines for the issuance of preferred stock, only if such instrument is available.

18. **Customers' Deposits**

This account consists of:

	2022			2021		
	Current Portion (see *Note 22*)	**Noncurrent Portion**	**Total**	Current Portion (see *Note 22*)	Noncurrent Portion	Total
			(Amounts in millions)			
Bill deposits	**₱2,925**	**₱31,590**	**₱34,515**	₱2,460	₱30,901	₱33,361
Meter deposits	**316**	**–**	**316**	315	–	315
	₱3,241	**₱31,590**	**₱34,831**	₱2,775	₱30,901	₱33,676

Bill Deposits

Bill deposits serve to guarantee payment of bills by a customer.

As provided in the *Magna Carta* and *DSOAR*, all captive customers of the *DU* are required to pay a deposit, equivalent to the estimated monthly bill calculated based on applied load. Such deposit shall be updated annually based on the historical 12-month average bill. A captive customer who has paid his electric bills on or before due date for three (3) consecutive years may apply for the full refund of the bill deposit, together with the accrued interests, prior to the termination of his service; otherwise bill deposits and accrued interests shall be refunded within one (1) month from the termination of service, provided all bills have been paid.

Under the amended *DSOAR,* which became effective on April 1, 2010, interest on bill deposits for both residential and non-residential customers shall be computed using the equivalent peso savings account interest rate of the Land Bank of the Philippines ("*Land Bank*") or other government banks, on the first working day of the year, subject to the confirmation by the *ERC.*

As provided for under *ERC* Resolution No. 1, Series of 2011, *A Resolution Adopting the Revised Rules for the Issuance of Licenses to Retail Electricity Suppliers*, a local *RES* may require security deposits from its contestable customers, which shall earn interest equivalent to the actual interest earnings of the total amount of deposits received from the customers.

On May 10, 2019, *MERALCO* received a copy of the Petition dated April 27, 2019 filed by various partylist representatives which questioned the imposition of bill deposits by the *DU* for its captive customers.

The Petition prayed that the provisions on bill deposits in the Magna Carta be declared as illegal and void and that *MERALCO* and other *DU*s be permanently prohibited from imposing and collecting bill deposit from the captive market. The Petition further prayed that the bill deposit be refunded and/or that combining the bill deposits with the general funds of *MERALCO* be disallowed. Lastly, the Petition prayed for the conduct of an audit of the bill deposits collected by *MERALCO.*

MERALCO filed its Comment to the Petition on October 18, 2019. On October 28, 2019, the *OSG* filed a Manifestation and Motion to drop *COA* as a respondent in the case. In a Resolution dated February 4, 2020, the *SC* required *COA* to file their comments on the Petition. On July 27, 2020, *MERALCO* received a copy of the Comment filed by the *COA*, through the *OSG.*

On September 8, 2020, the *SC* issued a Notice of Resolution noting the Comment filed by the *OSG* and requiring petitioners to file a consolidated reply within ten (10) days from notice. On November 24, 2020, *MERALCO* received the petitioners' Consolidated Reply to the Separate Comment/Opposition of the *ERC*, *MERALCO*, and *COA* dated November 10, 2020.

The following are the movements of the bill deposits account:

	Note	**2022**	2021
		(Amounts in millions)	
Balance at beginning of year		**₱33,361**	₱32,105
Additions		**3,212**	3,002
Refunds		**(2,058)**	(1,746)
Balance at end of year		**34,515**	33,361
Less portion maturing within one year	*22*	**2,925**	2,460
Noncurrent portion of bill deposits and related interests		**₱31,590**	₱30,901

Interest expense on bill deposits amounted to ₱21 million, ₱21 million and ₱35 million for the years ended December 31, 2022, 2021 and 2020, respectively.

Meter Deposits

Meter deposits were intended to guarantee the cost of meters installed.

The *Magna Carta* for residential customers (effective July 19, 2004) and *DSOAR* (effective February 2, 2006) for non-residential customers exempt all customer groups from payment of meter deposits beginning July 2004 for residential customers and February 2006 for non-residential customers.

MERALCO implemented refund of said deposits to its customers based on the *ERC* Resolution No. 8, Series of 2008, otherwise known as "Rules to Govern the Refund of Meter Deposits to Residential and Non-Residential Customers" ("*Rules*") which required the refund of meter deposits from the effectivity of said *Rules* on July 5, 2008.

The total amount of refund shall be equivalent to the meter deposit paid by the customer plus the total accrued interest earned from the time the customer paid the meter deposit until the day prior to the start of refund.

In July 2016, *MERALCO* deposited the amount equivalent to the unclaimed meter deposits in a single savings account. As at February 27, 2023, the matter is still pending with the *ERC.*

19. Provisions

Provisions consist of amounts recognized related to certain proceedings and claims against *MERALCO Group*, among others. The movements follow:

	Note	**2022**	2021
		(Amounts in millions)	
Balance at beginning of year		**₱37,036**	₱38,992
Provisions for the year – net		**11,439**	4,432
Settlements		**(24,776)**	(6,388)
Reclassification from other noncurrent liabilities	*22*	**37,122**	–
Balance at end of year		**60,821**	37,036
Less current portion	*22*	**48,164**	23,482
Noncurrent portion of provisions		**₱12,657**	₱13,554

The balance of provisions substantially represents the amounts of claims related to a commercial contract which remains unresolved and local taxes being contested as discussed in *Note 29 – Contingencies and Legal Proceedings*, consistent with the limited disclosure as allowed in *PFRS*.

20. Customers' Refund

This account represents the balance of the refund related to the *SC* decision promulgated on April 30, 2003, which is continuously being refunded based on documents presented by qualified claimants. The unclaimed amount is deposited in a separate interest-bearing bank account.

MERALCO implemented the *SC* ruling which ordered the refund of ₱0.167 per *kWh* for billings made from February 1994 to April 2003 in four (4) phases. *MERALCO* continues to process refunds as the eligible customers present their required supporting documents until the *ERC* directs otherwise and approves *MERALCO*'s proposed scheme on how the unclaimed refund shall be utilized for purposes of reducing the distribution rates of consumers.

In 2021, the *ERC* through its appointed consultant conducted an audit and verification of *MERALCO*'s refunds, which included *MERALCO*'s *SC* refund. The audit has been completed and as at February 27, 2023, *MERALCO* is awaiting further action of the *ERC* on the matter.

See *Note 2 – Rate Regulations*.

21. Notes Payable

Notes payable represent unsecured interest-bearing working capital loans obtained from local banks. Annual interest rates were up to 4.00% and 5.40% as at December 31, 2022 and 2021, respectively.

Interest expense on notes payable amounted to ₱1,187 million, ₱1,238 million and ₱994 million for the years ended December 31, 2022, 2021 and 2020, respectively.

22. Trade Payables and Other Current Liabilities

This account consists of the following:

	Note	2022	2021 (As restated – see Note 3)
		(Amounts in millions)	
Trade accounts payable	*23 and 24*	**₱72,121**	₱54,489
Provisions	*2, 19 and 29*	**48,164**	23,482
Taxes		**17,299**	15,071
Accrued expenses:			
Employee benefits		**2,151**	2,095
Interest	*17*	**299**	264
Others		**3,279**	4,840
Current portions of:			
Bill deposits and related interests	*18*	**2,925**	2,460
Deferred income		**1,126**	961
Meter deposits and related interests	*18*	**316**	315
Refundable service extension costs		**1,772**	1,660
Dividends payable on:			
Common stock	*16*	**2,878**	2,021
Redeemable preferred stock	*17*	**249**	249
Payable to customers		**7,968**	6,731
Universal charges payable	*32*	**2,227**	2,373
FiT-All payable	*32*	**358**	957
Regulatory fees payable		**290**	263
Other current liabilities		**480**	836
		₱163,902	₱119,067

Trade Accounts Payable

Trade accounts payable mainly represent obligations to power generating companies, *NGCP* and *IEMOP* for cost of power purchased and transmission services. In addition, this account includes liabilities due to local and foreign suppliers for purchases of goods and services, consisting of transformers, poles, coal, materials and supplies, and contracted services, among others.

Trade payables are non-interest-bearing and are generally settled within 15 to 30 days from the receipt of invoice. Other payables are non-interest-bearing and due within one (1) year from incurrence.

See *Note 23 – Related Party Transactions, Note 24 – Revenue and Purchased Power* and *Note 30 – Significant Contracts and Commitments.*

Refundable Service Extension Costs

Article 14 of the *Magna Carta*, specifically, "Right to Extension of Lines and Facilities", requires a customer requesting for an extension of lines and facilities beyond 30-meter service distance from the nearest voltage facilities of the *DU* to advance the cost of the project. The amended *DSOAR*, which became effective April 1, 2010, requires such advances from customers to be refunded at the rate of 75% of the distribution revenue generated from the extension lines and facilities until such amounts are fully refunded. The related asset shall form part of the rate base only as the refund is paid out. Customer advances are non-interest-bearing.

As at December 31, 2022 and 2021, the noncurrent portion of refundable service extension costs of ₱4,653 million and ₱5,334 million, respectively, is presented as "Refundable service extension costs - net of current portion" account in the consolidated statements of financial position.

Universal Charges Payable

Universal charges are amounts passed on and collected from customers on a monthly basis by *DU*s. These are charges imposed to recover stranded debts, stranded contract costs of *NPC*, stranded contract costs of eligible contracts of *DU*s, missionary electrification and environment charges. *DU*s remit collections monthly to *PSALM* who administers the fund generated from universal charges and disburses the said funds in accordance with the intended purposes.

Payable to Customers

Payable to customers represents amounts credited to customers's bills or paid by customers in advance and which are being applied to their current consumption.

Taxes

Taxes represent pass-through *VAT*, output *VAT*, withholding taxes and energy taxes payable. Pass-through *VAT* pertains to *VAT* on generation and transmission costs billed to the *DU*, which are in turn billed to the customers. Remittance of such pass-through *VAT* to the generation companies is based on collection of billed receivables from the customers.

23. Related Party Transactions

The *MERALCO Group* has approval process and limits on the amount and extent of related party transactions.

The following summarizes the total amount of transactions, which have been provided and/or contracted by the *MERALCO Group* to/with related parties for the relevant year. The outstanding balances are unsecured, non-interest-bearing and settled in cash.

Pole Attachment Contract with PLDT, Inc. ("*PLDT*")

MERALCO has a pole attachment contract with *PLDT* similar to pole attachment contracts of *MERALCO* with third parties/ telecommunication companies. Under the pole attachment contract, *PLDT* shall use the contracted cable positions exclusively for its telecommunication cable network facilities.

Sale of Electricity under Various Service Contracts

MERALCO sells electricity to its subsidiaries, associates, joint ventures and related party shareholder groups with operations within the franchise area, namely, *PLDT*, *Metro Pacific* and *JG Summit* and their respective subsidiaries and affiliates. The rates charged to related parties are the same *ERC*-mandated rates applicable to all customers within the franchise area. Also, rate charges of *RES* for generation charge uses the same rate model for other customers.

Purchase of Telecommunication Services from PLDT and Subsidiaries

The *MERALCO Group*'s telecommunications carriers include *PLDT* for its wireline and Smart Communications, Inc. and Digitel Mobile Philippines, Inc., for its fixed and wireless services. Such services are covered by standard service contracts between the telecommunications carriers and each legal entity within the *MERALCO Group*.

Lease Agreement with Robinsons Land Corporation ("RLC")

In 2022, *MERALCO* entered into various lease agreements with *RLC* for its temporary office premises for period ranging from 12 months to 15 months.

Purchase of Goods and Services

In the ordinary course of business, the *MERALCO Group* purchases goods and services from its affiliates and sells power and renders services to such affiliates.

PSA with SBPL

As discussed in Note 30, *MERALCO* has a long-term *PSA* with *SBPL*.

Following is a summary of related party transactions in 2022, 2021 and 2020 and the outstanding balances as at December 31, 2022 and 2021:

	Amount of Transactions			Outstanding Receivable (Liability)			
Category	**2022**	2021	2020	**2022**	2021	Terms	Conditions
	(Amounts in millions)						
Sale of electricity:							
JG Summit Group	**₱3,919**	₱2,704	₱2,542	**₱2,257**	₱387	10-day; noninterest-bearing	Unsecured, no impairment
PLDT Group	**1,224**	1,233	1,192	**86**	85	10-day; noninterest-bearing	Unsecured, no impairment
Metro Pacific Group	**391**	410	415	**40**	158	10-day; noninterest-bearing	Unsecured, no impairment
Purchases of IT services - *Indra Philippines*	**940**	922	1,228	**(377)**	(362)	30-day; noninterest-bearing	Unsecured

(Forward)

Category	Amount of Transactions			Outstanding Receivable (Liability)		Terms	Conditions
	2022	2021	2020	**2022**	2021		
	(Amounts in millions)						
Purchases of meters and devices – *Aclara Meters*	**₱147**	₱248	₱157	**₱–**	(₱23)	30-day; noninterest-bearing	Unsecured
Purchases of medical services - *Colinas Verdes Hospital Managers*	**192**	238	143	**(7)**	–	30-day; noninterest-bearing	Unsecured
Revenue from pole attachment - *PLDT*	**689**	599	541	**5**	73	Advance payment	Unsecured, no impairment
Lease of office premises - *RLC*	**46**	–	–	–	–	30-day; noninterest-bearing	Unsecured
Purchases of wireline and wireless services - *PLDT Group*	**103**	90	105	**(13)**	(11)	30-day; noninterest-bearing	Unsecured
Purchases of insurance premium - *MPioneer*	**451**	412	449	**(2)**	(3)	30-day; noninterest-bearing	Unsecured
Donations to One Meralco Foundation	**99**	71	76	–	–	None	None
Purchases of power:							
SBPL	**26,795**	15,973	12,902	**(1,773)**	(746)	30-day; noninterest-bearing	Unsecured
PEDC [1]	**–**	372	1,812	**–**	–	30-day; noninterest-bearing	Unsecured

[1] *On March 31, 2021, MERALCO, through MGen, acquired 86% combined equity in GBPC from MPIC and JG Summit, increasing MGen's equity to 100%.*

Advances to FPM Power

As at December 31, 2021, *FPM Power*'s non-interest-bearing loan from *MPG Asia* amounting to US$110 million (₱5,748 million) as at December 31, 2021 was fully impaired. On November 25, 2022, *MPG Asia* converted the loan to additional equity investment in *FPM Power.*

See *Note 15 – Financial and other Current Assets and Note 8 – Investments in Associates and Interests in Joint Ventures.*

Transaction with MERALCO Retirement Benefits Fund ("*Retirement Fund*")

MERALCO's Retirement *Fund* holds 6,000 common shares of *RP Energy* at par value of ₱100 per share, with total carrying amount of ₱600,000 or an equivalent 3% equity interest in *RP Energy.* The fair value of *RP Energy*'s common shares cannot be reliably measured as these are not traded in the financial market. As at December 31, 2022 and 2021, the fair value of the total assets being managed by the *Fund* amounted to ₱31.6 billion and ₱34.6 billion, respectively.

See *Note 25 – Long-Term Employee Benefits.*

Compensation of Key Management Personnel

The compensation of key management personnel of the *MERALCO Group* by benefit type is as follows:

	2022	2021	2020
		(Amounts in millions)	
Short-term employee benefits	**₱643**	₱549	₱559
Long-term employee incentives and retirement benefits	**280**	280	137
Total compensation to key management personnel	**₱923**	₱829	₱696

All directors are entitled to a reasonable per diem for their attendance in meetings of the *BOD* and Board Committees plus an additional compensation, provided that the total value of such additional compensation, in whatever form so given, shall not exceed one (1) percent of the income before income tax of *MERALCO* during the preceding year.

Each of the directors is entitled to a per diem of ₱140,000 for every *BOD* meeting attended. Each member of the Audit, Risk Management, Remuneration and Leadership Development, Finance, Related Party Transactions and Nomination and Governance Committees is entitled to a fee of ₱24,000 for every committee meeting attended. Also, the members of the *BOD* are entitled to a stock grant based on a pre-approved number of shares for each director which was implemented beginning May 2013 as approved by the stockholders. The directors have the option to receive the number of shares granted or the equivalent cash value.

As at December 31, 2022, there are no agreements between the *MERALCO Group* and any of its key management personnel providing for benefits upon termination of employment or retirement, except with respect to benefits provided under (i) a defined benefit retirement plan, (ii) a program which aims to address capability refresh and organizational optimization requirements, and (iii) a contributory provident plan. Post-retirement benefits under the defined benefit retirement plan cover employees hired up to December 31, 2003 only. The provident plan, which is implemented on a voluntary basis, covers employees hired beginning January 1, 2004.

24. Revenues and Purchased Power

Revenues

The *MERALCO Group* disaggregates its revenue information in the same manner as it reports its segment information.

See *Note 6 – Segment Information.*

Contract Assets and Contract Liabilities

The *MERALCO Group*'s contract balances are as follows:

	2022	2021
	(Amounts in millions)	
Contract assets:		
Unbilled receivables	**₱3,118**	₱2,647
Under-recoveries of pass-through charges - net	**11,407**	10,597
Contract liabilities:		
Non-refundable liability related to asset funded by customers	**869**	866
Over-recoveries from transmission, lifeline subsidy and *SL* charges	**559**	597

Income recognized from the non-refundable liability related to assets funded by customers amounted to ₱203 million, ₱114 million and ₱94 million for the years ended December 31, 2022, 2021 and 2020, respectively.

Purchased Power

The details of purchased power are as follows:

	2022	2021	2020
		(Amounts in millions)	
Generation costs	**₱279,328**	₱190,416	₱167,241
Transmission costs	**43,317**	34,499	37,179
	₱322,645	₱224,915	₱204,420

Purchased power costs for the captive customers are pass-through costs and are revenue-neutral to *MERALCO* and *Clark Electric,* as *DU*s.

Generation costs include any line rentals, market fees and must-run unit charges billed by *IEMOP.*

The details of purchased power follow:

	2022	2021	2020
		(Amounts in millions)	
"*FGPC*" and FGP Corp. ("*FGP*")	**₱76,145**	₱51,164	₱43,659
NGCP	**43,356**	34,539	37,230
IEMOP	**40,655**	21,721	14,523
QPPL	**28,793**	16,289	13,990
SBPL	**26,795**	15,973	12,902
South Premiere Power Corporation ("*SPPC*")	**25,679**	25,643	24,166
San Miguel Energy Corporation ("*SMEC*")	**21,625**	15,535	16,639
Masinloc Power Partners Co. Ltd. ("*MPPCL*")	**18,712**	8,522	8,056
First NatGas Power Corp. ("*FNPC*")	**14,971**	9,309	8,456

(Forward)

	2022	2021	2020
		(Amounts in millions)	
AC Energy Philippines, Inc. ("*AC Energy*")	**₱10,562**	₱10,790	₱9,023
Therma Luzon, Inc. ("*TLI*")	**4,161**	2,219	7,033
Southwest Luzon Power Generation Corporation	**2,672**	1,982	34
First Gen Hydro Power Corporation ("*FGHPC*")	**1,378**	2,507	723
Energy Development Corporation ("*EDC*")	**1,015**	–	–
PEDC	**969**	2,264	1,812
Sem-Calaca Power Corporation ("*Sem-Calaca*")	**644**	4,933	3,650
Solar Philippines Tarlac Corporation ("*Solar Philippines Tarlac*")	**370**	425	338
Therma Mobile, Inc. ("*TMO*")	**–**	–	516
Millenium Energy, Inc. ("*MEI*")	**–**	–	307
Others	**4,143**	1,100	1,363
	₱322,645	₱224,915	₱204,420

Generation and transmission costs are net of company use amounting to ₱480 million, ₱351 million and ₱321 million for the years ended December 31, 2022, 2021 and 2020, respectively.

Generation and transmission costs over- or under-recoveries result from the lag in the billing and recovery of generation and transmission costs from consumers. As at December 31, 2022 and 2021, the total transmission costs and *SL* charge over-recoveries included in "Other noncurrent liabilities" account in the consolidated statements of financial position amounted to ₱484 million and ₱532 million, respectively.

25. Expenses and Income

Salaries, Wages and Employee Benefits

	Note	**2022**	2021	2020
			(Amounts in millions)	
Salaries, wages and related employee benefits		**₱14,150**	**₱13,651**	₱10,691
Retirement benefits	*26*	**1,531**	**2,140**	1,496
Other post-employment benefits	26	**155**	**101**	114
		₱15,836	**₱15,892**	₱12,301

Depreciation and Amortization

	Note	**2022**	2021	2020
			(Amounts in millions)	
Utility plant, generation plant and others	*7*	**₱14,117**	₱10,846	₱8,065
Intangible assets	*10*	**1,910**	1,649	486
Investment properties	*9*	**4**	4	4
		₱16,031	₱12,499	₱8,555

Other Expenses

	Note	**2022**	2021	2020
			(Amounts in millions)	
Materials used	*14*	**₱4,104**	₱2,792	₱1,712
Rent and utilities		**1,314**	971	732
Transportation and travel		**597**	390	255
Insurance		**483**	459	391
Advertising		**278**	200	222
Communication	*22*	**190**	157	148
Others		**1,486**	1,343	807
		₱8,452	₱6,312	₱4,267

26. Long-term Employee Benefits

Liabilities for long-term employee benefits consist of the following:

	2022	2021
		(Amounts in millions)
Retirement benefits liability	**₱1,571**	₱5,625
Other post-employment benefits	**1,316**	2,091
Long-term incentives	**3,756**	2,541
	6,643	10,257
Less current portion	**3,750**	–
	₱2,893	₱10,257

Defined Benefit Retirement Plans

The features of the *MERALCO Group*'s defined benefit plans are discussed in *Note 4 – Significant Accounting Policies, Changes and Improvements.*

Actuarial valuations are prepared annually by the respective independent actuaries engaged by *MERALCO* and its subsidiaries.

Expense recognized for defined benefit plans (included in "Salaries, wages and employee benefits" account in the consolidated statements of income)

	2022	2021	2020
		(Amounts in millions)	
Current service costs	**₱1,197**	₱1,579	₱1,194
Net interest costs	**273**	509	255
Net retirement benefits expense	**₱1,470**	₱2,088	₱1,449

Retirement Benefits Liability

	2022	2021
		(Amounts in millions)
Defined benefit obligation	**₱33,143**	₱40,192
Fair value of plan assets	**(31,572)**	(34,567)
Net retirement benefits liability	**₱1,571**	₱5,625

Changes in the net retirement benefits liability are as follows:

	2022	2021
		(Amounts in millions)
Retirement benefits liability at beginning of year	**₱5,625**	₱12,013
Net retirement benefits expense	**1,470**	2,088
Amounts recognized in *OCI*	**(5,274)**	(8,766)
Effect of consolidation of *GBPC*	**–**	1,055
Contributions by employer	**(250)**	(765)
Net retirement benefits liability at end of year	**₱1,571**	₱5,625

Changes in the present value of the defined benefits obligation are as follows:

	2022	2021
		(Amounts in millions)
Defined benefit obligation at beginning of year	**₱40,192**	₱45,918
Interest costs	**1,853**	1,735
Current service costs	**1,197**	1,579
Benefits paid	**(2,515)**	(2,603)
Effect of consolidation of *GBPC*	**–**	1,595
Actuarial gains due to:		
Changes in financial assumptions	**(9,336)**	(8,451)
Experience adjustments	**1,752**	419
Defined benefit obligation at end of year	**₱33,143**	₱40,192

Changes in the fair value of plan assets are as follows:

	2022	2021
	(Amounts in millions)	
Fair value of plan assets at beginning of year	**₱34,567**	₱33,905
Interest income	**1,580**	1,226
Contributions by employer	**250**	765
Return on plan assets, excluding amount included in net interest on the net defined benefit obligation and interest income	**(2,310)**	734
Effect of consolidation of *GBPC*	**–**	540
Benefits paid	**(2,515)**	(2,603)
Fair value of plan assets at end of year	**₱31,572**	₱34,567

The Board of Trustees ("*BoT*") of the *Retirement Fund* is chaired by the Chairman of *MERALCO*, who is neither an executive nor a beneficiary. The other members of the *BoT* are (i) an executive member of the *BOD*; (ii) two (2) senior executives; (iii) an independent member of the *BOD*; and (iv) a member of the *BOD* who represents the largest shareholder group, none of whom are beneficiaries of the plan.

The *Retirement Fund* follows a conservative approach of investing in fixed income, money market and equity assets to diversify the portfolio in order to minimize risk while maintaining an adequate rate of return. The assets of the *Retirement Fund* are managed by four (4) local and one (1) foreign trustee banks whose common objective is to maximize the long-term expected return of plan assets. The *BoT* periodically reviews and approves the strategic mandate of the portfolio to ensure the ability of the *Retirement Fund* to service its short-term and long-term obligations.

The major categories of plan assets are as follows:

	2022	2021
	(Amount in millions)	
Investments quoted in active markets:		
Quoted equity investments:		
Holding firms	**₱2,388**	₱2,912
Banks	**846**	954
Property	**607**	894
Telecommunication	**420**	601
Electricity, energy, power and water	**372**	446
Food, beverages and tobacco	**366**	572
Transportation services	**264**	284
Retail	**88**	199
Construction, infrastructure and allied services	**–**	9
Others	**1,859**	2,233
Quoted debt investments:		
"AAA" rated securities	**9,359**	9,886
Government securities	**9,364**	9,780
Cash and cash equivalents	**2,268**	2,183
Receivables	**1,517**	1,760
Real property	**1,853**	1,853
Others	**1**	1
Fair value of plan assets	**₱31,572**	₱34,567

Marketable equity securities, government securities, bonds and commercial notes are investments held by the trustee banks.

Other Long-term Post-employment Benefits (included as part of "Salaries, wages and employee benefits" account in the consolidated statements of income)

	2022	2021	2020
		(Amounts in millions)	
Interest costs	**₱104**	₱74	₱88
Current service costs	**51**	27	26
	₱155	₱101	₱114

Other Long-term Post-employment Benefits Liability

Changes in the present value of other long-term post-employment benefits liability are as follows:

	2022	2021
	(Amounts in millions)	
Balance at beginning of year	**₱2,091**	₱2,007
Interest costs	**104**	74
Current service costs	**51**	27
Benefits paid	**(60)**	(112)
Actuarial losses (gains) due to change in assumptions	**(870)**	95
Balance at end of year	**₱1,316**	₱2,091

Actuarial Assumptions

The principal assumptions used in determining retirement benefits and other long-term post-employment benefits obligations are shown below:

	2022	2021
Annual discount rate	**7.12%**	4.96%
Future range of annual salary increases	**4.00%-10.00%**	**4.00%-10.00%**

Sensitivity Analysis

The sensitivity analysis below has been determined based on a method that extrapolates the impact on the defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting year. The calculation of the defined benefit obligation is sensitive to the assumptions set above. The following table summarizes how the impact on the defined benefit obligation at the end of the reporting year would have increased (decreased) as a result of a change in the respective assumptions, keeping all other assumptions constant. There have been no changes in the method and assumptions used in the sensitivity analysis from prior year.

The sensitivity analysis may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation from one another.

		Effect on Present Value of Defined Benefit Obligation	
	% Change	**2022**	2021
		(Amounts in millions)	
Annual discount rate	+1.0%	**(₱3,252)**	(₱4,450)
	-1.0%	**3,858**	5,672
Future range of annual salary increases	+1.0%	**1,105**	1,634
	-1.0%	**(986)**	(1,442)

Funding

MERALCO contributes to the *Retirement Fund* from time to time such amounts of money required under accepted actuarial principles to maintain the *Retirement Fund* in a sound condition, subject to the provisions of the *Plan*.

The amount of the annual contributions to the *Retirement Fund* is determined through an annual valuation report performed by an independent actuary.

The following is the maturity profile of the undiscounted benefit obligation (amounts in millions):

Less than one (1) year	₱3,629
One (1) year up to five (5) years	16,050
More than five (5) years up to 10 years	16,757
More than 10 years up to 15 years	12,643
More than 15 years up to 20 years	14,226
More than 20 years	32,148

Risk

The *Retirement Fund* is exposed to the following risks:

Credit Risk
The *Retirement Fund*'s exposure to credit risk arises from its financial assets which comprise of cash and cash equivalents, investments and receivables. The credit risk results from the possible default of the issuer of the financial instrument, with a maximum exposure equivalent to the carrying amounts of the instruments.

The credit risk is minimized by ensuring that the exposure to the various chosen financial investment structures is limited primarily to government securities and bonds or notes duly recommended by the Trust Committees of the appointed fund managers of the *Retirement Fund.*

Share Price Risk
The *Retirement Fund*'s exposure to share price risk arises from the shares of stock it holds and are traded at the *PSE*. The share price risk emanates from the volatility of the stock market.

The policy is to limit investment in shares of stock to blue chip issues or issues with good fair values or those trading at a discount to its net asset value so that in the event of a market downturn, the *Retirement Fund* may still consider to hold on to such investments until the market recovers.

By having a balanced composition of holdings in the equities portfolio, exposure to industry or sector-related risks is reduced. The mix of various equities in the portfolio reduces volatility and contributes to a more stable return over time. Equity investments are made within the parameters of the investment guidelines approved by the *BoT*. The *BoT* also meets periodically to review the investment portfolio based on financial market conditions. Share prices are also monitored regularly.

Liquidity Risk
Liquidity risk is the risk that the *Retirement Fund* is unable to meet its payment obligations associated with its financial liabilities as they fall due and to replace funds when they are withdrawn. Liquidity risk is being managed to ensure that adequate fixed income and cash deposits are available to service the financial obligations of the *Retirement Fund.* The schedule of the maturities of fixed income investment assets are staggered by tenure or term. Policies are established to ensure that all financial obligations are met, wherein the timing of the maturities of fixed income investments are planned and matched to the due date of various obligations. Thus, for this investment class, maturities are classified into short-, medium- and long-term. A certain percentage of the portfolio is kept as cash to manage liquidity and settle all currently maturing financial obligations.

Defined Contribution Provident Plan

MERALCO has a defined contributory Provident Plan effective January 1, 2009, intended to be a supplemental retirement benefit for employees hired beginning 2004, the participation of which is voluntary. Each qualified employee-member who chooses to participate in the plan shall have the option to contribute up to a maximum of 25% of his base salary. *MERALCO* shall match the member's contribution up to 100% of employee's contribution or 10% of the member's monthly base salary, subject to a certain threshold. Upon resignation, the member shall be entitled to the total amount credited to his personal retirement account immediately preceding his actual retirement date, subject to provisions of the Provident Plan. *MERALCO*'s contribution to the Provident Plan amounted to ₱61 million, ₱52 million and ₱47 million for the years ended December 31, 2022, 2021 and 2020, respectively.

Consolidated Retirement Benefits Cost (included in "Salaries, wages and employee benefits" account in the consolidated statements of income)

	2022	2021	2020
		(Amounts in millions)	
Expense recognized for defined benefit plans	**₱1,470**	₱2,088	₱1,449
Expense recognized for defined contribution plan	**61**	52	47
Retirement benefits expense	**₱1,531**	₱2,140	₱1,496

Long-term Incentive Plan ("*LTIP*")

MERALCO's *LTIP* covers qualified employees and is based on *MERALCO Group*'s achievement of specified level of *CCNI* approved by the *BOD* and determined on an aggregate basis for a three (3)-year period as well as employees' attainment of a minimum level of performance rating. Employees invited to *LTIP* must serve a minimum uninterrupted period to be entitled to an award. Further, the employee should be on active employment at the time of pay-out.

27. Financial Assets and Financial Liabilities

Financial assets consist of cash and cash equivalents, short-term investments and trade and other receivables, which are generated directly from operations, advance payments to a supplier, financial assets at *FVOCI* and debt securities at amortized cost. The principal financial liabilities consist of bank loans, redeemable preferred shares, trade and nontrade payables, which are incurred to finance operations in the normal course of business. Accounting policies related to financial assets and financial liabilities are set out in *Note 4 – Significant Accounting Policies, Changes and Improvements*.

The following table sets forth the financial assets and financial liabilities:

	Financial Assets at Amortized Cost	*FVOCI* Financial Assets	Liabilities Carried at Amortized Cost	Total Financial Assets and Liabilities
		(Amounts in millions)		
Assets as at December 31, 2022				
Noncurrent				
Financial and other noncurrent assets	**₱24,342**	**₱4,140**	**₱–**	**₱28,482**
Current				
Cash and cash equivalents	**55,832**	**–**	**–**	**55,832**
Trade and other receivables	**51,589**	**–**	**–**	**51,589**
Financial and other current assets	**18,196**	**–**	**–**	**18,196**
Total Financial Assets	**₱149,959**	**₱4,140**	**₱–**	**₱154,099**
Liabilities as at December 31, 2022				
Noncurrent				
Interest-bearing long-term financial liabilities - net of current portion	**₱–**	**₱–**	**₱68,757**	**₱68,757**
Customers' deposits - net of current portion	**–**	**–**	**31,590**	**31,590**
Refundable service extension costs - net of current portion	**–**	**–**	**4,653**	**4,653**
Current				
Notes payable	**–**	**–**	**29,491**	**29,491**
Trade payables and other current liabilities	**–**	**–**	**91,739**	**91,739**
Customers' refund	**–**	**–**	**2,905**	**2,905**
Current portion of interest-bearing long-term financial liabilities	**–**	**–**	**5,585**	**5,585**
Total Financial Liabilities	**₱–**	**₱–**	**₱234,720**	**₱234,720**

	Financial Assets at Amortized Cost	*FVOCI* Financial Assets	Liabilities Carried at Amortized Cost	Total Financial Assets and Liabilities
		(Amounts in millions)		
Assets as at December 31, 2021				
Noncurrent				
Financial and other noncurrent assets	₱29,561	₱8,467	₱–	₱38,028
Current				
Cash and cash equivalents	55,007	–	–	55,007
Trade and other receivables	42,386	–	–	42,386
Financial and other current assets	17,747	–	–	17,747
Total Financial Assets	₱144,701	₱8,467	₱–	₱153,168
Liabilities as at December 31, 2021				
Noncurrent				
Interest-bearing long-term financial liabilities - net of current portion	₱–	₱–	₱52,720	₱52,720
Customers' deposits - net of current portion	–	–	30,901	30,901
Refundable service extension costs - net of current portion	–	–	5,334	5,334
Current				
Notes payable	–	–	28,834	28,834
Trade payables and other current liabilities	–	–	71,602	71,602
Customers' refund	–	–	2,929	2,929
Current portion of interest-bearing long-term financial liabilities	–	–	9,114	9,114
Total Financial Liabilities	₱–	₱–	₱201,434	₱201,434

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:

	2022		2021	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
		(Amounts in millions)		
Financial assets				
Debt securities at amortized cost	**₱37,296**	**₱36,122**	₱41,461	₱42,856
Financial assets at *FVOCI*	**4,140**	**4,140**	8,467	8,467
Financial assets at amortized cost -				
Restricted cash	**4,478**	**4,478**	4,698	4,698
Advance payments to a supplier	**560**	**596**	705	768
	₱46,474	**₱45,336**	₱55,331	₱56,789
Financial liabilities				
Financial liabilities carried at amortized cost - Interest-bearing-long-term financial liabilities	**₱72,875**	**₱73,600**	₱60,364	₱61,135

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value.

Cash and Cash Equivalents, Trade and Other Receivables, Short-term Investments, Trade Payables and Other Current Liabilities and Notes Payable

Due to the short-term nature of transactions, the fair values of these instruments approximate their carrying amounts as at reporting date.

Advance Payments to a Supplier

The fair values of advance payments to a supplier were computed by discounting the instruments' expected future cash flows using the rates of 6.39% and 4.31% as at December 31, 2022 and 2021, respectively.

Financial Assets at FVOCI

The fair values were determined by reference to market bid quotes as at reporting date.

Debt Securities at Amortized Cost

The fair values were determined by discounting the expected future cash flows using the interest rate as at reporting date.

Meter Deposits and Customers' Refund

Meter deposits and customers' refund are due and demandable. Thus, the fair values of these instruments approximate their carrying amounts.

Bill Deposits

The carrying amounts of bill deposits approximate their fair values as bill deposits are interest-bearing.

Interest-bearing Long-term Financial Liabilities

The fair values of interest-bearing long-term debt (except for redeemable preferred stock) were computed by discounting the instruments' expected future cash flows using the rates ranging from 4.08% to 7.01% and 0.82% to 4.33% as at December 31, 2022 and 2021, respectively.

Redeemable Preferred Stock

The carrying amount of the preferred stock represents the fair value. Such preferred shares have been called and are payable anytime upon presentation by the shareholder of their certification. This is included under "Interest-bearing long-term financial liabilities" account.

Refundable Service Extension Costs

The fair values of refundable service extension costs cannot be reliably measured since the timing of related cash flows cannot be reasonably estimated and are accordingly measured at cost.

Fair Value Hierarchy

Below is the list of financial assets and financial liabilities that are classified using the fair value hierarchy:

	2022				2021			
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
				(Amounts in millions)				
Financial assets								
Advance payments to a supplier	**₱–**	**₱596**	**₱–**	**₱596**	₱–	₱768	₱–	₱768
Restricted cash	**–**	**4,478**	**–**	**4,478**	–	4,698	–	4,698
Financial assets at *FVOCI*	**2,673**	**–**	**1,467**	**4,140**	6,935	–	1,532	8,467
Debt securities at amortized cost	**36,122**	**–**	**–**	**36,122**	42,856	–	–	42,856
	₱38,795	**₱5,074**	**₱1,467**	**₱45,336**	₱49,791	₱5,466	₱1,532	₱56,789
Financial liabilities								
Interest-bearing long-term financial liabilities	**₱–**	**₱73,600**	**₱–**	**₱73,600**	₱–	₱61,135	₱–	₱61,135

For the years ended December 31, 2022 and 2021, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurements.

Financial Risk Management Objectives and Policies

The main risks arising from the financial instruments are interest rate risk, foreign currency risk, commodity price risk, credit risk, and liquidity risk. The importance of managing these risks has significantly increased in light of the considerable change and volatility in the Philippine and international financial markets. The *BOD* reviews and approves policies for managing each of these risks. Management monitors the market price risk arising from all financial instruments. The policies for managing these risks are as follows:

Interest Rate Risk

The *MERALCO Group*'s exposure to the changes in market interest rates relate to changes of fair value of its long-term financial assets and to the fluctuation of future cash flows in relation to its long-term interest-bearing financial liabilities.

MERALCO's policy is to manage its interest rate risk exposure using a mix of fixed and variable rate debts. The strategy, which yields a reasonably lower effective cost based on market conditions, is adopted. Refinancing of fixed rate loans may also be undertaken to manage interest cost. All borrowings bear fixed interest rate as at December 31, 2022 and 2021.

The exposure of *GBPC* and its subsidiaries to the risk of changes in market interest rate relates primarily to its long-term debt obligations with variable interest rates. *GBPC* and its subsidiaries' loans bear fixed interest rates subject to repricing after a minimum of five years for *CEDC* and *PEDC* and seven years for *TPC*.

Foreign Currency Risk

The revaluation of any of foreign currency-denominated financial assets and financial liabilities as a result of the appreciation or depreciation of the Philippine peso is recognized as foreign exchange gains or losses as at the end of each reporting year. The extent of foreign exchange gains or losses is largely dependent on the amount of foreign currency-denominated financial instruments. While an insignificant percentage of the *MERALCO Group*'s revenues and liabilities is denominated in *U.S.* dollars, a substantial amount of the *MERALCO Group*'s expenditures for electricity capital projects

and a portion of the operating expenses are denominated in foreign currencies, mostly in *U.S.* dollars. As such, a strengthening or weakening of the Philippine peso against the *U.S.* dollar will decrease or increase in Philippine peso terms, the principal amount of the *MERALCO Group*'s foreign currency-denominated liabilities and the related interest expense, foreign currency-denominated capital expenditures and operating expenses.

The following table shows the consolidated foreign currency-denominated financial assets and financial liabilities as at December 31, 2022 and 2021, translated to Philippine peso at ₱55.76 and ₱51.00 to US$1, respectively.

	2022		2021	
	U.S. Dollar	**Peso Equivalent**	U.S. Dollar	Peso Equivalent
		(Amounts in millions)		
Financial assets:				
Cash and cash equivalents	**$63**	**₱3,491**	$83	₱4,217
Debt securities at amortized cost	**41**	**2,286**	24	1,224
Financial assets at *FVOCI*	**30**	**1,693**	21	1,070
Advance payments to a supplier	**11**	**596**	14	727
Short-term investments	**6**	**335**	9	444
	151	**8,401**	151	7,682
Financial liabilities -				
Trade payables and other liabilities	**(7)**	**(374)**	(5)	(240)
	$144	**₱8,027**	$146	₱7,442

All of the *MERALCO Group*'s long-term financial liabilities are denominated in Philippine peso. However, an insignificant portion of its trade payables are denominated in *U.S.* dollar. Thus, the impact of ₱1 movement of the Philippine peso against the *U.S.* dollar will not have a significant impact on the *MERALCO Group*'s obligations.

The following table demonstrates the sensitivity to a reasonably possible change in the *U.S.* dollar exchange rate vis-a-vis the Philippine peso, with all other variables held constant, of the *MERALCO Group*'s income before income tax due to changes in the fair value of financial assets and financial liabilities. There is no other impact on the *MERALCO Group*'s equity other than those already affecting the consolidated statements of income.

	2022		2021	
	Appreciation (Depreciation) of U.S. Dollar	**Effect on Income before Income Tax**	Appreciation (Depreciation) of U.S. Dollar	Effect on Income before Income Tax
	(In %)	*(In millions)*	*(In %)*	*(In millions)*
U.S. dollar-denominated financial assets and financial liabilities	**+5**	**₱401**	+5	₱372
	–5	**(401)**	–5	(372)

Foreign exchange gain or loss for the year is computed based on management's best estimate of a +/–5 percent change in the closing Philippine peso to *U.S.* dollar conversion rate using the balances as at financial reporting date of *U.S.* dollar-denominated cash and cash equivalents, receivables and other assets and liabilities. There has been no change in the methods and assumptions used by management in the above analysis.

Commodity Price Risk

Commodity price risk is the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in world prices or index of the commodity. The exposure of *MERALCO* and *Clark Electric* to price risk is minimal. The cost of fuel is part of *MERALCO*'s and *Clark Electric*'s generation costs that are recoverable through the generation charge in the billings to customers.

Credit Risk

Credit risk is the risk that a counterparty will not meet its obligation under a financial instrument or customer contract, leading to a financial loss. The *MERALCO Group* is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions and other financial instruments.

Trade and Other Receivables and Contract Assets

MERALCO as a franchise holder serving public interest cannot refuse customer connection. To mitigate risk, the *DSOAR* allows *MERALCO* to collect bill deposit equivalent to one (1) month's consumption to secure credit. Also, as a policy, disconnection notices are sent three (3) days after the bill due date and disconnections are carried out beginning on the third day after receipt of disconnection notice.

Customer credit risk is managed by each business segment subject to *MERALCO Group*'s procedures and controls relating to customer credit risk management. The *MERALCO Group* manages and controls credit risk by setting limits on the amount of risk that it is willing to accept for individual counterparties and by monitoring exposures in relation to such limits.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss pattern (i.e. residential, industrial, commercial). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

The provision matrix is initially based on the *MERALCO Group* business segment's historical observed default rates. Each business segment of the *MERALCO Group* will calibrate the matrix to adjust the historical credit loss experience with forward-looking information.

At every reporting date, historical observed default rates are updated and changes in the forward-looking estimates are analyzed. The assumptions used in determining the historical default rates, forecast of economic conditions, economic impact of *COVID-19* pandemic to *MERALCO Group* customers and *ECL*s involved significant estimation. The amount of *ECL*s is sensitive to changes in circumstances and forecast of economic conditions. The historical credit loss experience, expected deferred payment arrangements, expected default upon resumption of service disconnection activities and forecast of economic conditions may also not be representative of customers' actual default in the future.

The subsidiaries of *MERALCO* trade only with recognized, creditworthy third parties. It is the *MERALCO Group*'s policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivables are monitored on an ongoing basis to reduce exposure to bad debt.

GBPC and its subsidiaries applied the simplified approach under *PFRS 9*, using a 'provision matrix', in measuring expected credit losses which uses a lifetime expected loss allowance for receivables. The expected loss rates are based on the payment profiles of revenues/sales over a period of at least 24 months before the relevant reporting date and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers/counterparties to settle the receivables. *GBPC* and its subsidiaries have identified the gross domestic product ("*GDP*"), consumer price index ("*CPI*") and unemployment rate in the locations in which they sell their services to be the most relevant factors, and accordingly adjust the historical loss rates based on expected changes in these factors.

No impairment losses resulted from performing collective impairment test, due to the past experience of *GBPC* and its subsidiaries of realizing receivables within the credit period which help reduce the credit risk exposure in case of default by the customers.

Set out below is the information about the credit risk exposure of the *MERALCO Group*'s trade and other receivables and contract assets using a provision matrix:

	2022							
	Trade – electectricity distributed							
	Contract Status							
	Active	**Active - Disconnected**	**Active – Pending to Terminate**	**Terminated**	**Energy Generated**	**Other trade receivables**	**Nontrade receivables**	**Total**
	(Amounts in millions, except ECL rate)							
ECL Rate	**1.79%**	**2.46%**	**2.14%**	**81.28%**	**14.59%**	**12.47%**	**7.28%**	
Estimated total gross carrying amount at default	**₱32,714**	**₱1,993**	**₱1,951**	**₱5,037**	**₱7,594**	**₱6,301**	**₱6,208**	**₱61,798**
Expected credit loss	**585**	**49**	**42**	**4,093**	**1,108**	**786**	**452**	**7,115**

	2021							
	Trade – electectricity distributed							
	Contract Status							
	Active	Active - Disconnected	Active – Pending to Terminate	Terminated	Energy Generated	Other trade receivables	Nontrade receivables	Total
	(Amounts in millions, except ECL rate)							
ECL Rate	2.41%	5.39%	4.97%	8.22%	22.02%	12.15%	6.50%	
Estimated total gross carrying amount at default	₱24,432	₱3,404	₱4,109	₱3,319	₱5,087	₱6,461	₱4,125	₱50,937
Expected credit loss	589	183	204	2,775	1,120	785	268	5,924

Financial Instruments and Cash and Cash Equivalents

With respect to placements of cash with financial institutions, these institutions are subject to the *MERALCO Group*'s accreditation evaluation based on liquidity and solvency ratios and on the bank's credit rating. The *MERALCO Group* transacts derivatives only with similarly accredited financial institutions. In addition, the *MERALCO Group*'s deposit accounts in banks are insured by the Philippine Deposit Insurance Corporation up to ₱500,000 per bank account.

The *MERALCO Group* invests only in quoted debt securities with very low credit risk. The *MERALCO Group*'s debt instruments at *FVOCI* comprised solely of quoted bonds that are graded in the top investment category (Very Good and Good) by credit rating agencies and therefore, are considered to be low credit risk investments.

Finally, credit quality review procedures are in place to provide regular identification of changes in the creditworthiness of counterparties. Counterparty limits are established and reviewed periodically based on latest available financial information of counterparties, credit ratings and liquidity. The *MERALCO Group*'s credit quality review process allows it to assess any potential loss as a result of the risks to which it may be exposed and to take corrective actions.

There are no significant concentrations of credit risk within the *MERALCO Group*.

The table below shows the maximum exposure to credit risk for the components of the consolidated statements of financial position. The maximum exposure is equivalent to the nominal amount of the accounts.

	Gross Maximum Exposure	
	2022	2021
	(Amounts in millions)	
Cash and cash equivalents:		
Cash in banks	**₱16,966**	₱20,518
Cash equivalents	**38,634**	34,119
Trade and other receivables:		
Electricity sold	**36,926**	31,513
Energy generated	**6,486**	3,967
Service contracts	**2,421**	3,049
Nontrade receivables	**5,756**	3,857
Other current financial assets:		
Debt securities at amortized cost	**17,793**	17,121
Short-term investments	**204**	444
Current portion of advance payments to a supplier	**199**	182
Other noncurrent financial assets:		
Debt securities at amortized cost	**19,503**	24,340
Restricted cash	**4,478**	4,698
Financial assets at *FVOCI*	**4,140**	8,467
Advance payments to a supplier	**361**	523
	₱153,867	₱152,798

The credit quality of financial assets is managed by *MERALCO* using "High Grade", "Standard Grade" and "Sub-standard Grade" for accounts, which are neither impaired nor past due using internal credit rating policies

The following tables show the credit quality by asset class:

	2022					
	Neither Past Due nor Impaired					
	High Grade	**Standard Grade**	**Sub-standard Grade**	**Past Due but not Impaired**	**Impaired Financial Assets**	**Total**
	(Amounts in millions)					
Cash in banks and cash equivalents	**₱55,600**	**₱–**	**₱–**	**₱–**	**₱–**	**₱55,600**
Trade and other receivables:						
Electricity sold	**8,031**	**2,868**	**12,728**	**13,299**	**4,769**	**41,695**
Energy generated	**6,485**	**–**	**–**	**1**	**1,108**	**7,594**
Service contracts	**1,175**	**–**	**–**	**1,246**	**762**	**3,183**
Nontrade receivables	**5,252**	**–**	**–**	**504**	**452**	**6,208**
Financial and other current assets:						
Debt securities at amortized cost	**17,793**	**–**	**–**	**–**	**–**	**17,793**
Current portion of advance payments to a supplier	**199**	**–**	**–**	**–**	**–**	**199**
Short-term investments	**204**	**–**	**–**	**–**	**–**	**204**
Financial and other noncurrent assets:						
Debt securities at amortized cost	**19,503**	**–**	**–**	**–**	**–**	**19,503**
Financial assets at *FVOCI*	**4,140**	**–**	**–**	**–**	**–**	**4,140**
Restricted cash	**4,478**	**–**	**–**	**–**	**–**	**4,478**
Advance payment to a supplier	**361**	**–**	**–**	**–**	**–**	**361**
	₱123,221	**₱2,868**	**₱12,728**	**₱15,050**	**₱7,091**	**₱160,958**

	2021					
	Neither Past Due nor Impaired					
	High Grade	Standard Grade	Sub-standard Grade	Past Due but not Impaired	Impaired Financial Assets	Total
	(Amounts in millions)					
Cash in banks and cash equivalents	₱54,637	₱–	₱–	₱–	₱–	₱54,637
Trade and other receivables:						
Electricity sold	6,539	2,732	12,116	10,126	3,751	35,264
Energy generated	3,963	–	–	4	1,120	5,087
Service contracts	986	–	–	2,063	765	3,814
Nontrade receivables	3,246	–	–	611	268	4,125
Financial and other current assets:						
Debt securities at amortized cost	17,121	–	–	–	–	17,121
Current portion of advance payments to a supplier	182	–	–	–	–	182
Short-term investments	444	–	–	–	–	444
Financial and other noncurrent assets:						
Debt securities at amortized cost	24,340	–	–	–	–	24,340
Financial assets at *FVOCI*	8,467	–	–	–	–	8,467
Restricted cash	4,698	–	–	–	–	4,698
Advance payment to a supplier	523	–	–	–	–	523
	₱125,146	₱2,732	₱12,116	₱12,804	₱5,904	₱158,702

Credit ratings are determined as follows:

- High Grade

  High grade financial assets include cash in banks, cash equivalents, short-term investments, debt securities at amortized cost investments, *FVOCI* financial assets and advance payments to a supplier transacted with counterparties of good credit rating or bank standing. Consequently, credit risk is minimal. These counterparties include large prime financial institutions, large industrial companies and commercial establishments, and government agencies. For trade receivables, these consist of current month's billings (less than 30 days) that are expected to be collected within 10 days from the time bills are delivered.

- Standard Grade

  Standard grade financial assets include trade receivables that consist of current month's billings (less than 30 days) that are expected to be collected before due date (10 to 14 days after bill date).

- Sub-standard Grade

  Sub-standard grade financial assets include trade receivables that consist of current month's billings, which are not expected to be collected within 60 days.

Liquidity Risk

Liquidity risk is the risk that the *MERALCO Group* will be unable to meet its payment obligations when these fall due. The *MERALCO Group* manages this risk through monitoring of cash flows in consideration of future payment of obligations and the collection of its trade receivables. The *MERALCO Group* also ensures that there are sufficient, available and approved working capital lines that it can draw from at any time.

The *MERALCO Group* maintains an adequate amount of cash, cash equivalents and *FVOCI* financial assets, which may be readily converted to cash in any unforeseen interruption of its cash collections. The *MERALCO Group* also maintains accounts with several relationship banks to avoid significant concentration of funds with one (1) institution.

The following table sets out the maturity profile of the financial liabilities and contract liabilities based on contractual undiscounted payments plus future interest:

	2022				
	Less than 3 Months	**Over 3–12 Months**	**Over 1–5 Years**	**More than 5 Years**	**Total**
	(Amounts in millions)				
Notes payable	**₱2,047**	**₱28,004**	**₱–**	**₱–**	**₱30,051**
Trade payables and other current liabilities	**86,726**	**–**	**–**	**–**	**86,726**
Customers' refund	**2,905**	**–**	**–**	**–**	**2,905**
Interest-bearing long-term financial liabilities:					
Fixed rate borrowings	**958**	**4,937**	**31,187**	**33,259**	**70,341**
Floating rate borrowings	**163**	**590**	**2,972**	**12,501**	**16,226**
Redeemable preferred stock	**1,467**	**–**	**–**	**–**	**1,467**
Customers' deposits	**505**	**2,736**	**6,907**	**24,683**	**34,831**
Refundable service extension costs	**345**	**1,427**	**4,405**	**248**	**6,425**
Non-refundable liability related to asset funded by customers	**127**	**127**	**127**	**488**	**869**
Total undiscounted financial liabilities	**₱95,243**	**₱37,821**	**₱45,598**	**₱71,179**	**₱249,841**

	2021				
	Less than 3 Months	Over 3–12 Months	Over 1–5 Years	More than 5 Years	Total
	(Amounts in millions)				
Notes payable	₱1,402	₱28,529	₱–	₱–	₱29,931
Trade payables and other current liabilities	67,166	–	–	–	67,166
Customers' refund	2,929	–	–	–	2,929
Interest-bearing long-term financial liabilities:					
Fixed rate borrowings	5,359	3,321	20,514	33,957	63,151
Redeemable preferred stock	1,470	–	–	–	1,470
Customers' deposits	720	2,055	6,754	24,147	33,676
Refundable service extension costs	345	1,315	4,405	929	6,994
Non-refundable liability related to asset funded by customers	127	127	127	485	866
Total undiscounted financial liabilities	₱79,518	₱35,347	₱31,800	₱59,518	₱206,183

The maturity profile of bill deposits is not determinable since the timing of each refund is linked to the cessation of service, which is not reasonably predictable. However, *MERALCO* estimates that the amount of bill deposits (including related interests) of ₱2,925 million will be refunded within a year. This is shown as part of "Trade payables and other current liabilities" account in the consolidated statement of financial position as at December 31, 2022.

Capital Management

The primary objective of the *MERALCO Group*'s capital management is to enhance shareholder value. The capital structure is reviewed with the end view of achieving a competitive cost of capital and at the same time ensuring that returns on, and of, capital are consistent with the levels approved by its regulators for its core distribution business.

The capital structure optimization plan is complemented by efforts to improve capital efficiency to increase yields on invested capital. This entails efforts to improve the efficiency of capital assets, working capital and non-core assets.

The *MERALCO Group* monitors capital using, among other measures, debt to equity ratio, which is gross debt divided by equity attributable to the holders of the parent. The *MERALCO Group* considers long-term debt, redeemable preferred stock and notes payable as debt.

	2022	2021
	(Amounts in millions, except debt to equity ratio)	
Long-term debt	**₱72,875**	₱60,364
Notes payable	**29,491**	28,834
Redeemable preferred stock	**1,467**	1,470
Debt (a)	**₱103,833**	₱90,668
Equity attributable to the holders of the parent (b)	**₱109,664**	₱95,204
Debt to equity ratio(a)/(b)	**0.95**	0.95

28. Income Taxes and Local Franchise Taxes

Income Taxes

The components of net deferred income tax assets and liabilities are as follows:

	Note	2022	2021 (As restated – see Note 3)
		(Amounts in millions)	
Deferred income tax assets:			
Provisions for probable losses and expenses from claims	*19 and 22*	**₱25,464**	₱29,147
Unfunded retirement benefits cost and unamortized past service cost	*26*	**2,563**	2,259
Accrued employee benefits	*26*	**1,395**	1,067
Allowance for expected credit losses	*13*	**1,188**	1,184
Decommissioning liability		**223**	219
Actuarial losses		**–**	89
Allowance for excess of cost over net realizable value of inventories	*14*	**48**	48
Others		**1,151**	564
		32,032	34,577
Deferred income tax liabilities:			
Revaluation increment in utility plant, generation plant and others	*16*	**5,483**	5,519
Fair value of net assets from acquisition of *GBPC*	*3*	**5,343**	5,558
Actuarial gains		**2,329**	922
Capitalized interest		**792**	700
Capitalized duties and taxes deducted in advance		**398**	412
Others		**457**	282
		14,802	13,393
		₱17,230	₱21,184

The deferred income tax assets and liabilities are presented in the consolidated statements of financial position as follows:

	2022	2021 (As restated – see Note 3)
	(Amounts in millions)	
Deferred income tax assets – net	**₱22,657**	₱27,143
Deferred income tax liabilities – net	**(5,427)**	(5,959)
	₱17,230	₱21,184

Provision for (benefit from) income tax consists of:

	2022	2021	2020
		(Amounts in millions)	
Current	**₱4,122**	₱8,728	₱10,295
Deferred	**2,526**	184	(4,029)
	₱6,648	₱8,912	₱6,266

The deferred tax assets charged directly to *OCI* amounted to ₱1,544 million, ₱2,172 million and ₱1,557 million for the years ended December 31, 2022, 2021 and 2020, respectively.

A reconciliation between the provision for income tax computed at statutory income tax rates of 25%, 25% and 30% for the years ended December 31, 2022, 2021 and 2020, and provision for income tax as shown in the consolidated statements of income is as follows:

	2022	2021	2020
		(Amounts in millions)	
Income tax computed at statutory tax rate	**₱8,809**	₱8,249	₱6,724
Impact of *CREATE* bill on provision for:			
Current income tax	**–**	(824)	–
Deferred income tax	**–**	4,525	–
Income tax effects of:			
Interest income subjected to lower final tax rate	**(486)**	(478)	(691)
Nondeductible interest expense	**121**	119	285
Nondeductible expense	**25**	–	1,038
Nontaxable income	**(75)**	(93)	(94)
(Forward)			
Equity in net losses of associates and joint ventures	**(₱3,009)**	(₱782)	(₱370)
Difference in calculation of tax deductible costs and expenses	**–**	(1,526)	(3,621)
Unrecognized deferred tax assets	**860**	(677)	2,772
Others	**403**	399	223
	₱6,648	₱8,912	₱6,892

MERALCO elected to adopt the itemized deductions in 2022 and Optional Standard Deductions ("*OSD*") in lieu of itemized deductions in 2021 and 2020 beginning with its first quarter income tax return.

Certain deferred tax assets and liabilities expected to be recovered or settled in subsequent taxable years, for which the related income and expense were not considered in determining gross income for income tax purposes, were not recognized. This is because the manner by which *MERALCO* expects to recover or settle the underlying assets and liabilities would not result in any future tax consequence under the current method of computing taxable income.

MERALCO's net deferred tax assets which were not recognized as at December 31, 2022 and 2021 are as follows:

	2022	2021
	(Amounts in millions)	
Deferred tax assets:		
Net operating loss carryover ("*NOLCO*")	**₱2,030**	₱964
Provisions for various claims	**664**	480
	2,694	1,444
Deferred tax liabilities:		
Revaluation increment in utility plant, generation plant and others	–	13
Capitalized interest	–	8
Capitalized duties and taxes deducted in advance	–	6
Others	–	5
	–	32
	₱2,694	₱1,412

The temporary differences for which deferred tax assets have not been recognized pertain to the tax effect of *NOLCO* of *MGen* amounting to ₱8,121 million and ₱3,856 million as at December 31, 2022 and 2021, respectively. These are not recognized because *MGen* does not expect to utilize such deferred tax assets against sufficient taxable profit.

NOLCO totaling to ₱8,121 million may be claimed as deduction against taxable income as follows:

Date Incurred	Expiry Date	Amount
		(In millions)
December 31, 2020	December 31, 2025	₱1,288
December 31, 2021	December 31, 2026	1,945
December 31, 2022	December 31, 2025	4,888
		₱8,121

NOLCO amounting to ₱623 million, ₱862 million and ₱613 million expired in 2022, 2021 and 2020, respectively.

On September 30, 2020, the *BIR* issued Revenue Regulations No. 25-2020 implementing Section 4(bbbb) of "Bayanihan to Recover As One Act" which states that the *NOLCO* incurred for taxable years 2020 and 2021 can be carried over and claimed as a deduction from gross income for the next five (5) consecutive taxable years immediately following the year of such loss.

On November 26, 2020, the Senate approved on 3rd and final reading Senate Bill No. 1357, otherwise known as the "Corporate Recovery and Tax Incentives for Enterprises Act" ("*CREATE*"), which seeks to reduce the corporate income tax rates and to rationalize the current fiscal incentives by making it time-bound, targeted, and performed-based.

MERALCO's consolidated financial statements as at and for the years ended December 31, 2020 and 2019 were released on March 1, 2021, prior to the signing of the *CREATE* bill into law by President Duterte on March 26, 2021. As such, *MERALCO*'s provision for income tax in 2020 was computed on the basis of the income tax rate of 30% and tax laws that were enacted at the reporting date. The

impact of the *CREATE* bill, mainly the difference between the 30% and 25% income tax rates are adjusted in the 2021 provision for current and deferred income tax.

LFT

Consistent with the decisions of the *ERC*, *LFT* is a recoverable charge of the *DU* from the particular province or city imposing and collecting the *LFT*. It is presented as a separate line item in the customer's bill and computed as a percentage of the sum of generation, transmission, distribution services and related *SL* charges.

The Implementing Rules and Regulations ("*IRR*") issued by the *ERC* provide that *LFT* shall be paid only on its distribution wheeling and captive market supply revenues. Pending the promulgation of guidelines from the relevant government agencies, *MERALCO* is paying *LFT* based on the sum of the foregoing charges in the customers' bill.

In *ERC* Resolution No. 2, Series of 2021, or the Rules on Recovery of Pass-Through Taxes (Real Property, Local Franchise, and Business Taxes) of *DU*s, the *ERC* amended and modified the rules with respect to the recovery of any local franchise tax, including the filing of applications for recovery.

29. Contingencies and Legal Proceedings

Overpayment of Income Tax related to SC Refund

With the decision of the *SC* for *MERALCO* to refund ₱0.167 per *kWh* to customers during the billing period February 1994 to May 2003, *MERALCO* overpaid income tax in the amount of ₱7,107 million for taxable years 1994 to 1998 and 2000 to 2001. Accordingly, on November 27, 2003, *MERALCO* filed a claim for the recovery of such excess income taxes paid. After examination of the books of *MERALCO* for the covered periods, the *BIR* determined that *MERALCO* had in fact overpaid income taxes in the amount of ₱6,690 million. However, the *BIR* also maintained that *MERALCO* is entitled to a refund amount of only ₱894 million, which pertains to taxable year 2001, claiming that the period for filing a claim had prescribed in respect to the difference between *MERALCO*'s overpayment and the refund amount *MERALCO* is entitled to.

The *BIR* then approved the refund of ₱894 million for issuance of tax credit certificates ("*TCC*s"), proportionate to the actual refund of claims to utility customers. The *BIR* initially issued *TCC*s amounting to ₱317 million corresponding to actual refund to customers as at August 31, 2005. In May 2014, the *BIR* issued additional *TCC*s amounting to ₱396 million corresponding to actual refund to customers as at December 31, 2012.

As at December 31, 2022 and 2021, the amount of unissued *TCC*s of ₱181 million is presented as part of "Financial and other noncurrent assets" account in the consolidated statements of financial position.

See *Note 11 – Financial and other Noncurrent Assets.*

MERALCO filed a Petition with the Court of Tax Appeals ("*CTA*") assailing the denial by the *BIR* of its income tax refund claim of ₱5,796 million for the years 1994 - 1998 and 2000, arising from the *SC* decision (net of ₱894 million as approved by the *BIR* for taxable year 2001 "Overpayment of Income Tax related to *SC* Refund"). In a Decision dated December 6, 2010, the *CTA*'s Second Division granted *MERALCO*'s claim and ordered the *BIR* to refund or to issue *TCC* in favor of

MERALCO in the amount of ₱5,796 million in proportion to the tax withheld on the total amount that has been actually given or credited to its customers.

On appeal by the *BIR* to the *CTA* En Banc, *MERALCO*'s petition was dismissed on the ground of prescription in the Decision of the *CTA* En Banc dated May 8, 2012. On a *MR* by *MERALCO* of the said dismissal, the *CTA* En Banc partly granted *MERALCO*'s motion and issued an Amended Decision dated November 13, 2012, ruling that *MERALCO*'s claim was not yet barred by prescription and remanding the case back to the *CTA* Second Division for further reception of evidence.

The *BIR* filed a *MR* of the above Amended Decision, while *MERALCO* filed its Motion for Partial Reconsideration or Clarification of Amended Decision. Both parties filed their respective Comments to the said motions, and these were submitted for resolution at the *CTA* En Banc.

In a Resolution promulgated on May 22, 2013, the *CTA* denied the said motions of the *BIR* and *MERALCO*, and the *CTA* Second Division was ordered to receive evidence and rebuttal evidence relating to *MERALCO*'s level of refund to customers, pertaining to the excess charges it made in taxable years 1994-1998 and 2000, but corresponding to the amount of ₱5,796 million, as already determined by the said court.

On July 12, 2013, the *BIR* appealed the *CTA* En Banc's Amended Decision dated November 13, 2012 and Resolution dated May 22, 2013 via Petition for Review with the *SC*. As at February 27, 2023, the case is pending resolution by the *SC*.

LFT Assessments of Municipalities

Certain municipalities have served assessment notices on *MERALCO* for *LFT*. As provided in the Local Government Code ("*LGC*"), only cities and provincial governments may impose taxes on establishments doing business in their localities. On the basis of the foregoing, *MERALCO* and its legal counsel believe that *MERALCO* is not subject or liable for such assessments.

RPT Assessments

On October 22, 2015, the *SC* ruled on an appeal of *MERALCO* declaring, among others, that the transformers, electric posts, transmission lines, insulators and electric meters are not exempted from *RPT* under the *LGC*. Thereafter, *MERALCO* began the process of settlement with the affected *LGU*s and filed for the recovery of the resulting *RPT* payments with the *ERC*.

With the development, *PEPOA* and *PHILRECA* filed separate petitions for rule-making proposing the pass-through of *RPT*.

In 2021, acting on petitions filed by *PEPOA* and *PHILRECA*, which proposed the pass-through of *RPT*, *ERC* issued Resolution No. 2, Series of 2021, "Rules on Recovery of Pass-Through Taxes (Real Property, Local Franchise, and Business Taxes". Under such resolution, the *ERC* approved the recovery of *RPT*, *LFT* and Business Taxes as pass-through charges and therefore excluded among the financial building blocks in the annual revenue requirement of *PBR*.

Accordingly, *MERALCO* filed for recovery of such *RPT* paid and intends to recover the same in the regulatory reset process.

Subsequently, *PEPOA* filed another petition for rule-making to amend certain provisions of Resolution No. 2, Series of 2021 to cover full recovery as pass-through costs of: (i) local taxes (*RPT*, *LFT* and business tax) levied by *LGU*s during the years prior to the Resolution to address tax

arrearages; (ii) *RPT* assessed by *LGU*s on assets located outside the *DU*'s franchise area but are used to provide public service within the franchise area. *MERALCO* had submitted its comments and several public consultations were conducted. As at February 27, 2023, the Petition is pending with the *ERC*.

See Note 19 – Provisions.

Mediation with NPC

The *NPC* embarked on a Power Development Program ("*PDP*"), which consisted of contracting generating capacities and the construction of its own, as well as private sector, generating plants, following a crippling power supply crisis. To address the concerns of the creditors of *NPC*, namely, Asian Development Bank and the World Bank, the Department of Energy ("*DOE*") required that *MERALCO* enter into a long-term supply contract with the *NPC.*

Accordingly, on November 21, 1994, *MERALCO* entered into a 10-year Contract for Sale of Electricity ("*CSE*") with *NPC* which commenced on January 1, 1995. The *CSE,* the rates and amounts charged to *MERALCO* therein, were approved by the *BOD* of *NPC* and the then Energy Regulatory Board, respectively.

Separately, the *DOE* further asked *MERALCO* to provide a market for half of the output of the Camago-Malampaya gas field to enable its development and production of natural gas, which was to generate significant revenues for the Philippine Government and equally significant foreign exchange savings for the country to the extent of the fuel imports, which the domestic volume of natural gas will displace.

MERALCO's actual purchases from *NPC* exceeded the contract level in the first seven (7) years of the *CSE*. However, the 1997 Asian crisis resulted in a significant curtailment of energy demand.

While the events were beyond the control of *MERALCO*, *NPC* did not honor *MERALCO*'s good faith notification of its off-take volumes. A dispute ensued and both parties agreed to enter into mediation.

The mediation resulted in the signing of a Settlement Agreement ("*SA*") between the parties on July 15, 2003. The *SA* was approved by the respective *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. In a Resolution dated September 28, 2022, the *SC* denied the Petition filed by the *OSG* and affirmed the validity of the Settlement Agreement. The implementation of the *SA* is subject to the approval of the *ERC*.

Sucat-Araneta-Balintawak Transmission Line

The Sucat-Araneta-Balintawak transmission line is a two (2)-part transmission line, which completed the 230 *kV* line loop within Metro Manila. The two (2) main parts are the Araneta to Balintawak leg and the Sucat to Araneta leg, which cuts through Dasmariñas Village, Makati City.

On March 10, 2000, certain residents along Tamarind Road, Dasmariñas Village, Makati City "the *Plaintiffs*", filed a case against *NPC* with the *RTC-Makati*, enjoining *NPC* from further installing high voltage cables near the *Plaintiffs*' homes and from energizing and transmitting high voltage electric current through said cables because of the alleged health risks and danger posed by the same through the electromagnetic field emitted by said lines. Following its initial status quo Order issued on March 13, 2000, *RTC-Makati* granted on April 3, 2000 the preliminary injunction sought by the *Plaintiffs*. The decision was affirmed by the *SC* on March 23, 2006, which effectively reversed the decision of the *CA* to the contrary. The *RTC-Makati* subsequently issued a writ of execution based on the Order of the *SC. MERALCO*, in its capacity as an intervenor, was constrained to file an Omnibus Motion to maintain status quo because of the significant effect of a de-energization of the Sucat-Araneta line to the public and economy. Shutdown of the 230 *kV* line will result in widespread and rotating brownouts within *MERALCO*'s franchise area with certain power plants unable to run at their full capacities.

On September 8, 2009, the *RTC-Makati* granted the motions for intervention filed by intervenors, *MERALCO* and *NGCP* and dissolved the Writ of Preliminary Injunction issued, upon the posting of the respective counter bonds by defendant *NPC*, intervenors *MERALCO* and *NGCP*, subject to the condition that *NPC* and intervenors will pay for all damages, which the *Plaintiffs* may incur as a result of the Writ of Preliminary Injunction.

In its Order dated February 5, 2013, the *RTC-Makati* granted the *Plaintiffs*' motion and directed the re-raffle of the case to another branch after the judicial dispute resolution failed.

This case remains pending and is still at the pre-trial stage. During the pre-trial stage, *Plaintiffs* filed a Manifestation stating that they are pursuing the deposition of a supposed expert in electromagnetic field through oral examination without leave of court in late January or early February 2016 or on such date as all the parties may agree amongst themselves at the Consulate Office of the Philippines in Vancouver, Canada. *NPC* and intervenors filed their Opposition and Counter-Manifestation. Intervenor *NGCP* filed a Motion to Prohibit the Taking of the Deposition of the said expert. Intervenor *MERALCO* intends to file its Comment/Opposition in due course. As at February 27, 2023, *MERALCO* is awaiting further action of the *SC* on the matter.

Petition for Dispute Resolution against *PEMC*, *TransCo*, *NPC* and *PSALM*

On September 9, 2008, *MERALCO* filed with the *ERC* a Petition for Dispute Resolution, against *PEMC*, *TransCo*, *NPC* and *PSALM,* as a result of the congestion in the transmission system of *TransCo* arising from the outages of the San Jose-Tayabas 500 *kV* Line 2 on June 22, 2008, and the 500 *kV* 600 Mega Volt-Ampere Transformer Bank No. 2 of *TransCo*'s San Jose, Bulacan substation on July 11, 2008. The Petition seeks to, among others, direct *PEMC* to adopt the *NPC*- Time-of-Use ("*TOU*") rate or the new price determined through the price substitution methodology of *PEMC* as approved by the *ERC*, as basis for its billing during the period of the congestion and direct *NPC* and *PSALM* to refund the transmission line loss components of the line rentals associated with *NPC/PSALM* bilateral transactions from the start of *WESM* operation on June 26, 2006.

In a Decision dated March 10, 2010, the *ERC* granted *MERALCO*'s petition and ruled that there is double charging of the transmission line costs billed to *MERALCO* by *NPC* for the Transition Supply Contract ("*TSC*") quantities to the extent of 2.98% loss factor, since the effectivity of the *TSC* in November 2006. Thus, *NPC* was directed to refund line rental adjustment to *MERALCO*. In the meantime, the *ERC* issued an Order on May 4, 2011 allowing *PEMC* to submit an alternative methodology for the segregation of line rental into congestion cost and line losses from the start of the *WESM. PEMC* has filed its compliance submitting its alternative methodology.

On September 8, 2011, *MERALCO* received a copy of *PEMC*'s compliance to the *ERC*'s directive and on November 11, 2011, *MERALCO* filed a counter-proposal which effectively simplifies *PEMC*'s proposal.

In an Order of the *ERC* dated June 21, 2012, *MERALCO* was directed to submit its computation of the amount of the double charging of line loss on a per month basis from June 26, 2006 up to June 2012. On July 4, 2012, *MERALCO* filed its Compliance to the said Order. Thereafter, the *ERC* issued an Order directing the parties to comment on *MERALCO*'s submissions. Hearings were conducted on October 2, 2012 and October 16, 2012 to discuss the parties' proposal and comments.

In an Order dated March 4, 2013, the *ERC* approved the methodology proposed by *MERALCO* and *PEMC* in computing the double charged amount on line losses by deducting 2.98% from the *NPC-TOU* amount. Accordingly, the *ERC* determined that the computed double charge amount to be collected from *NPC* is ₱5.2 billion, covering the period November 2006 to August 2012 until actual cessation of the collection of the 2.98% line loss charge in the *NPC-TOU* rates imposed on *MERALCO*. In this regard, *NPC* was directed by the *ERC* to refund said amount by remitting to *MERALCO* the equivalent amount of ₱73.9 million per month until the over-recoveries are fully refunded. In the said Order, the *ERC* likewise determined that the amount to be collected from the successor generating companies ("*SGC*s") is ₱4.7 billion. Additionally, *MERALCO* was directed to file a petition against the following *SGC*s: *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 *SGC*s.

In an Order dated July 1, 2013, the *ERC* issued the following clarifications/resolutions: (i) *SPPC* should be included as one of the *SGC*s 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 *SGC*s 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 *SGC*s: *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 27, 2023, *MERALCO*'s Manifestation with Motion is pending resolution by the *ERC*.

On October 24, 2013, *MERALCO* received *PSALM*'s Petition for Review on Certiorari with the *CA* (With Urgent *TRO* and/or Writ of Preliminary Mandatory Injunction Applications) questioning the March 4, 2013 and July 1, 2013 Orders of the *ERC*.

On February 3, 2014, *MERALCO* filed a Comment with Opposition to the Application for *TRO* or Writ of Preliminary Injunction dated January 30, 2014. *PEMC* filed a Comment and Opposition Re: Petition for Certiorari with Urgent *TRO* and/or Writ of Preliminary Mandatory Injunction dated January 6, 2014. On June 4, 2014, the *CA* issued a Resolution declaring that *PSALM* is deemed to have waived the filing of a Reply to the comment and opposition of *MERALCO* and *PEMC* and directing the parties to submit their simultaneous memoranda within 15 days from notice. On December 1, 2014, the *CA* issued a decision dismissing the Petition for Certiorari filed by *PSALM* against the *ERC*, *MERALCO* and *PEMC* and affirming the *ERC*'s ruling on the refund of the ₱5.2 billion of transmission line losses double charged by *PSALM* and *NPC*. On January 30, 2015, *PSALM* filed its *MR* on the December 1, 2014 Decision of the *CA*. *MERALCO* has filed its Opposition to the *MR*. In a Resolution dated August 11, 2015, the *CA* denied *PSALM's MR*. On October 27, 2015, *MERALCO* received *PSALM's* Petition for Review with the *SC*. The Petition has been given due course and the parties have filed their respective memoranda. As at February 27, 2023, *MERALCO* is still awaiting further action of the *SC* on the Petition.

Petition for Dispute Resolution against SPPC, MPPCL, APRI, TLI, SMEC and Sem-Calaca

On August 29, 2013, *MERALCO* filed a Petition for Dispute Resolution against *SPPC*, *MPPCL*, *APRI*, *TLI*, *SMEC* and *Sem-Calaca.* Said Petition seeks the following: 1) refund of the 2.98% transmission line losses in the amount of ₱5.4 billion, inclusive of the ₱758 million line loss for the period September 2012 to June 25, 2013, from said *SGC*s; 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 *SGC*s, 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 *SGC*s' Joint Motion to Dismiss. On October 7, 2013, *MERALCO* filed its Comment on the said Joint Motion.

On October 8, 2013, *MERALCO* received the *SGC*s Manifestation and Motion, which sought, among other things, the cancellation of the scheduled initial hearing of the case, including the submission of the parties respective Pre-trial Briefs, until the final resolution of the *SGC*'s Joint Motion to Dismiss. On October 11, 2013, *MERALCO* filed its pre-trial brief. On October 14, 2013, *MERALCO* filed its Opposition to the *SGC*'s Manifestation and Motion. On October 24, 2013, *MERALCO* received the *SGC'*s Reply to its Comment on the Joint Motion to Dismiss. On October 29, 2013, *MERALCO* filed its Rejoinder. Thereafter, the *SGC*'s filed their Sur-Rejoinder dated November 4, 2013. As at February 27, 2023, the Joint Motion to Dismiss is pending resolution by the *ERC*.

Petition for Dispute Resolution with NPC on Premium Charges

On June 2, 2009, *MERALCO* filed a Petition for Dispute Resolution against *NPC* and *PSALM* with respect to *NPC*'s imposition of premium charges for the alleged excess energy it supplied to *MERALCO* covering the billing periods May 2005 to June 2006. The premium charges amounting to ₱315 million during the May-June 2005 billing periods have been paid but are the subject of a protest by *MERALCO*, and premium charges of ₱318 million during the November 2005, February 2006 and April to June 2006 billing periods are being disputed and withheld by *MERALCO*. *MERALCO* believes that there is no basis for the imposition of the premium charges. The hearings on this case have been completed. As at February 27, 2023, the Petition is pending resolution by the *ERC*.

SC TRO on MERALCO's December 2013 Billing Rate Increase

On December 9, 2013, the *ERC* gave clearance to the request of *MERALCO* to implement a staggered collection over three (3) months covering the December 2013 billing month for the increase in generation charge and other bill components such as *VAT*, *LFT*, transmission charge, and *SL* charge. The generation costs for the November 2013 supply month increased significantly because of the aberrant spike in the *WESM* charges on account of the non-compliance with *WESM* Rules by certain plants resulting in significant power generation capacities not being offered and dispatched, and the scheduled and extended shutdowns, and the forced outages, of several base load power plants, and the use of the more expensive liquid fuel or bio-diesel by the natural gas-fired power plants that were affected by the Malampaya Gas Field shutdown from November 11 to December 10, 2013.

On December 19, 2013, several party-list representatives of the House of Representatives filed a Petition against *MERALCO*, *ERC* and *DOE* before the *SC*, questioning the *ERC* clearance granted to *MERALCO* to charge the resulting price increase, alleging the lack of hearing and due process. It also sought for the declaration of the unconstitutionality of the *EPIRA*, which essentially declared the generation and supply sectors competitive and open, and not considered public utilities. A similar petition was filed by a consumer group and several private homeowners' associations challenging also the legality of the *AGRA* that the *ERC* had promulgated. Both petitions prayed for the issuance of *TRO*, and a Writ of Preliminary Injunction.

On December 23, 2013, the *SC* consolidated the two (2) Petitions and granted the application for *TRO* effective immediately and for a period of 60 days, which effectively enjoined the *ERC* and *MERALCO* from implementing the price increase. The *SC* also ordered *MERALCO*, *ERC* and *DOE* to file their respective comments to the Petitions. Oral Arguments were conducted on January 21, 2014, February 4, 2014 and February 11, 2014. Thereafter, the *SC* ordered all the Parties to the

consolidated Petitions to file their respective Memorandum on or before February 26, 2014 after which the Petitions will be deemed submitted for resolution of the *SC*. *MERALCO* complied with said directive and filed its Memorandum on said date.

On February 18, 2014, acting on the motion filed by the Petitioners, the *SC* extended for another 60 days or until April 22, 2014, the *TRO* that it originally issued against *MERALCO* and *ERC* on December 23, 2013. The *TRO* was also similarly applied to the generating companies, specifically *MPPCL*, *SMEC*, *SPPC*, *FGPC*, and the *NGCP*, and the *PEMC* (the administrator of *WESM* and market operator at that time) who were all enjoined from collecting from *MERALCO* the deferred amounts representing the ₱4.15 per *kWh* price increase for the November 2013 supply month.

In the meantime, on January 30, 2014, *MERALCO* filed an Omnibus Motion with Manifestation with the *ERC* for the latter to direct *PEMC* to conduct a re-run or re-calculation of the *WESM* prices for the supply months of November to December 2013. Subsequently, on February 17, 2014, *MERALCO* filed with the *ERC* an Application for the recovery of deferred generation costs for the December 2013 supply month praying that it be allowed to recover the same over a six (6)-month period.

On March 3, 2014, the *ERC* issued an Order voiding the Luzon *WESM* prices during the November and December 2013 supply months on the basis of the preliminary findings of its Investigating Unit ("*IU*") that these are not reasonable, rational and competitive, and imposing the use of regulated rates for the said period. *PEMC* was given seven (7) days upon receipt of the Order to calculate these regulated prices and implement the same in the revised *WESM* bills of the concerned *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 a Resolution dated November 4, 2020, the *SC* consolidated *ERC*'s and *MERALCO*'s petitions and transferred *MERALCO*'s petition to the member-in-charge of *ERC*'s petition which was the lower-numbered case. The petitions filed by the consumers were denied by the *SC*.

In view of the pendency of the various submissions before the *ERC* and mindful of the complexities in the implementation of the *ERC*'s Order dated March 3, 2014, the *ERC* directed *PEMC* to provide the market participants additional 45 days to comply with the settlement of their respective adjusted *WESM* bills. In an Order dated May 9, 2014, the parties were then given an additional non-extendible period of 30 days from receipt of the Order within which to settle their *WESM* bills. However, in an Order dated June 6, 2014 and acting on an intervention filed by Angeles Electric Corporation, the

ERC deemed it appropriate to hold in abeyance the settlement of *PEMC*'s adjusted *WESM* bills by the market participants.

On April 22, 2014, the *SC* extended indefinitely the *TRO* issued on December 23, 2013 and February 18, 2014 and directed generating companies, *NGCP* and *PEMC* not to collect from *MERALCO*. In a Decision promulgated on August 3, 2022, the *SC* affirmed the December 9, 2013 *ERC* letter approving *MERALCO*'s proposal to implement a staggered collection over three (3) months covering the December 2013 billing month. However, it voided the *ERC* March 3, 2014 Order which voided the Luzon *WESM* prices during the November and December 2013 supply months and imposed the use of regulated rates for said period. The *ERC* and the petitioners filed motions for reconsideration which were denied with finality in the *SC* Resolution dated October 11, 2022. The implementation of any staggered collection is subject to the approval of the *ERC*.

ERC IU Complaint

On December 26, 2013, the *ERC* constituted the *IU* under its Competition Rules to investigate possible anti-competitive behavior by the industry players and possible collusion that transpired in the *WESM* during the supply months of November 2013 and December 2013. *MERALCO* participated in the proceedings and submitted a Memorandum.

An investigating officer of the *IU* filed a Complaint dated May 9, 2015 against *MERALCO* and *TMO* for alleged anti-competitive behavior constituting economic withholding in violation of Section 45 of the *EPIRA* and Rule 11, Section 1 and 8(e) of the *EPIRA IRR*. In an Order dated June 15, 2015, the *ERC* directed *MERALCO* to file its comment on the Complaint. *MERALCO* and *TMO* have filed their respective answers to the Complaint.

In an Order dated September 1, 2015, the *ERC* directed the investigating officer to file his reply to *MERALCO*. In a Manifestation and Motion to Set the Case for Hearing dated November 9, 2015, the investigating officer manifested that he would no longer file a reply and that the case be set for hearing.

On May 24, 2016, the *ERC* promulgated Resolution No. 14, Series of 2016, which resolved to divide the Commission into two (2) core groups for the conduct of hearings and to designate the commissioners to act as presiding officers in anti-competition cases. The raffle pursuant to said Resolution was conducted on June 15, 2016.

In a Notice of Pre-Trial Conference dated June 16, 2016, the *ERC* set the pre-trial conference on August 18, 2016 and required *MERALCO* and *TMO* to submit their respective pre-trial briefs. However, on July 27, 2016, the complainant filed two (2) omnibus motions for the consolidation and deferment of the pre-trial conferences. Hence, in an Order dated August 1, 2016, the respondents were given 10 days to submit their comments on the Motion for Consolidation, with the complainant given five (5) days to file his reply. As such, the pre-trial conferences as scheduled were deferred until further notice and all parties were granted 20 days to submit their respective pre-trial briefs.

In the meantime, *MERALCO* likewise filed an Urgent Motion to Dismiss with Motion to Suspend Proceedings which was adopted by *TMO* in its Manifestation and Motion filed on July 28, 2016. *MERALCO* maintained that the Complaint should be dismissed due to the absence of subject matter jurisdiction as it is now the Philippine Competition Commission ("*PCC*") which has original and primary jurisdiction over competition-related cases in the energy sector. On August 23, 2016, *MERALCO* filed an Urgent Motion Ad Cautelam for suspension of proceeding including period to file pre-trial brief and judicial affidavit.

In a Motion dated August 25, 2016, complainant filed a Motion to defer the submission of the complainant's pre-trial brief and judicial affidavit. In an Order dated June 13, 2017, the *ERC* denied the motion to consolidate but upheld the authority of private counsel to represent the complainants. *MERALCO* filed a Motion for Partial Reconsideration to question such authority.

In an Order dated February 2, 2017, the *ERC* denied the motion to dismiss and asserted jurisdiction over the Complaint. *MERALCO* filed its *MR* to the Order on February 23, 2017. In an Order dated June 20, 2017, the *ERC* denied the *MR*. On September 19, 2017, *MERALCO* filed a Petition for Certiorari with the *CA*. In a Resolution dated October 2, 2017, the *CA* required respondents to file their Comment on the Petition within 10 days and held in abeyance its resolution on the prayer for injunctive relief until the comments have been filed. *MERALCO* was likewise given five (5) days to file its reply. In a Manifestation dated October 23, 2017, the *ERC* stated that it is a nominal party in the case as the quasi-judicial 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, TMO* and *APRI* have all filed their respective manifestations before the *SC*. In a Resolution dated September 29, 2021, the *SC* affirmed the *CA* in that the *ERC* had jurisdiction over these cases as they were filed before the enactment of the *PCA*. However, the *SC* did not rule on whether the *PCC* and the *ERC* now have concurrent jurisdiction as these issues were not fully litigated.

In the meantime, the *ERC* called for a conference on March 26, 2021 in order to discuss updates and developments regarding the case. On April 14, 2021, *MERALCO* filed an Urgent Motion Ad Cautelam to Suspend Proceedings in view of the pendency of the case before the *SC*. The *ERC* then issued an Order dated August 13, 2021, setting the pre-trial conference on August 27, 2021. *MERALCO* filed a Manifestation and Urgent Omnibus Motion Ad Cautelam to (A) Resolve the Urgent Motion Ad Cautelam to Suspend Proceedings dated April 14, 2021 and (B) Cancel the August 27, 2021 Pre-Trial Conference dated August 20, 2021. The pre-trial conference proceeded on August 27, 2021. However, the *ERC* stated that, after the pre-trial conference and before the case can proceed with trial on the merits, the *ERC* will first resolve *MERALCO*'s motions. The *ERC* also issued an open court order denying the motion of the *ERC IU* that the case be resolved through the submission of the position papers and other supporting documents. The *ERC IU* filed a Motion for Reconsideration to which *MERALCO* filed an opposition. As at February 27, 2023, *MERALCO* is awaiting further action by the *ERC* on the matter.

Ombudsman Cases Against MERALCO Directors

On January 30, 2018, *MERALCO* received an Order dated January 22, 2018 from the Office of the Ombudsman directing *MERALCO*'s directors to comment on a complaint-affidavit for syndicated estafa filed by certain consumer group which charged that there was conspiracy between *MERALCO* directors and the *ERC* regarding the alleged misappropriation of the bill deposits received from *MERALCO* consumers. On February 9, 2018, *MERALCO*'s directors filed their Counter-Affidavits where they refuted the arguments of the consumer group. In a Resolution dated May 18, 2018, the criminal complaint for syndicated estafa was dismissed for insufficiency of evidence. The case was referred to the *COA* for the conduct of audit on the bill deposits collected by *MERALCO* from the public consumers and to inform the Ombudsman of the compliance therewith. The consumer group filed a Motion for Partial Reconsideration dated June 16, 2018 to which *MERALCO* filed its Comment. The consumer group's Motion for Partial Reconsideration was denied through an Order dated July 30, 2018. *NASECORE* filed an *Urgent Motion for Immediate Execution* dated September 21, 2018 praying that the Ombudsman issue a writ of execution to implement the *Resolution* dated May 18, 2018.

On February 28, 2018, *MERALCO* received an Order dated February 20, 2018 from the Office of the Ombudsman directing *MERALCO*'s directors to comment on a complaint-affidavit for syndicated estafa filed by certain consumer group which charged that there was conspiracy between *MERALCO* directors and the *ERC* regarding the *MERALCO*'s investment activities in other businesses for being violative of its legislative franchise and the *EPIRA*. On March 12, 2018, *MERALCO*'s directors filed their Counter-Affidavits where they refuted the arguments of the consumer group. On May 4, 2018, *MERALCO* filed a Manifestation with Motion for Early Resolution of even date. Another Motion to Resolve and Dismiss was also filed by *MERALCO* on June 2, 2021. In a Joint Resolution dated February 22, 2022, the Ombudman dismissed the cases.

Others

Liabilities for certain local taxes amounting to ₱535 million and ₱423 million as at December 31, 2022 and 2021, respectively, are included in the "Other noncurrent liabilities" account in the consolidated statements of financial position.

Management and its internal and external counsels believe that the probable resolution of these issues will not materially affect *MERALCO's* financial position and results of operations.

30. Significant Contracts and Commitments

MERALCO

Independent Power Producers ("IPPs")

FGPC and *FGP*

In compliance with the *DOE's* program to create a market for Camago-Malampaya gas field and enable its development, *MERALCO* contracted 1,500 *MW* of the 2,700 *MW* output of the Malampaya gas field.

Accordingly, *MERALCO* entered into separate 25-year *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. The *PPA* is for a period of 25 years from the start of commercial operations up to May 31, 2025.

In a Letter Agreement signed on February 21, 2008, the amount billable by *QPPL* included a transmission line charge reduction in lieu of a previous rebate program. The Letter Agreement also provides that *MERALCO* shall advance to *QPPL* US$2.85 million per annum for 10 years beginning 2008 to assist *QPPL* in consideration of the difference between the transmission line charge specified in the Transmission Line Agreement ("*TLA*") and the *ERC*-approved transmission line charge in March 2003. *QPPL* shall repay *MERALCO* the same amount at the end of the 10-year period in equal annual payments without adjustment. However, if *MERALCO* is able to dispatch *QPPL* at a plant capacity factor of no less than 86% in any particular year, *MERALCO* shall not be required to pay US$2.85 million on that year. In January 2018, *QPPL* began repayment of the amount advanced by *MERALCO*. As at December 31, 2022, the remaining amount for repayment by *QPPL* is US$7.125 million. This arrangement did not have any impact on the rates to be charged to consumers and hence, did not require any amendment in the *PPA*, as approved by the *ERC*.

See *Note 11 – Financial and other Noncurrent Assets.*

Committed Energy Volume to be Purchased

The following are forecasted purchases/payments to *FGPC*, *FGP* and *QPPL* corresponding to the Minimum Energy Quantity ("*MEQ*") provisions of the contracts. The forecasted fixed payments include capacity charge and fixed operation and maintenance cost escalated using the *U.S.* and Philippine Consumer Price Index.

Year	MEQ	Equivalent Amount
	(In million kwh)	*(In Millions)*
2023	15,346	₱31,297
2024	15,379	30,712
2025	10,739	19,088
2026	4,042	6,226
2027-2032	3,367	5,224

PSAs with Privatized Plants and *IPPAs*

MERALCO has a *PSA* with *MPPCL* which was approved by the *ERC* on December 17, 2012, and entered into Supplemental Agreement on April 8, 2016, for the extension of the term of the *PSA* for an additional period of three (3) years up to December 25, 2022.

On December 6, 2019, *MERALCO* and *TLI* executed a new short-term *PSA* for the purchase of 250 *MW* capacity and energy from *TLI*'s power plant for the period of December 26, 2019 to December 25, 2020. On December 19, 2019, the *DOE* issued a Certificate of Exemption from *CSP* in favor of *MERALCO* for the new short-term *PSA*. On December 23, 2019, *MERALCO* filed an application with the *ERC* for the approval of its new short-term *PSA* with *TLI*. On August 7, 2020, *MERALCO* and *TLI* filed a Joint Manifestation with Motion with the *ERC* seeking approval of the extension of the *PSA* for five days or until December 30, 2020. As at February 27, 2023, hearings have been completed. The case, including the motion, is still pending approval of the *ERC*.

The *ERC,* for the *MPPCL* case, issued an Order dated October 11, 2016 resolving to consider *MERALCO*'s "Manifestation and Motion" as a new application for approval of *PSA*. In view of the said Order, *MERALCO* and *MPPCL* filed a Joint Application for approval of the Supplemental Agreement extending the term of their *PSA* for an additional three (3) years. On December 19, 2019, *MERALCO* and *MPPCL* entered into an Agreement to Amend the Supplemental Agreement, whereby the Parties resolved to extend the *PSA* for an additional period of one (1) year reckoned from the date of the approval by the *ERC* of the said Agreement to Amend. On June 8, 2020, *MERALCO* and *MPPCL* filed a Joint Manifestation and Omnibus Motion to seek *ERC* approval of said Agreement to Amend. On April 14, 2021, due to exigent and emergency reasons (e.g. unforecasted supply deficiency and to account for outages of power plants with bilateral contracts with *MERALCO*), *MERALCO* and *MPPCL* further agreed to enter into an Amendment Agreement to amend the December 19, 2019 Agreement to Amend, to instead extend the *PSA* for an additional period of one (1) year from May 26, 2021. On even date, (a) *MERALCO* and *MPPCL* filed a Joint Manifestation and Omnibus Motion to seek *ERC* approval of the said Amendment Agreement; and (b) *MERALCO* sought confirmation from the *DOE* that the extension of the *ERC*-approved 2011 *PSA,* as embodied in the Amendment Agreement, is exempted from the conduct of a *CSP.* In its letter dated July 30, 2021, the *DOE* denied *MERALCO*'s request for certificate of exemption from *CSP*. As at February 27, 2023, the *ERC* has yet to act on the parties' Joint Manifestation and Omnibus Motion.

Philippine Power and Development Company ("*Philpodeco*")

On May 15, 2014, *MERALCO* and *Philpodeco* executed a *PSA*. *Philpodeco* operates three (3) run-of-river hydro power plants, namely: (i) Palakpakin, a 448 *kW* hydro power plant located at Barangay Prinza, Calauan, Laguna; (ii) Calibato, a 75 *kW* Calibato hydro power plant located at Barangay Sto. Angel, San Pablo City, Laguna; and (iii) Balugbog, a 528 *kW* hydro power plant located at Barangay Palina, Nagcarlan, Laguna. The *PSA* has a term of five (5) years from the delivery period commencement date.

On June 2, 2014, *MERALCO* filed an application with the *ERC* for the approval of its *PSA* with *Philpodeco.* This *PSA* provides that *MERALCO* shall accept all the energy deliveries of *Philpodeco* as measured by the latter's billing meter. Hearings on this case have been completed and *MERALCO* has submitted its *FOE*. On January 25, 2019, *MERALCO* filed an Urgent Motion to Resolve the case. On May 22, 2019, *MERALCO* filed a Manifestation with Motion to Resolve seeking *ERC* confirmation of the extension of the term of the *PSA* with *Philpodeco* from May 15, 2019 to October 25, 2019. On October 24, 2019, *MERALCO* wrote *DOE* asking for exemption from the requirement for *CSP* for a further extension of the term of the *PSA* with *Philpodeco* from October 25, 2019 to May 15, 2020. On the same date, *MERALCO* also filed a Manifestation with

Motion to Resolve seeking *ERC* confirmation of the said extension of term. In its letter to *Philpodeco* dated December 18, 2019, the *DOE* has taken the position that "*xxx [u]nder Section 45(b) of Republic Act No. 9136, ERC is the sole authority mandated to review and approve PSAs*." On May 15, 2020, the *PSA* with *Philpodeco* expired. As at February 27, 2023, the case is pending decision by the *ERC*.

Bacavalley Energy Inc. ("*BEI*")

MERALCO signed a *CSE* with *BEI* on November 12, 2010. *BEI* owns and operates a four (4) *MW* renewable energy generation facility powered by landfill gas in San Pedro, Laguna. The *CSE* has a term of two (2) years from the delivery period commencement date.

Purchases from *BEI*, an embedded renewable energy generator, are *VAT* zero-rated and exempt from power delivery service charge. *MERALCO* filed an application for the approval of the *CSE* with the *ERC*, for the provisional implementation of the contract on December 15, 2010. In an order dated January 31, 2011, the *ERC* provisionally approved the said application.

After a series of negotiations, *MERALCO* and *BEI* signed the Letter Agreements dated March 1, 2013 and March 5, 2013, extending the *CSE* between said parties for another two (2) years from March 16, 2013, or until March 15, 2015. In its Order December 9, 2013, the *ERC* allowed the *CSE* to be extended until March 15, 2015. On March 12, 2015, *MERALCO* and *BEI* executed a Letter of Agreement extending the *CSE* until March 15, 2016. On March 16, 2015, *MERALCO* filed a Manifestation with Motion to the *ERC* for approval of the extended term. On March 1, 2016, *BEI* requested for the extension of the *CSE* for another two (2) years. In its letter dated April 7, 2016, *MERALCO* denied *BEI*'s request to extend the *CSE*. On May 18, 2018 and January 25, 2019, *MERALCO* filed Urgent Motions to Resolve the case. As at February 27, 2023, the contract term has expired and the case is pending decision by the *ERC*.

Pangea Green Energy Philippines, Inc. ("*PGEP*")

On May 31, 2012, *MERALCO* signed a *CSE* with *PGEP,* a biomass power plant located in Payatas, Quezon City using methane gas extracted from the Payatas landfill as its fuel. Its plant has a total nominal generating capacity of 1,236 *kW*. The *CSE* is for a period of two (2) years from the delivery period commencement date.

On June 15, 2012, *MERALCO* filed an application for approval of the *CSE*. On August 28, 2012, the *ERC* issued an Order provisionally approving the application. On August 29, 2013, the *ERC* extended the provisional authority in its Order dated August 12, 2013. On March 2, 2015, *MERALCO* and *PGEP* executed a Letter of Agreement extending the *CSE* until February 29, 2016. On March 4, 2015, *MERALCO* filed a Manifestation with Motion with the *ERC* for the approval of the extended term. On September 16, 2015, *MERALCO* received a letter from *PGEP* seeking the termination of the *CSE* effective October 15, 2015. The termination of the *CSE* was thereafter formalized in the Letter Agreement dated October 29, 2015 where the parties agreed to terminate the *CSE* effective October 9, 2015, which was *PGEP*'s Facility Registration Date with the *WESM*. On January 8, 2016, *MERALCO* filed a Manifestation with Motion with the *ERC* seeking approval of the extended term of March 4, 2015 until October 9, 2015. On May 17, 2018 and January 25, 2019, *MERALCO* filed Urgent Motions to Resolve the case. In its Order dated February 18, 2019, the *ERC* directed *MERALCO* to submit certain documents to facilitate its evaluation of the application. On March 29, 2019, *MERALCO* filed its Compliance with Manifestation. As at February 27, 2023, the contract term has expired and the case is pending decision by the *ERC*.

TMO

On March 4, 2013, *MERALCO* signed an Interconnection Agreement with *TMO* for their 243 *MW* generating facility at the Navotas Fish Port Complex, Navotas City, which is an interconnection at *MERALCO*'s Grace Park-Malabon 115 *kV* line. *TMO* is an embedded generator. *TMO* shall construct at its own cost, operate and maintain the 115 *kV* line connecting its generating facility to *MERALCO*'s system. *TMO* and *MERALCO* subsequently signed a Supplement to the Interconnection Agreement dated July 3, 2014 covering the construction of a second line from the connection point at the Grace Park-Malabon 115 *kV* line to the *TMO* switchyard.

On September 27, 2013, *MERALCO* signed a *PSA* with *TMO* for the output of the barge-mounted, bunker oil-fired diesel engines moored at the Fish Port Complex in Navotas, Manila. On September 30, 2013, *MERALCO* filed an application with the *ERC* for the approval of the *PSA*. In an Order dated November 4, 2013, the *ERC* granted the prayer for provisional authority. After hearing and submission of the required documents, including the *FOE*, the case is now submitted for decision.

On December 17, 2014, *MERALCO* and *TMO* entered into an Amendment to the *PSA* based on the power situation outlook for 2015 and 2016 issued by the *NGCP* that the reserve capacity will be below the Contingency Reserves due to the maintenance shutdowns and forced outages of major power plants in Luzon. The amendment to the *PSA* was filed for approval with the *ERC* on January 21, 2015. In an Order dated April 6, 2015, the *ERC* approved the amendment in the *PSA* between *MERALCO* and *TMO* with modification. In an Order dated July 1, 2015, the *ERC* clarified that the provisional approval, while not specifically modifying nor stating any condition with respect to the implementation of the outage provisions of the amendment, covers the increase in outage allowance and the minor change in operating procedures.

On June 16, 2015, *MERALCO* received the Omnibus Motion for Partial Reconsideration and Deferment of Implementation of the Order dated April 6, 2015; Urgent Resolution of the Application; and Confidential Treatment filed by *TMO*.

In an Order dated April 5, 2016, the *ERC* ruled that the provisional authority granted to *MERALCO* and *TMO* is extended unless revoked or made permanent. On June 10, 2016 and July 5, 2016, respectively, *MERALCO* and *TMO* filed a Motion for Clarification of the *ERC* Order dated April 5, 2016. Said motions are still pending decision by the *ERC*. On January 3, 2017, *MERALCO* filed a Manifestation with Motion informing the *ERC* of the extension of the term of the *PSA* from June 26, 2017 to June 25, 2018. In an Order dated June 6, 2017, the *ERC* noted *MERALCO*'s Manifestation and Motion and confirmed one (1) year extension of the *PSA*. *MERALCO* and *TMO* were further directed to strictly comply with the provisions of *ERC* Resolution No. 1, Series of 2016, in particular, the one (1) time limit for renewal of the *PSA*. As at February 27, 2023, the contract term has expired and the case is pending decision by the *ERC*.

SBPL

On September 26, 2019, *MERALCO* and *SBPL* began implementation of the *PSA* which was approved by the *ERC*, subject to *ERC*'s subsequent issuance of a certificate of compliance to replace the provisional authority to operate. The *PSA* is for a period of 20 years from the start of commercial operations up to September 25, 2039.

PEDC

To address the *SC* Decision in *Alyansa Para sa Bagong Pilipinas, Inc. vs. ERC, et al.* (G.R. No. 227670, 3 May 2019) that effectively required all *PSA* applications for *ERC* approval filed on or after June 30, 2015 to undergo *CSP*, which includes the 2016 20-year *PSA* between *MERALCO* and *PEDC*, a *CSP* was conducted in 2021 to cover the 70 *MW* required contract capacity of *MERALCO*

for contract period ending January 25, 2037. The same capacity was won by *PEDC* under the new 15-year *PSA* with *MERALCO* ("*2021 PEDC PSA*"). The application for approval of the new *PSA* with *PEDC* was filed on January 22, 2022. Through a "Notice of Resolution" dated February 23, 2022, the *ERC* granted provisional authority to implement the *2021 PEDC PSA*, and on April 1, 2022, the *2021 PEDC PSA* was implemented by *MERALCO* and *PEDC*.

On March 18, 2022, *PEDC* issued to *MERALCO* a Notice of Change in Circumstance, claiming that the Ukraine-Russia conflict had a significant negative financial impact to *PEDC* due to the price spike in coal prices and if the current situation continues, *PEDC*'s losses will be massive and ruinous unless an adjustment in contract price pursuant to the *2021 PEDC PSA* is implemented. Thus, on April 13, 2022, *PEDC* (joined by *MERALCO*) filed an *Urgent Motion for Contract Price Adjustment* with the *ERC*. Meanwhile, on April 22, 2022, *MERALCO* received *PEDC*'s Notice of Termination, effective six months thereafter, or until October 22, 2022. After the lapse of October 22, 2022, with the Urgent Motion for Contract Price Adjustment still pending with the *ERC, PEDC* has continued with its obligations under the *2021 PEDC PSA*. On December 4, 2022, *PEDC* sent to *MERALCO* a Notice of End of Supply, which formally informed *MERALCO* of *PEDC*'s decision to cease supply of energy beginning midnight of December 5, 2022, because without the *ERC*'s action on the Urgent Motion for Contract Price Adjustment, *PEDC* was already placed in severe financial stress and in danger of breaching its financial covenants. As at February 27, 2023, further *ERC* action on the Urgent Motion for Contract Price Adjustment is pending.

First Bulacan

On May 12, 2021, *MERALCO* and *First Bulacan* began implementation of the *PSA* which was approved by the *ERC*, subject to *ERC*'s subsequent issuance of a certificate of compliance to replace the provisional authority to operate. The *PSA* is for a period of 20 years from the start of commercial operations.

Solar Philippines Tanauan Corporation ("*Solar Philippines Tanauan*")

On December 22, 2016, *MERALCO* signed a 20-year *PSA* with *Solar Philippines Tanauan* for the purchase of 50 *MW* of electric output from its solar plant in Tanauan, Batangas. On February 27, 2017, after conduct of a *CSP* wherein *Solar Philippines Tanauan* was declared as the winning power supplier, the application for approval of the *PSA* with *Solar Philippines Tanauan* was filed. In a Decision promulgated on February 28, 2020, the *ERC* approved the *PSA* with modification.

Solar Philippines Tarlac Phase 1

On October 6, 2017, after being declared the winning power supplier in a *CSP*, *MERALCO* signed a 20-year *PSA* with *Solar Philippines Tarlac* for the purchase of up to 85 *MW* of electric output from Phase one (1) of its solar plant in Tarlac. The application for approval of the *PSA* with *Solar Philippines Tarlac* was filed on October 19, 2017. Hearings have been completed and parties await *ERC* resolution on *Solar Philippines Tarlac*'s opposition to a consumer group's intervention, which shall prompt submission of case for final decision. Meanwhile, in an Order promulgated on June 8, 2018, the *ERC* granted Interim Relief to provisionally implement the *PSA*. On July 3, 2018, *Solar Philippines Tarlac* filed a Motion for Partial Reconsideration of the said Order. *MERALCO* and *Solar Philippines Tarlac* agreed on a way forward, subject to resolution of the Motion for Partial Reconsideration, and began implementation of the *PSA* on August 20, 2018. On July 13, 2018, *MERALCO* filed its *Comment with Opposition* in so far as the adjustment of the timelines under the *PSA* is concerned. On November 26, 2018, a consumer group filed its *Comment with Opposition,*

likewise with respect to *Solar Philippines Tarlac's* motion for the adjustment of the timelines under the *PSA.* In its Order dated January 23, 2019, the *ERC* partially granted the Motion for Partial Reconsideration filed by *Solar Philippines Tarlac* and allowed the 2% annual escalation under the *PSA*. On June 25, 2019, the *ERC* promulgated its Order leaving the adjustment of the timelines set under the *PSA* to the discretion of *MERALCO* and *Solar Philippines Tarlac.* Meanwhile, the 20-year term of the *PSA* began on commencement date last August 20, 2018. As at February 27, 2023, the parties are awaiting *ERC's* final decision on the Joint Application.

FNPC

Following conduct and completion of a *CSP*, *MERALCO* confirmed effectivity of the *PSA* with *FNPC* dated December 13, 2017, for the purchase of 414 *MW* electric energy generated by the San Gabriel Gas Plant beginning *ERC* approval and ending on February 23, 2024. A joint application for approval of the *PSA* with *FNPC* was filed on March 19, 2018. Pursuant to an *ERC* Order granting interim relief, on June 26, 2018, *MERALCO* and *FNPC* began implementing the *PSA*. On July 13, 2022, *MERALCO* received the *ERC* Decision approving the joint application subject to certain modifications and conditions. On July 28, 2022, *FNPC* filed a motion seeking reconsideration and to hold in abeyance the implementation of the *ERC* Decision. As at February 27, 2023, further *ERC* action remain pending on the *FNPC*'s Motion for Reconsideration and to Hold in Abeyance the Execution of the *ERC* Decision.

Solar Philippines Tarlac Phase 2

On February 22, 2019, after being declared the winning power supplier in a *CSP*, *MERALCO* signed a 20-year *PSA* with *Solar Philippines Tarlac* for the purchase of up to 50 *MW* of electric output from Phase 2 of its solar plant in Tarlac. The application for approval of the *PSA* with *Solar Philippines Tarlac* was filed on March 18, 2019. As at February 27, 2023, the case is pending decision by the *ERC*.

SMEC, AC Energy and SPPC – Baseload PSAs

On September 13, 2019, after being declared the winning power suppliers in a *CSP*, *MERALCO* signed three (3) *PSA*s for baseload capacity with *AC Energy* for 200 *MW*, *SMEC* for 330 *MW*, and *SPPC* for 670 *MW*. On October 22, 2019, the joint applications for approval of these three (3) baseload *PSA*s were filed before the *ERC*. In its letters to *MERALCO,* all dated December 23, 2019, the *ERC* granted provisional authority to implement *MERALCO*'s three (3) *PSA*s for baseload capacity with *AC Energy, SPPC and SMEC.* On January 30, 2020, *MERALCO* received the orders of the *ERC* granting provisional authority to implement *MERALCO*'s *PSA* for baseload capacity with *AC Energy*. On March 16, 2020, *MERALCO* received the orders of the *ERC* granting provisional authority to implement *MERALCO*'s *PSA*s for baseload capacity with *SPPC* and *SMEC.* In its Orders dated November 26, 2020, the *ERC* granted interim relief authorizing continued implementation of the *PSA*s, until revoked or until the issuance of a final decision by the *ERC.* As at February 27, 2023, the three (3) *PSA* applications are pending final decision by the *ERC.*

On April 18, 2022, *SMEC* and *SPPC* issued to *MERALCO* Notices of Change in Circumstances, claiming that the worsening conflict between Russia and Ukraine and other geopolitical and economic factors related and/or emanating therefrom had impacted *SMEC* and *SPPC*'s capability to perform their obligations under the respective *PSA*s in terms of unexpected increase in fuel cost. Thus, on May 12, 2022, *SMEC* and *SPPC* (joined by *MERALCO*) filed Joint Motions for Price Adjustment with the *ERC*. On June 27, 2022 and July 22, 2022, *SMEC*, *SPPC* and *MERALCO* filed motions for urgent resolution of the Joint Motion. On August 30, 2022, the *ERC* conducted a clarificatory hearing with *SMEC, SPPC* and *MERALCO* to clarify several issues in connection with

the Joint Motions for Price Adjustment. On October 3, 2022, the *ERC*, voting 3-2, promulgated its Orders dated September 29, 2022, denying the Joint Motions for Price Adjustment. On October 5, 2022, *SMEC* and *SPPC* notified *MERALCO* that it will continue with its obligations under their respective baseload *PSA*s with *MERALCO* under protest and without prejudice to their rights and remedies under pertinent laws and contract. On November 4, 2022, *SMEC* and *SPPC* filed Petitions for Certiorari with prayer for issuance of *TRO* and Writ of Preliminary Injuction ("*WPI*") with the *CA*, assailing the *ERC* Orders dated September 29, 2022. On November 25, 2022, the *CA* issued a *TRO* for the *SPPC* case, hence, after the *TRO* bond was posted by *SPPC*, on December 7, 2022, *SPPC* stopped accepting *MERALCO* nominations. On January 25, 2023, the *CA* issued a *WPI* for the *SPPC* case, which shall remain in effect until the main case is finally decided. Meanwhile, for the *SMEC* case, on January 13, 2023, the *CA* denied *SMEC*'s prayer for *TRO* and *WPI*. As at February 27, 2023, *SPPC* has suspended its obligations under its baseload *PSA* with *MERALCO*, while *SMEC* has continued with its obligations under its baseload *PSA* with *MERALCO*.

FGHPC, AC Energy and SPPC – Mid-merit PSAs

On September 16, 2019, after being declared the winning power suppliers in a *CSP, MERALCO* signed three (3) *PSA*s for mid-merit capacity with *FGHPC* for 100 *MW, AC Energy* for 110 *MW*, and *SPPC* for 290 *MW*. On October 22, 2019, the joint applications for approval of these three (3) *PSA*s were filed before the *ERC*. On January 30, 2020, *MERALCO* received the orders of the *ERC* granting provisional authority to implement *MERALCO*'s the *PSA* for mid-merit capacity with *AC Energy*. On March 16, 2020, *MERALCO* received the orders of the *ERC* granting provisional authority to implement *MERALCO*'s other *PSA*s for mid-merit capacity with *FGHPC* and *SPPC*. In its Orders dated November 26, 2020, the *ERC* granted interim relief authorizing continued implementation of the *PSA*s, until revoked or until the issuance of a final decision by the *ERC*. As at February 27, 2023, the three (3) *PSA* applications are pending final decision by the *ERC*.

Excellent Energy Resources, Inc. ("EERI") and MPPCL - Baseload PSAs

On March 2, 2021, after being declared the winning power suppliers in a *CSP* for 1,800 *MW* baseload capacity from greenfield power plants was conducted, *MERALCO* signed two (2) *PSAs* with *EERI* with commercial operations date in December 2024 for 1,200 *MW*, and with *MPPCL* with commercial operations date in May 2025 for 600 *MW*. The joint applications for approval of *MERALCO*'s *PSA*s with *MPPCL* and *EERI* were filed with the *ERC* on March 18, 2021 and March 24, 2021, respectively. As at February 27, 2023, the two (2) *PSA* applications are pending final decision by the *ERC*.

Under the *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)*
2023	2,867	₱61,942
2024	2,967	64,887
2025	2,956	61,743
2026	3,455	74,383
2027-2032	17,130	339,573

Interim Power Supply Agreements ("IPSAs")

On January 24, 2017, in view of the Malampaya shutdown that was to coincide with the scheduled outage of other plants, *MERALCO* signed an *IPSA* with Strategic Power Development Corporation ("*SPDC*") for the supply of 100 *MW* per hour of electric power from 0901H to 1000H and from 2001H to 2100H, and 150 *MW* per hour of electric power from 1001H to 2000H, from January 28, 2017 until February 16, 2017. An application for approval of such *IPSA* was filed before the *ERC* on February 9, 2017. The said *IPSA* was effective immediately, on the condition that disallowances and penalties that the *ERC* may impose as a result thereof shall be for the account of *SPDC. MERALCO* and *SPDC*, in a letter agreement dated February 15, 2017, agreed to extend the term of the *IPSA* until March 25, 2017 under the same terms and conditions of the *IPSA.* On February 16, 2017, *MERALCO* and *SPDC* filed a Joint Manifestation with Motion with the *ERC* apprising the Honorable Commission of the extended term and praying that the same be duly considered and approved accordingly. The hearings on this case have been completed and *MERALCO* filed its *FOE* on July 21, 2017. As at February 27, 2023, the contract term has expired and *MERALCO* awaits the *ERC*'s final decision on the *IPSA.*

On April 15, 2019, with the *NGCP* forecast that of voltage situations occurring for the weekdays of May up to the first half of June 2019 every time the Luzon peak demand exceeds 11,200 *MW*, *MERALCO* signed two (2) separate *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* 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 *FOE* on the *TMO IPSA* Joint Application. In addition, in light of the declarations of yellow and red alerts in the *Luzon* Grid by *NGCP, MERALCO* and *MEI,* in a Letter Agreement dated June 20, 2019, agreed to extend their *IPSA* until September 25, 2019. Further, given continuing declarations of yellow and red alerts in the Luzon grid by *NGCP*, *MERALCO* and *MEI*, in a Letter Agreement dated September 23, 2019, agreed to further extend their *IPSA* until April 25, 2020. *MERALCO* also received the *DOE's* grant of exemption from the requirement for *CSP* for said periods. In a Letter Agreement dated January 28, 2020, *MERALCO* and *MEI* agreed on another extension of their *IPSA* from April 26, 2020 to June 25, 2020 in view of *DOE*'s forecast, presented to *MERALCO* in a meeting with the *DOE* on January 16, 2020, which showed red alert situation in the Luzon grid for the period from April to June 2020. *MERALCO* wrote *DOE* on January 29, 2020 to request for exemption from the requirement for *CSP* for said period. However, the *PSA* with *MEI* was not extended as the *DOE* did not issue any exemption to be able to further extend the *PSA*. Thus, on April 25, 2020, the *PSA* with *MEI* expired. On even date, the *PSA* with *TMO* also expired. As at February 27, 2023, the cases remain pending with the *ERC*.

On September 28, 2021, in view of the Malampaya shutdown set for October 2021 that was to coincide with the scheduled outage of other plants, *MERALCO* signed a Contract for Supply of Electric Energy ("*CSEE*") with *PSALM* for the supply of 90 *MW* for the period of ten (10) months from September 26, 2021 to July 25, 2022. On even date, the *DOE* issued a Certificate of Exemption from *CSP* in favor of *MERALCO* for the *CSEE*. With the *DOE*'s grant of exemption from the requirement for *CSP*, the parties began implementation of the *CSEE* on September 29, 2021. The application for approval of the *CSEE* with *PSALM* was filed on December 29, 2021. As at February 27, 2023, the contract term has expired and the case is pending decision by the *ERC*.

On February 4, 2022, after being declared the winning power supplier in a *CSP*, *MERALCO* signed a 5-month *PSA* with *SPPC* for 170 *MW* contract capacity. The application for approval of *MERALCO*'s emergency *PSA* with *SPPC* was filed with the *ERC* on March 22, 2022. On July 25, 2022, the contract term has expired, thus, on September 2, 2022, *MERALCO* and *SPPC* jointly filed a Manifestation with the *ERC*, informing it of the expiration of the *PSA*'s contract term and that the application for approval of the *PSA* is already deemed moot. As at February 27, 2023, the contract term has expired and the *ERC* has not issued its final decision on this *PSA*.

On December 14, 2022, in connection with the sudden and unforeseen suspension of *MERALCO*'s baseload *PSA* with *SPPC* for 670 *MW* and after receiving from the *DOE* a Certificate of Exemption from the conduct of a competitive selection process ("*COE-CSP*") pursuant to the *2021 Revised CSP Circular, MERALCO* signed a 1-month *PSA* with GNPower Dinginin Ltd. Co. ("*GNPD*"). The *GNPD* emergency power supply agreement ("*EPSA*") was implemented on December 15, 2022 and submitted to the *ERC* for assessment of the application for filing. As at February 27, 2023, the contract term has expired and the *ERC* has not set this *PSA* for hearing.

Clark Electric

SCPC

On August 28, 2020, *Clark Electric* conducted a *CSP* for the procurement of 20 *MW* of baseload power supply for a contract term of ten (10) years commencing on December 26, 2020. *SCPC* was selected as the winning bidder for submitting the least cost bid.

On October 26, 2020, *Clark Electric* executed a *PSA* with *SCPC*, the power generation company which owns, operates and maintains the 600 *MW* Batangas Coal-Fired Thermal Power Plant located in Calaca, Batangas. On October 30, 2020, *Clark Electric* and *SCPC* filed a Joint Application with Motion for Confidential Treatment of Information and Prayer for Provisional Authority for the approval of their *PSA*. Accordingly, the *ERC* has set the expository presentation and pre-trial conference on March 4 and 11, 2021, respectively.

On January 25, 2021, *Clark Electric* and *SCPC*, jointly filed an urgent ex-parte motion for the issuance of provisional authority to implement the *PSA*. On March 1, 2021, the *ERC* granted the provisional authority to implement the *PSA* between *Clark Electric* and *SCPC*.

On February 23, 2022, the *ERC* granted an Interim Relief upon the expiration of the provisional authority.

SPDC

On August 28, 2020, *Clark Electric* conducted a *CSP* for the procurement of its 25 *MW* of mid-merit power supply requirement for a contract term of five (5) years commencing on December 26, 2020. *SPDC* was selected as the winning bidder for submitting the least cost.

On October 23, 2020, *Clark Electric* executed a *PSA* with *SPDC* for the supply of 25 *MW* contract capacity and associated energy beginning December 26, 2020. The *PSA* was jointly filed by *Clark Electric* and *SPDC* on October 28, 2020 with Motion for Confidential Treatment of Information and Prayer for Provisional Authority for the approval of their *PSA*. Thus, the expository presentation and pre-trial conference was set by *ERC* on March 9 and 16, 2021, respectively.

On January 25, 2021, *Clark Electric* and *SPDC*, jointly filed an urgent ex-parte motion for the issuance of provisional authority to implement the *PSA*. The provisional authority was granted by the *ERC* through its Order which was promulgated on June 11, 2021.

On February 23, 2022, the *ERC* granted an Interim Relief upon the expiration of the provisional authority.

TransCo/NGCP

Clark Electric executed a Transmission Service Agreement on December 26, 2013 with *NGCP* for the provision of necessary transmission services in accordance with the *OATS* rules for five (5) years until December 25, 2018. This was renewed for another five years until December 25, 2023.

Supply and Equipment Loan Agreement with Shell

Panay Power Corporation ("*PPC*") has a Supply and Equipment Loan Agreement with Shell, whereby Shell will supply *PPC*'s total requirements of petroleum products at prices based on the formula indicated in the agreement. The agreement also provides that Shell will install at *PPC*'s premises the equipment and facilities for the storage and servicing of products purchased at no cost to *PPC*. The agreement is effective for 15 years until 2013. As *PPC* has not utilized the contracted quantity, agreement was renewed for another five years or until the contracted quantity is fully utilized. Under the new agreement, pricing is subject to semi-annual review.

Long-term Coal Supply Agreements ("CSA")

In order to ensure that there is an adequate supply of coal to operate the power plants, the following operating plants entered into several long-term contracts with local and foreign coal suppliers:

PEDC

Supplier	Coal Type	Contract Duration	Price Basis	Quantity per Year
PT Sakti Nusantara Bakti	Indonesia	2020 - 2026	ICI4	275,000 MT
PT Bayan Resources, TBK	Indonesia	2023-2024	GNewC and ICI4	220,000 MT
Semirara Mining and Power Corporation	Local	Annual Contract	Fixed Price	200,000 MT
Galaxy Energy and Resources Co. PTE, Ltd.	Indonesia	2020 - 2023	ICI4	110,000 MT
PT Kideco Jaya Agung	Indonesia	2021 - 2025	GNewC	110,000 MT
Vitol Asia PTE Ltd	Indonesia	2021-2023	GNewC	110,000 MT
Samsung C&T Corporation	Indonesia	2020 - 2024	GNewC Index	110,000 MT
Trafigura Asia Trading PTE, Ltd	Indonesia	2023 - 2024	ICI4	55,000 MT

CEDC

Supplier	Coal Type	Contract Duration	Price Basis	Quantity per Year
PT Antang Gunung Meratus	Indonesia	2020 - 2025	GNewC	385,000 MT
Semirara Mining and Power Corporation	Local	Annual Contract	Fixed Price	200,000 MT
PT Adaro Indonesia	Indonesia	2020 - 2024	GNewC Index	165,000 MT
PT Kideco Jaya Agung	Indonesia	2021 - 2025	GNewC	110,000 MT
Trafigura Asia Trading PTE, Ltd	Indonesia	2023 - 2024	ICI4	55,000 MT
RWood Resources DMCC	Indonesia	2021 - 2025	GNewC	55,000 MT

TPC

Supplier	Coal Type	Contract Duration	Price Basis	Quantity per Year
Semirara Mining and Power Corporation	Local	Annual Contract	Fixed Price	200,000 MT
PT Kideco Jaya Agung	Indonesia	2021 - 2025	GNewC	110,000 MT
RWood Resources DMCC	Indonesia	2021 - 2025	GNewC	110,000 MT
PT Antang Gunung Meratus	Indonesia	2020 - 2025	GNewC	55,000 MT
Galaxy Energy and Resources Co. PTE, Ltd.	Indonesia	2020 - 2023	ICI4	55,000 MT

GESC

Supplier	Coal Type	Contract Duration	Price Basis	Quantity per Year
Bulk Bayan Resources, TBK	Indonesia	2023-2024	Fixed Price	220,000 MT
PT Bayan Resources, TBK	Indonesia	2023-2024	GNewC and ICI4	110,000 MT
Trafigura Asia Trading PTE, Ltd	Indonesia	2023 - 2024	ICI4	55,000 MT

Cagbalete Island Microgrid Electrification Expansion Capital Expenditure Project ("*Cagbalete Microgrid Project*")

On July 23, 2019, *MERALCO* inaugurated the first phase of its power microgrid in Cagbalete Island, Quezon Province as part of its continuing initiative of rural energization using sustainable energy. The microgrid is a hybrid generating plant that features a 60 *kW PV* system, 150 *kWh* battery energy storage system and two (2) units of 30 *kW* diesel generators, which shall provide 24 x 7 power to the residents of the island.

On May 31, 2019, *MERALCO* filed an application dated May 29, 2019 to implement the proposed *Cagbalete Microgrid Expansion Project* to allow *MERALCO* to serve the rest of the residents in Cagbalete Island. The *Cagbalete Microgrid Expansion Project* with an estimated cost of ₱219 million, will utilize a scaled-up hybrid generation system by similarly using solar photovoltaic ("*PV*") panels, diesel generators and lithium-ion battery storage as main components. Hearings have been completed and *MERALCO* filed its *FOE* on August 15, 2019. In an Order dated August 27, 2020, the *ERC* requested additional information regarding the *Cagbalete Microgrid Expansion Project*. *MERALCO* filed its Compliance on October 15, 2020. On November 20, 2020, *MERALCO* filed another Manifestation reiterating the urgency of immediately implementing the *Cagbalete Microgrid Expansion Project*. On May 12, 2021, *MERALCO* filed a Manifestation with Urgent Motion for Resolution to urge the *ERC* to resolve the instant Application. On May 19, 2021, *MERALCO* submitted the letter from the Office of Municipal Mayor of Mauban, Quezon Province

which certified that no generation company has applied to the Municipality of Mauban to secure a permit in order to build and operate an electricity generating facility in the island of Cagbalete. On May 31, 2021, *MERALCO* filed a Supplemetal Submission and Very Urgent Motion for Resolution to urge the *ERC* to resolve the instant Application. As at February 27, 2023, *MERALCO* is awaiting further action by the *ERC*.

Lease Agreement with CDC

On June 23, 2004, *Clark Electric* entered into a lease agreement with *CDC* for the lease of land and structures for the period of 18 years beginning July 2005, renewable for 25 years upon mutual agreement of both parties.

Beginning July 2004, as stated in the lease agreement, *CDC* charges guarantee fees equivalent to ₱0.05 per *kWh* sold for the first eight (8) years, ₱0.075 per *kWh* for the next four (4) years, and ₱0.12 per *kWh* for the succeeding six (6) years.

IMC with PELCO II

On February 12, 2014, *Comstech* entered into an *IMC* with *PELCO II* for a period of 20 years. *PELCO II* is an electric cooperative with franchise to distribute electric power in certain municipalities of Pampanga.

Pursuant to the *IMC*, *Comstech* shall render technical and management services for the operation, maintenance and management and improvement of *PELCO II*'s electric distribution. As consideration for its technical, consultancy and management services, *Comstech* is entitled to a performance-based remuneration and management fee based on a certain percentage of the operating revenues of *PELCO II*.

Agreement and Registration with PEZA

MERALCO has a concession agreement with *PEZA* for 25 years, whereby *MERALCO* has been contracted to operate the distribution system of *CEZ* beginning May 26, 2014.

MERALCO executed a tripartite agreement with *PEZA* and *TLI* for the billing and settlement of the supply of power from TLI to *CEZ* and its locators. Said tripartite agreement is from December 26, 2019 until December 25, 2021.With the extension of the *PSA* of *PEZA* with *TLI* for another year to expire on December 25, 2022, the tripartite agreement is likewise extended until December 25, 2022.

On December 29, 2014, *MERALCO* secured its Certificate of Registration No.10-01-U from *PEZA*, which confirms *MERALCO* as an Ecozone Utilities Enterprise at the *CEZ*.

Joint Venture Agreement with New Clark City

On April 3, 2019, *Shin Clark* signed a Joint Venture Agreement with the *BCDA* for the construction, operation and maintenance of the electric distribution system in New Clark City.

Shin Clark completed the construction of Phase 1A of the Interim Electrical Distribution facilities, which consists of (i) a 33 *MVA*, 69 *kV*-13.8 *kV* interim substation; (ii) 2.2 kilometers of 13.8 *kV* overhead lines; and (iii) 1.5 kilometers of 13.8 *kV* underground line.

On September 15, 2021, *BCDA* secured the endorsement from the Governance Commission for Government Owned and Controlled Corporation for the incorporation of *Shin Clark Power*, the joint venture company. On May 10, 2022, the *SEC* approved the incorporation of *Shin Clark Power*. On June 30, 2022, *Shin Clark Power* filed its application for a *CPCN* with the *ERC*. As at February 27, 2023, the application is subject to the final decision of the *ERC*.

31. Earnings Per Share Attributable to Equity Holders of the Parent

Basic and diluted earnings per share are calculated as follows:

	2022	2021	2020
		(Amounts in millions)	
Net income attributable to equity holders of the Parent (a)	**₱28,431**	₱23,498	₱16,316
Weighted average common shares outstanding (b)	**1,127**	1,127	1,127
Per Share Amounts:			
Basic and diluted earnings per share (a/b)	**₱25.23**	₱20.85	₱14.48

Basic and diluted earnings per share amounts are calculated by dividing net income for the year attributable to common shareholders of the parent by the weighted average number of common shares outstanding during the year. There are no potential dilutive common shares in 2022 and 2021.

There are no other transactions involving common shares or potential common shares between the reporting date and the date of completion of these consolidated financial statements.

32. Other Matters

RCOA

The transition period for *RCOA* commenced on December 26, 2012 in accordance with the joint statement released by the *ERC* and the *DOE* on September 27, 2012 and the Transitory Rules for the Implementation of *RCOA* (*ERC* Resolution No. 16, Series of 2012). The commercial operations of *RCOA* started on June 26, 2013.

On May 12, 2016, the *ERC* issued Resolutions No. 10 and 11, Series of 2016, which:

1. Provided for mandatory contestability. Failure of a contestable customer to switch to *RES* upon date of mandatory contestability (December 26, 2016 for those with average demand of at least one (1) *MW* and June 26, 2017 for at least 750 *MW*) shall result in the physical disconnection from the *DU* system unless it is served by the supplier of last resort ("*SoLR*"), or, if applicable, procures power from the *WESM*;

2. Prohibits *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 November 29, 2017, the *DOE* issued two (2) *DOE* Circulars, namely: DC 2017-12-0013, entitled, Providing Policies on the Implementation of *RCOA* for Contestable Customers in the Philippines Electric Power Industry and DC 2017-12-0014, entitled Providing Policies on the Implementation of *RCOA* for *RES* in the Philippine Electric Power Industry. The *DOE* Circulars became effective on December 24, 2017.

Under the *DOE* Circular No. DC 2017-12-0013, it is provided that voluntary participation for contestable customers under *RCOA*-Phase 2 shall now be allowed upon effectivity of said Circular, while voluntary participation of contestable customers with a monthly average peak demand of 500 *kW to* 749 *kW* for the preceding 12 months and demand aggregation for electricity end users within a contiguous area with an aggregate average peak demand of not less than 500 *kW* for the preceding 12-month period, will also be allowed by June 26, 2018 and December 26, 2018, respectively.

On December 28, 2020, the *ERC* released Resolution No. 12, Series of 2020, entitled "A Resolution Prescribing the Timeline for the Implementation of Retail Competition and Open Access ("*RCOA*")". In said Resolution, the *ERC* expanded the coverage of *RCOA* for end-users with an average monthly peak demand of at least 500 *KW* in the preceding 12 months, on a voluntary basis.

On September 24, 2021, *MERALCO* received a copy of the *SC* Decision wherein, among other matters, the *ERC* was also directed to promulgate the supporting guidelines to *DOE* Circular No. DC 2017-12-0013 and DC 2017-12-0014.

Retail Aggregation

On June 16, 2022, the *ERC* issued Resolution No. 04, Series of 2022 entitled "*A Resolution Adopting the Rules for the Electric Retail Aggregation Program."* Under said Resolution, the aggregation of the electricity requirements of end-users, whose total monthly average peak demand is at least 500 *kW*, is allowed to accommodate a wider consumer base availing of the benefits of *RCOA* to further promote competition in the Competitive Retail Electricity Marktet. Implementation of such aggregation shall become effective by December 26, 2022. Meanwhile, industry stakeholders are clarifying certain provisions in the Resolution to allow for the smooth implementation of Retail Aggregation.

Pre-Emptive Mitigating Measure in the WESM

In December 2014, in its Resolution No. 20, Series of 2014, the *ERC* adopted and established a permanent pre-emptive mitigation measure in the *WESM*. The *ERC* set a cumulative price threshold ("*CPT*") amounting to an average spot price of ₱9,000 per *MWh* over a rolling 7-day period or 168-hour trading interval. Once this *CPT* for said period is breached, it triggers the imposition of a price cap amounting to ₱6,245 per *MWh*. The price cap shall be imposed until after a determination that succeeding *GWAP* rolling average is already below the *CPT*. The pre-emptive measure has taken effect beginning January 9, 2015.

The imposition of the mitigating measure was questioned by the Philippine Independent Power Producers Association ("*PIPPA*") in the *RTC*-Pasig through a Petition for Declaratory Relief with Application for *TRO* and/or Writ of Preliminary Injunction. The Petition prayed for, among others, that the *ERC* Resolutions pertaining to the secondary cap mechanism be declared void *ab initio*. The original petition was subsequently amended to reflect the promulgation of the

subsequent *ERC* resolutions extending the effectivity of the *WESM* price cap. On July 21, 2014, *MERALCO* filed its Motion for Leave to Intervene and to Admit Attached Comment in Intervention. The *RTC-Pasig* admitted *MERALCO's* intervention and comment in its Order dated October 28, 2014. However, in a Motion for Leave to Admit Supplement Petition, *PIPPA* moved for leave to file a supplemental petition to include *ERC* Resolution No. 20, Series of 2014 which provides for a permanent mitigating measure in the *WESM*. In an Order dated May 5, 2015, the *RTC*-Pasig denied the Motion for Leave to File and Admit Supplemental Petition. *PIPPA* filed a Motion for Partial Reconsideration which was denied by the *RTC*-Pasig in its Resolution dated September 10, 2015. *PIPPA* filed a Petition for Certiorari with the *CA*. The *CA* denied the Petition for Certiorari in its Decision dated June 9, 2017. *PIPPA* filed a *MR* dated July 19, 2017. In a Resolution dated August 16, 2017, the parties were directed to file their comments to the *PIPPA*'s *MR*. *MERALCO* has filed its comment on the *MR*. On April 4, 2018, the *CA* rendered a resolution denying the *MR* filed by *PIPPA*.

On September 29, 2015, the *WESM* Tripartite Committee issued a Joint Resolution further extending the interim offer price cap of ₱32,000 per *MWh* until December 31, 2015. In its Joint Resolution No. 3, Series of 2015, the *WESM* Tripartite Committee resolved to set the *WESM* offer price cap at ₱32,000 per *MWh* and the *WESM* offer price floor of negative ₱10,000 per *MWh* effective January 2016, provided that an annual review shall be undertaken considering the relevant costs assumptions at the time of review.

On December 7, 2015, the *RTC*-Pasig rendered a Decision dismissing the Petition for Declaratory Relief. The *MR* filed by *PIPPA* was denied in a Resolution dated June 16, 2016. *PIPPA* appealed the *RTC*-Pasig Decision with the *SC*. *MERALCO* has filed its comment thereto. *PIPPA* filed a Consolidated Reply on July 17, 2017. As at February 27, 2023, the case is pending before the *SC*.

On May 9, 2017, the *ERC* issued Resolution No. 4, Series of 2017, entitled, "A Resolution Adopting Amendments to the Pre-emptive Mitigating Measure in the *WESM*". They adopted a recalculated cumulative price threshold level of ₱1,080,000 and a shorter five (5)-day (120-hour) rolling average period. This is equivalent to ₱9,000 per *MWh* over said period.

The *ERC* has expressed its intent to further amend the pre-emptive mitigating measure in the *WESM* to increase consumer safety nets against price spikes. The highlight of the amendments would be the lowering of the rolling average period from five (5) days to three (3) days, and the regional/island imposition of the Secondary Price Cap mechanism when the grid interconnection is on outage. In its Resolution No. 7, Series of 2021, promulgated on July 28, 2021, the *ERC* shortened the rolling average period to seventy-two (72) hours and approved the regional/island imposition of the Secondary Price Cap mechanism.

PEZA – ERC Jurisdiction

On September 13, 2007, *PEZA* issued "Guidelines in the Registration of Electric Power Generation Facilities/Utilities/Entities Operating Inside the Ecozones" and "Guidelines for the Supply of Electric Power in Ecozones" ("*Guidelines*"). Under these Guidelines, *PEZA* effectively bestowed upon itself franchising and regulatory powers in Ecozones operating within the legislative franchise areas of *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 was denied by the *RTC*-Pasig. *MERALCO* appealed the Decision with the *CA*, which granted the appeal, and remanded the interpleader case to the trial court for proper disposition. The *CA* decision already attained finality as of May 25, 2018.

TransCo and *MERALCO* executed the Deeds of Absolute Sale ("*DOAS*") on December 10, 2020, covering the Batch 2 and Batch 4 *STA*s. Hence, *MERALCO* has acquired and is in full possession of these assets. In a letter dated Octobre 26, 2021, *NGCP* likewise confirmed that, with the turn-over of these assets, the corresponding Connection Charges and Residual Sub-Transmission Charges ("*CC/RSTC*") of *MERALCO* starting the December 2021 billing month will be correspondingly adjusted.

On December 15, 2016, *MERALCO* and *TransCo* filed a joint application for the approval of the Batch 3 contract to sell with the *ERC*. Hearings were conducted on August 10, 2018 and October 15, 2018. The *ERC* has yet to set the next scheduled hearing of the case.

FiT

Pursuant to *RA* No. 9513, or the Renewable Energy Act of 2008 ("*RE* Act"), the *ERC* issued Resolution No. 16, Series of 2010, Adopting the *FiT* Rules, on July 23, 2010. As defined under the *FiT* Rules, the *FiT* system is a renewable energy policy that offers guaranteed payments on a fixed rate per *kWh* for electricity from wind, solar, ocean, hydropower and biomass energy sources, excluding any generation for own use.

To fund the *FiT* payments to eligible *RE* developers, a *FiT-All* charge shall be imposed on all end-users. The *FiT-All* will be established by the *ERC* upon petition by *TransCo*, which had been designated as the *FiT* Fund Administrator.

On February 5, 2014, the *ERC* released the *FiT-All* disbursement and Collection Guidelines ("*FiT Guidelines*") to supplement the *FiT* Rules. This set of guidelines will govern how the *FiT-All* will be calculated using the formulae provided. It will also outline the process of billing and collecting the *FiT-All* from the electricity consumers, the remittance to a specified fund, the disbursement from the *FiT-All* fund and the payment to eligible *RE* developers.

TransCo applied for *FiT-All* rates with the *ERC*, the *ERC* approval and status of applications are indicated in the table below:

Year	Applied Rate per *kWh*	Approved Rate per *kWh*	Date Approved / Status
2019	₱0.2780	₱0.0495	October 28, 2019
2020	₱0.2278	₱0.0983	November 23, 2020
2021	₱0.1881	₱0.0983	August 17, 2022
2022	₱0.3320 or ₱0.3165 (alternative rate in consideration of *Covid-19*)	₱0.0364	August 30, 2022
2023	₱0.2382	–	Pending final decision

On December 23, 2014, *MERALCO* received a copy of a Petition for Prohibition and Certiorari filed with the *SC* against the *ERC*, *DOE, TransCo*, *NREB* and *MERALCO*. The Petition seeks (i) the issuance of a *TRO* and/or *WPI*, and after giving due course to the Petition, a Writ of Prohibition to enjoin the respondents from implementing the *FiT-All*, the *FiT* Rules and *FiT* Guidelines; and (ii) the annulment of the *FiT* Rules and *FiT* Guidelines. With the parties' submission of their respective memoranda, the case is now pending decision. As at February 27, 2023, the said petition is pending with the *SC*.

In a Decision dated October 6, 2015, the *ERC* set the Wind *FiT* at ₱7.40 per *kWh. MERALCO* filed a *MR* on the Decision. As at February 27, 2023, the *MR* is pending further action of the *ERC*.

On September 29, 2016, Alternergy Wind One Corporation, Petrowind Energy, Inc. and Trans-Asia Renewable Energy Corporation filed a Petition to Initiate Rule-Making to adjust the Wind *FiT* rate of ₱7.40 per *kWh* to ₱7.93 per *kWh*. *MERALCO* filed an intervention in the case. The hearing on the

Petition was set on January 6, 2017. *MERALCO*'s motion on the propriety of the petition has been submitted for the resolution of the *ERC.* As at February 27, 2023, the said petition is ongoing and remains pending with the *ERC.*

On May 26, 2020, through Resolution No. 6, Series of 2020, the *ERC* issued the *FiT* adjustments for the years 2016, 2017, 2018, 2019 and 2020 using 2014 as the base year for the *CPI* and foreign exchange adjustments, pursuant to Section 2.10 of the *FiT* Rules. The said *FiT* adjustments are to be recovered for a period of five (5) years. By way of example, the Wind *FiT* for ₱7.40 per *kWh* will be ₱8.53 per *kWh* for year 2020 and the Solar *FiT* for ₱8.69 per *kWh* will be ₱10.12 per *kWh* for year 2020.

In its Decision dated November 28, 2020, the *ERC* set the modified *FiT2* rate to be applicable from January 1, 2018 to December 31, 2019. The modified Run of River ("*ROR*") Hydro *FiT2* rate is ₱5.8705 per *kWh* while for Biomass *FiT2*, the rate is ₱6.19 *kWh*.

On November 26, 2022, the *ERC* issued Resolution No. 12, Series of 2022, "*A Resolution Adopting the Suspension of the Collection of Feed-in-Tariff Allowance (FiT-All)*", approving the temporary suspension in the collection of the *FiT-All* for a period of three (3) months, starting the December 2022 until the February 2023 billing months. According to the *ERC*, the *FiT-All* balance as of November 7, 2022, inclusive of the Cost Recovery Revenue ("*CRR*") collections in November 2022, shows a healthy fund balance that can sufficiently cover the *FiT-All* payment requirements for three (3) months, assuming the same average *CRR* collection. On February 23, 2023, *ERC* issued an advisory extending the temporary suspension in the collection of the FIT-All for six (6) months, starting the March 2023 to August 2023 billing months.

Renewable Portfolio Standards (RPS)

In accordance with the *RE* Act, the *DOE* issued Department Circular No. DC2017-12-0015 "Promulgating the Rules and Guidelines Governing the Establishment of the Renewable Portfolio Standards for On-Grid Areas" or the *RPS* Rules on December 22, 2017. On June 30, 2020, *MERALCO* submitted its *RPS* Form for 2020 to the *DOE* as part of its compliance with the *RPS* Rules. The *RPS* form contains *MERALCO*'s computation of its requirements, as well as plans to comply with the requirements. *MERALCO* intends to fully comply with its *RPS* obligations while minimizing the rate impact to its customers.

MERALCO is also preparing to register with the Renewable Energy Market ("*REM*"). On August 18, 2020, the *DOE* issued an advisory on the Recalibration of the Commercial Operations of the *REM*. According to the advisory, the *REM* will be launched in June 2021. As at February 27, 2023, the *REM* is not yet operational.

Green Energy Option Program (GEOP)

Pursuant to the *RE* Act, the *DOE* issued Department Circular No. DC2018-07-0019 "Promulgating the Rules and Guidelines Governing the Establishment of the Green Energy Option Program Pursuant to the Renewable Energy Act of 2008" or the *GEOP* Rules on July 18, 2018. On April 22, 2020, the *DOE* also issued Department Circular No. DC2020-04-0009, "Guidelines Governing the Issuance of Operating Permits to Renewable Energy Suppliers under the GEOP" as a supplement to the *GEOP* Rules.

On November 24, 2020, the *ERC* released a draft "Resolution Adopting the *GEOP* Rules". This is in accordance with Section 15(e) of the *DOE*'s *GEOP* Rules stating that "The *ERC* shall issue the necessary regulatory framework particularly in setting the technical and interconnection standards and wheeling fees, to effect and achieve the objectives of the *GEOP*." On December 7 and 8, 2020, the *ERC* conducted public consultations on the draft. On August 17, 2021, the *ERC* released its *ERC* Resolution No. 8, Series of 2021 (dated April 22, 2021) and put into effect its regulatory framework to govern the *GEOP*. The rules became effective on September 3, 2021.

Recovery of NPC Stranded Contract Costs

In an Order dated May 22, 2018, the *ERC* approved *PSALM*'s petition for the recovery of *NPC*'s stranded contract costs portion of the universal charge ("*UC-SCC*"). Accordingly, *PSALM* is hereby authorized to recover the stranded contract costs for Luzon, Visayas and Mindanao grids totaling ₱8,547 million with a monthly rate of ₱0.1938 per *kWh* starting May 2018 billing period until the full amount has been recovered.

On January 14, 2019, *MERALCO* received a letter dated December 28, 2018 from *PSALM* advising *MERALCO* to cease the implementation of the collection of the ₱0.1938 per *kWh* for the recovery of the additional *SCC* effective January 2019 as it already recovered the full amount of the stranded contract costs. This was after *MERALCO* had already completed the billing program for January 2019. Accordingly, on February 6, 2019, *MERALCO* wrote the *ERC* proposing to reverse the said collections of the additional *UC-SCC*. On February 7, 2019, *MERALCO* received a letter from the *ERC* which allowed the full reversal of the subject *UC-SCC* in its February billing equivalent to ₱0.3876 per *kWh*, without prejudice to further validation by the *ERC* as to the final amounts due.

In its letter dated January 15, 2020, *MERALCO* informed the *ERC* that it accumulated additional total excess *UC-SCC* collections in the amount of ₱545 million and proposed to implement another reversal to its customers in the amount of ₱0.1453 per *kWh* for the month of February 2020. In its letter dated February 6, 2020, the *ERC* directed *MERALCO* to implement the refund, subject to post-validation. *MERALCO* was then directed to provide additional information as well as status report to the *ERC* with respect to the implementation of refund. *MERALCO* implemented the refund starting its March 2020 billing.

On March 4, 2020, *MERALCO* received a letter dated March 3, 2020, directing it to comment on a petition filed by a consumer group which sought to stop the colletion of *UC-SCC* and stranded debts portion of the universal charge ("*UC-SD*") from consumers because of the Murang Kuryente Act. *MERALCO* filed its comment on March 16, 2020.

In a Decision dated April 10, 2019, the *ERC* approved with modification *PSALM*'s petition for the availment of the *NPC*'s stranded contract costs portion of the universal charge for calendar year 2014. *PSALM* is hereby authorized to recover the *UC-SCC* for Luzon, Visayas and Mindanao grids totaling ₱5,117 million with a monthly rate of ₱0.0543 per *kWh* within a period of 12 months.

In separate Orders dated May 28, 2020, the *ERC* dismissed *PSALM*'s petitions for the availment of the *NPC*'s stranded contract costs portion of the universal charge for calendar years 2015 to 2018 due to the promulgation of the Murang Kuryente Act.

Net Metering Program

The *RE* Act mandates the *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. Under *ERC* Resolution No. 6, Series of 2019, entitled, "A Resolution Adopting the Amendments to the Rules enabling the Net Metering Program for Renewable Energy", the *ERC* adopted amendments to the Net Metering Rules. On June 23, 2020, the *ERC* issued Resolution No. 5, Series of 2020 entitled, "A Resolution Clarifying *ERC* Resolution No. 6, Series of 2019, entitled "A Resolution Adopting the amendments to the Rules Enabling the Net-Metering Program for Renewable Energy". As at December 31, 2022, *MERALCO* has already installed 7,590 meters and energized 7,304 net metering customers.

Interruptible Load Program ("*ILP*")

In an *ERC* Order dated April 11, 2014, the *ERC* approved with modification *MERALCO*'s request that it be allowed to adopt and implement the *ILP*. *ILP* protocols, compensation and recovery mechanism are governed by *ERC* Resolution No. 5, Series of 2015 "A Resolution Adopting the Amended Rules to Govern the Interruptible Load Program", *DOE* Circular No. DC2015-06-0003 "Providing the Interim Manner for Declaring Bilateral Contract Quantities in the Wholesale Electricity Spot Market and Directing the Philippine Electricity Market Corporation to Establish Necessary Protocols to Complement the Interruptible Load Program" and *ERC* Resolution No. 3, Series of 2019 "A Resolution Clarifying Section 3, Article III of the Amended Interruptible Load Program Rules".

As at December 31, 2022, there are 117 companies with a total committed de-loading capacity of 560.59 *MW* that have signed up with *MERALCO*, *MPower* and with other retail electricity suppliers as *ILP* participants.

Long-Term Indebtedness Application

On June 25, 2015, *MERALCO* filed an application, with prayer for provisional authority, for continuing authority to (a) issue bonds or other evidence of indebtedness for as long as it maintains 50:50 long-term debt to equity ratio; and (b) whenever necessary, to mortgage, pledge or encumber any of its property to any creditor in connection with its authority to issue bonds or any other evidence of long-term indebtedness. The hearing on the application was conducted on October 6, 2015. In an Order dated October 12, 2015, the *ERC* directed *MERALCO* to submit additional documents in support of its application which *MERALCO* complied with. However, due to changes in the financial climate which may affect the terms and conditions of any financial borrowings, *MERALCO* has filed a Motion to withdraw the application without prejudice to its refiling at a later date. In an Order dated March 22, 2016, the *ERC* granted *MERALCO*'s Motion to Withdraw but still required *MERALCO* to submit certain documents. *MERALCO* filed a Motion for Partial Reconsideration questioning the requirement which is pending before the *ERC*. As at February 27, 2023, the *ERC* has yet to resolve *MERALCO*'s Motion for Partial Reconsideration.

On October 29, 2019, *MERALCO* filed an application, with prayer for provisional authority, for continuing authority to (a) issue bonds or other evidence of indebtedness; and (b) whenever necessary, to mortgage, pledge or encumber any of its property to any creditor in connection with its authority to issue bonds or any other evidence of long-term indebtedness. Hearings have been completed and *MERALCO* filed its *FOE*. On January 21, 2021, *MERALCO* filed its Manifestation with Urgent Motion to Resolution. *MERALCO* has filed a Motion to Withdraw the Application to align with the changes brought about by the amended Public Service Act. As at February 27, 2023, *MERALCO* is awaiting the resolution of the *ERC* of its motion.

CSP Requirement for PSAs

On February 9, 2018, the *DOE* published the *2018 DOE Circular*. Upon effectivity of the Circular, all prospective *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. Generation project embedded in the *DU*, utilizing indigenous energy resources in the franchise area of the *DU* and subject to a maximum capacity of 10 *MW* per Luzon *DU* and 5 *MW* per Visayas and Mindanao *DU* (introduced by the *2021 Revised CSP Circular,* see discussion below)
iv. Provision of supply in off-grid areas prior to the entry of new power providers
v. Provision of supply by *PSALM* through bilateral contracts for power produced from undisposed generating assets and *IPP* contracts sanctioned by *EPIRA.*

*PSA*s that were granted exemption from *CSP* by reason of need for emergency supply shall be implemented by the *DU* immediately without prejudice to the evaluation and final decision of the *ERC*.

The *DU*'s *CSP* may be managed by a Third Party Bids and Awards Committee ("*TPBAC*") or a Third Party Administrator ("*TPA*"). The *DU*'s *TPBAC* shall be composed of the following (a) one (1) *DU* officer or employee knowledgeable in the technical operations of the *DU;* (b) One (1) *DU* officer or employee with knowledge and/or experience with any local or international competitive bidding procedures; (c) one (1) lawyer; (d) one (1) finance officer or accountant that has knowledge on electricity pricing; and (e) one (1) technical person, or a person with knowledge and/or experience with any local or international competitive bidding procedures. Any two of the last three (3) members shall be captive customer representatives. The selection process of the representatives of the captive customers to the *DU*'s *TPBAC* shall be submitted to the *DOE* for approval. The *DOE* has already approved the selection process of *MERALCO*'s *TPBAC* captive customer representatives.

Direct negotiations may be made by the *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

On October 14, 2021, the *DOE* published a *DOE* Circular entitled "Amending Certain Provisions of and Supplementing [the *2018 DOE Circular*] on the Competitive Selection Process in the Procurement by the Distribution Utilities of Power Supply Agreement for the Captive Market" ("*2021 Revised CSP Circular*"). The *2021 Revised CSP Circular* mainly improved the procedural process and flow prescribed under the *2018 DOE Circular* and, most importantly, introduced a new alternative mode of *CSP* – a competitive challenge for unsolicited proposals ("*USP*"), if the *USP* offers a New Technology and does not exceed twenty-five percent (25%) of the distribution utility's peak demand for the year of the *USP*'s required commercial operations minus any capacity previously procured through *USP* for commercial operations in the same year.

New Technology is defined under the *2021 Revised CSP Circular* as referring to "a technology that is novel or a novel use or arrangement of existing technology that has not yet been commercially operating or applied in the country upon effectivity of the Circular. Such technology, whether in whole or in part, is compliant to international test standards in the power generation industry."

Under the *2021 Revised CSP Circular*, each *CSP* shall be completed within seven (7) months from the time of the publication of the Invitation to Bid until filing of the *PSA* to the *ERC*.

Meanwhile, following the *2018 DOE Circular*, *MERALCO* constituted its *TPBAC* to conduct *CSP* in accordance with the *2018 DOE Circular* and its submitted Power Supply Procurement Plan.

SC Petitions on CSP

On September 5, 2019, representatives of the *Bayan Muna* partylist filed a petition with the *SC* claiming that the *2018 DOE Circular*, which repealed portions of the *2015 CSP Circular*, is void for violating policies/provisions intended to protect consumers under *EPIRA* and the Constitution (the "*Bayan Muna Petition*"). The *Bayan Muna Petition* also sought for the issuance of *TRO* and/or writ of preliminary injunction to prevent continuation of the on-going *CSP*s of *MERALCO* and some electric cooperatives. On December 17, 2019, *MERALCO* filed its Comment to the *Bayan Muna Petition*.

On March 3, 2021, *MERALCO* received a copy of the petition dated February 17, 2021 filed with the *SC* by representatives of various consumer groups led by the Power for People (P4P) Coalition (the "*P4P Petition*") against the *DOE* and *MERALCO's TPBAC*. The petition claims that the terms of reference for the 1,800 *MW* baseload *CSP* completed in March 2021 are unfavorable to the consumers and non-compliant with the *2018 DOE Circular* and that it would not result in the least cost of electricity. The *P4P Petition* also sought for the issuance of *TRO* and/or writ of preliminary injunction to prevent continuation and/or nullify the 1,800 *MW* baseload *CSP* of *MERALCO*. In a Resolution dated March 18, 2021, the *SC* dismissed the *P4P Petition*. The *SC* held that the issues raised by *P4P* are factual in nature, which require the *SC* to inquire into wisdom of the terms of reference. Hence, the petition was deemed premature as *P4P* itself admitted that *DOE* has yet to act on its protest letter and the *ERC* has yet to determine reasonableness of the rates resulting from the *CSP*.

True-up Adjustments of Fuel and Purchased Power Costs ("TAFPPC") and Foreign Exchange-Related Costs ("TAFxA")

On June 20, 2017, the *ERC* issued a Decision, a copy of which was received by *MERALCO* on December 29, 2017, authorizing *PSALM* to recover, within a 60-month period, the amount of ₱3,592 million in the Luzon grid, among others, as part of the *TAFPPC* and *TAFxA*; and directed all distribution utilities to comply with the directive.

On January 1, 2018, *MERALCO* filed a Motion for Partial Reconsideration praying for the suspension of the Order and requesting that *MERALCO* be allowed to charge the recovery to all types of customers, regardless of whether they were covered or not during the relevant test periods. As at February 27, 2023, the *ERC* has yet to act on the Motion.

Clean Air Act

The Clean Air Act and the related *IRR* contain provisions that have an impact on the industry as a whole and to *TPC*, *PPC*, *GRPI*, *PEDC* and *CEDC* ("the Operating Subsidiaries of *GBPC*") in particular, that need to be complied with within 44 months from the effectivity date or by July 2004. Based on the assessment made on the Operating Subsidiaries of *GBPC*'s existing facilities, the Operating Subsidiaries of *GBPC* believe that they have complied with the provisions of the Clean Air Act and the related *IRR*.

Energy Regulation (ER) 1-94

Based on *ER 1-94* and the *IRR* of the *EPIRA*, generation companies are mandated to provide benefits to its host communities, equivalent to ₱0.01 per *kWh* of energy generated and sold. The operating subsidiaries of *GBPC* accrue the required benefits to their host community (included under "Trade payables and other current liabilities" account in the consolidated statements of financial position) prospectively from the date of effectivity of *ER 1-94*. Such amount accrued is remitted to the trust account of the *DOE* upon their audit.

33. Notes to Consolidated Statements of Cash Flows

	2022			2021		
	Interest-bearing long-term financial liabilities	Notes payable	Dividends payable	Interest-bearing long-term financial liabilities	Notes payable	Dividends payable
	(Amounts in millions)					
Balance at beginning of year	**₱61,834**	**₱28,834**	**₱2,021**	₱16,771	₱23,373	₱1,251
Payments	**(18,676)**	**(2,263)**	**(17,213)**	(7,388)	(17,419)	(13,748)
Availments	**32,507**	**2,920**	**–**	24,513	22,880	–
Dividend declarations	**–**	**–**	**18,070**	–	–	14,518
Preferred stock redemption	**(3)**	**–**	**–**	(2)	–	–
Reclassifications	**–**	**–**	**–**	–	–	–
Interest accretion	**(577)**	**–**	**–**	(153)	–	–
Effect of consolidation of *GBPC*	**–**	**–**	**–**	28,323	–	–
Amortization of fair value on the acquisition of *GBPC*	**(743)**	**–**	**–**	(230)	–	–
Balance at end of year	**₱74,342**	**₱29,491**	**₱2,878**	₱61,834	₱28,834	₱2,021

34. Event After the Financial Reporting Date

On February 27, 2023, the *BOD* of *MERALCO* approved the declaration of cash dividends of ₱11.028 a share to all shareholders of record as at March 29, 2023, payable on April 26, 2023.

MANILA ELECTRIC COMPANY AND SUBSIDIARIES
Schedule A: Financial Assets
As at December 31, 2022
(Amounts in Millions Pesos)

Name of Issuing Entity and Association of Each Issue	Number of Shares or Principal Amount of Bonds and Notes	Amount shown in the Statement of Financial Position	Value based on Market Quotation at End of Reporting Period	Income Received and Accrued
Cash and cash equivalents:				
Cash in banks	not applicable	16,966	16,966	80
Cash equivalents	not applicable	38,634	38,634	685
Trade and other receivables:				
Electricity distributed	not applicable	36,926	36,926	-
Energy generated	not applicable	6,486	6,486	-
Service contracts	not applicable	2,421	2,421	-
Nontrade receivables	not applicable	5,756	5,756	-
Debt securities at amortized cost:				
Government securities	various	28,237	27,549	784
Private debt securities	various	9,059	8,573	253
Financial assets at FVOCI:				
Corporate bonds	various	2,196	2,196	113
Ordinary and club shares	various	1,940	1,940	-
Unit investment trust funds	various	4	4	-
Other financial assets:				
Restricted cash	not applicable	4,478	4,478	11
Advance payments to a supplier	not applicable	560	560	-
Short-term investments	not applicable	204	204	-
		153,867	**152,693**	**1,926**

MANILA ELECTRIC COMPANY AND SUBSIDIARIES
Schedule C: Accounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements
As at December 31, 2022
(Amounts in Millions Pesos)

Name of Related Party	January 1, 2022	Additions	Collections	Others	Amount written off	Current	Noncurrent	December 31, 2022
Comstech Integration Alliance, Inc.	131	-	(5)	-	-	126	-	126
Vantage Energy Solutions and Management, Inc.	67	-	(62)	-	-	5	-	5
MRAIL, Inc.	17	-	(7)	-	-	10	-	10
eSakay, Inc.	4	1	-	-	-	5	-	5
Miescor Logistics, Inc.	13	13	(3)	-	-	23	-	23
Meralco Energy Inc.	16	-	(11)	-	-	5	-	5
Meralco Industrial Engineering Services Corporation	13	8	(5)	-	-	16	-	16
Corporate Information Solutions, Inc.	-	5	-	-	-	5	-	5
Miescor Builders, Inc.	2	4	-	-	-	6	-	6
MSpectrum, Inc.	-	7	-	-	-	7	-	7
Meralco Financial Services Corporation	-	15	-	-	-	15	-	15
Radius Telecoms, Inc.	-	-	-	-	-	-	-	-
	263	**53**	**(93)**	**-**	**-**	**223**	**-**	**223**

MANILA ELECTRIC COMPANY AND SUBSIDIARIES

Schedule D: Interest Bearing Long-term Financial Liabilities

As at December 31, 2022

(Amounts In Million Pesos)

Title of issue and type of obligation	Interest Rate	Amount authorized by indenture	Amount shown under "Current portion of interest-bearing long-term financial liabilities" in the Consolidated Statement of Financial Position	Amount shown under "Interest-bearing long-term financial liabilities - net of current portion" in the Consolidated Statement of Financial Position
Fixed Rate Loans	4.3750%-10.81%	102,063	4,037	59,423
Floating Rate Loans	*6.5000%*		100	9,900
Fair value adjustment in relation to the purchase of GBPC			-	349
Redeemable Preferred Stock	*10.0000%*		1,467	-
Total			5,604	69,672
Less Unamortized debt issue cost			19	915
Balance at the end of the year			**5,585**	**68,757**

Note: The number of periodic payments of the fixed rate loans are disclosed in Note 16 - Interest-bearing Long-term Financial Liabilities in the Consolidated Financial Statements.

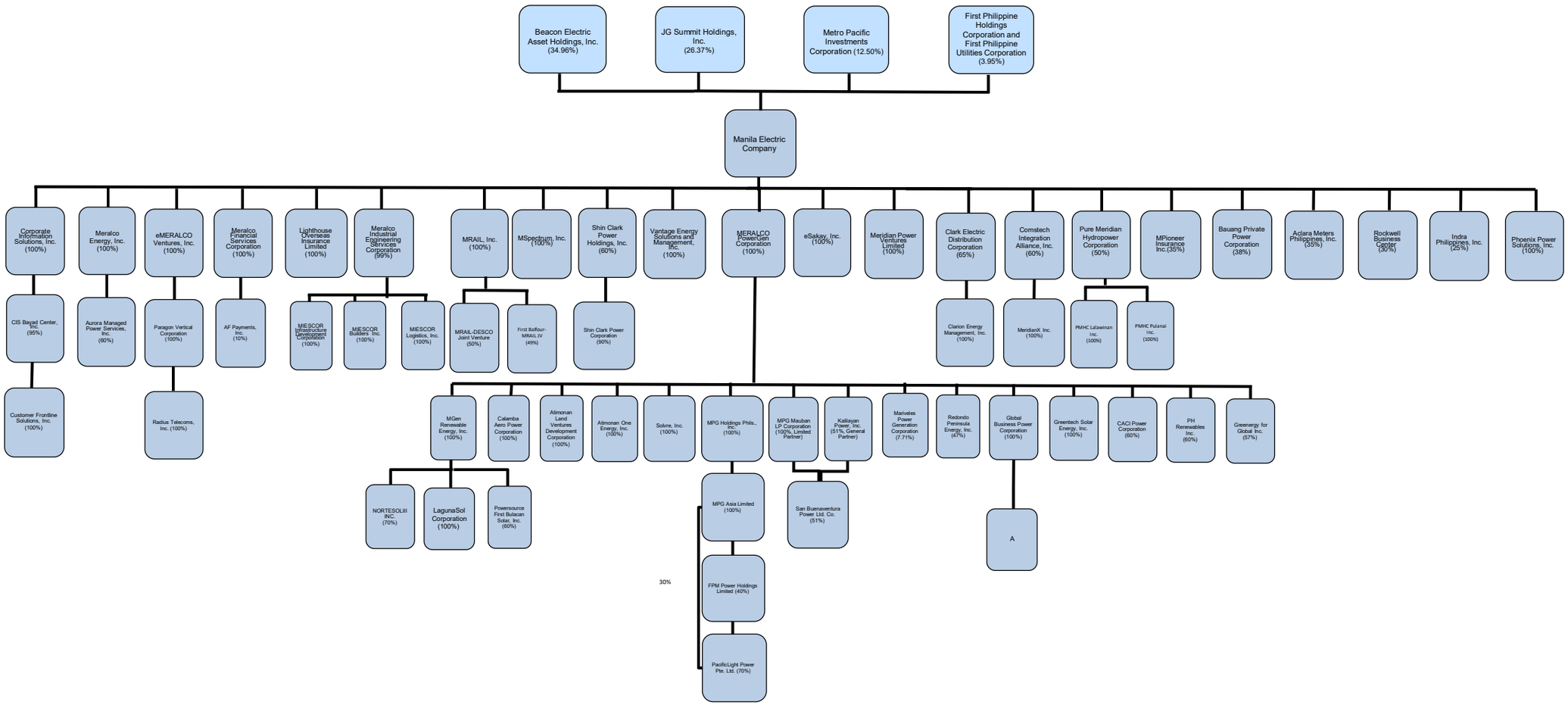
MANILA ELECTRIC COMPANY AND SUBSIDIARIES
Schedule G. Capital Stock
As at December 31, 2022
(Amounts in millions)

Title of Issue	Number of shares authorized	Number of shares issued and outstanding as shown under related balance sheet caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by related parties	Directors, officers and employees	Others
Common Stock	1,250	1,127	-	832	1	294

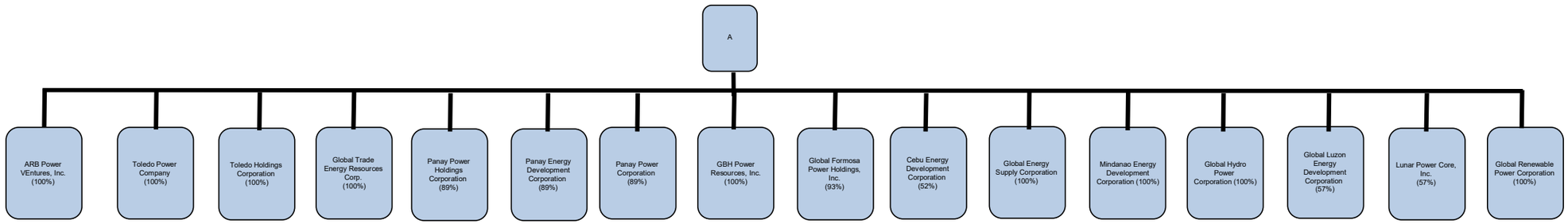
MANILA ELECTRIC COMPANY
Schedule H: Reconciliation of Retained Earnings Available for Dividend Declaration
As at December 31, 2022
(Amounts in millions)

Unappropriated retained earnings, as adjusted to available for dividends declaration as at January 1, 2022	₱	17,803
Add: Net income actually earned/realized during the year		21,693
Net income during the year closed to retained earnings		21,693
Add: Non-actual losses		
Movement of deferred tax assets		2,746
Impact of discounting on certain liabilities		(4,287)
Subtotal		(1,541)
Less: Non-actual/unrealized income net of tax:		
Unrealized foreign exchange gain		(147)
Depreciation of revaluation increment on utility plant and others - net of tax		263
Subtotal		116
Net income actually earned during the year		20,268
Add:		
Dividends declared during the year		(18,070)
Unapproriated retained earnings available for dividend declaration as at December 31, 2022	₱	20,001

MANILA ELECTRIC COMPANY AND SUBSIDIARIES
Schedule I: Map Showing the Relationships among the Companies within the Group
As at December 31, 2022



MANILA ELECTRIC COMPANY AND SUBSIDIARIES
Schedule I: Map Showing the Relationships among the Companies within the Group
As at December 31, 2021



MANILA ELECTRIC COMPANY AND SUBSIDIARIES
Schedule of Financial Soundness Indicators
As at December 31, 2022, 2021 and 2020

	2022	2021 - as restated	2020
Current Ratio[1]	0.75 : 1.00	0.86 : 1.00	0.90 : 1.00
Acid ratio [2]	0.66 : 1.00	0.76 : 1.00	0.83 : 1.00
Solvency Ratio[3]	0.13 : 1.00	0.12 : 1.00	0.13 : 1.00
Debt to Equity Ratio[4]	0.95 : 1.00	0.95 : 1.00	0.51 : 1.00
Asset to Equity Ratio[5]	4.74x	5.08x	4.93x
Interest Coverage Ratio[6]	9.84x	9.26x	13.60x
Profit margin Ratio[7]	0.07x	0.07x	0.06x
Return on Equity [8]	0.26x	0.25x	0.21x
Return on Assets[9]	0.05x	0.05x	0.04x
EBITDA Margin[10]	9.36%	13.63%	10.84%

[1] Current ratio is measured as current assets divided by current liabilities.

[2] Acid ratio is measured as current assets minus inventory and prepayments divided by current liabilities.

[3] Solvency ratio is measured as net income plus non-cash expenses divided to total liabilities.

[4] Debt to equity ratio is measured as total debts divided to total equity attributable to equity holders of the parent.

[5] Asset to equity ratio is measured as total assets divided by total equity attributable to equity holders of the parent.

[6] Interest coverage ratio is measured as earnings before interest and taxes, divided by total interest and other financial charges.

[7] Profit margin ratio is computed by dividing net income attributable to equity holders of the parent with total revenues.

[8] Return on equity is measured as net income attributable to equity holders of the parent with total equity attributable to equity holders of the pa

[9] Return on assets is measured as net income attributable to equity holders of the parent with total assets.

[10] EBITDA margin is measured as EBITDA divided by total revenues.
EBITDA is measured as net income excluding depreciation and amortization, impairment of noncurrent assets, interest and other financial charges, interest and other financial income, equity in net earnings or losses of associates and joint ventures, foreign exchange gains or losses, mark-to-market gains or losses, provision for income tax and other non-recurring gains or losses, if any.

MANILA ELECTRIC COMPANY
Financial Soundness Indicators
As of December 31, 2022

		2022			2021 - restated			2021			2020		
Current Ratio	Current Assets / Current Liabilities	154,287 / 205,725	=	0.75	138,154 / 161,581	=	0.86	137,019 / 161,570	=	0.85	128,382 / 142,601	=	0.90
Acid ratio	Current Assets - Inventory - Prepayments / Current Liabilities	135,783 / 205,725	=	0.66	122,543 / 161,581	=	0.76	121,408 / 161,570	=	0.75	118,981 / 142,601	=	0.83
Solvency Ratio	Net income + Non-cash expenses (Provision and depreciation) / Total Liabilities	50,450 / 395,152	=	0.13	46,757 / 378,287	=	0.12	46,757 / 378,039	=	0.12	40,397 / 309,536	=	0.13
Debt to Equity Ratio	Total Debt / Equity attributable to parent	103,833 / 109,664	=	0.95	90,668 / 95,204	=	0.95	90,668 / 95,204	=	0.95	40,144 / 79,237	=	0.51
Asset to Equity Ratio	Total Assets / Equity attributable to parent	519,261 / 109,664	=	4.74	483,615 / 95,204	=	5.08	483,482 / 95,204	=	5.08	390,267 / 79,237	=	4.93
Interest coverage Ratio	EBIT / Interest and other financial expenses	36,927 / 3,754	=	9.84	34,526 / 3,728	=	9.26	34,526 / 3,728	=	9.26	21,686 / 1,594	=	13.60
Profit margin ratio	Net income / Total Revenues	28,431 / 426,529	=	0.07	23,498 / 318,547	=	0.07	23,498 / 318,547	=	0.07	16,316 / 275,304	=	0.06
Return on Equity	Net income / Equity	28,431 / 109,664	=	0.26	23,498 / 95,204	=	0.25	23,498 / 95,204	=	0.25	16,316 / 79,237	=	0.21
Return on Assets	Net income / Total Assets	28,431 / 519,261	=	0.05	23,498 / 483,615	=	0.05	23,498 / 483,482	=	0.05	16,316 / 390,267	=	0.04
EBITDA margin	EBITDA / Total Revenues	39,912 / 426,529	=	9.36%	43,411 / 318,547	=	13.63%	43,411 / 318,547	=	13.63%	29,847 / 275,304	=	10.84%

SGV
Building a better working world

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

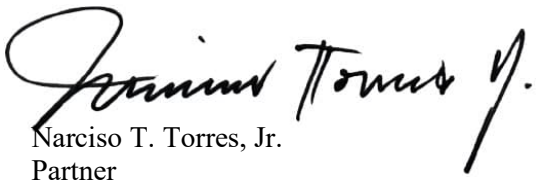
Tel: (632) 8891 0307
Fax: (632) 8819 0872
ey.com/ph

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES

The Stockholders and the Board of Directors
Manila Electric Company and Subsidiaries
Lopez Building, Ortigas Avenue
Barangay Ugong, Pasig City, Metro Manila

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Manila Electric Company and its subsidiaries (the Group) as at December 31, 2022 and 2021, and for each of the three years in the period ended December 31, 2022, included in this Form 17-A, and have issued our report thereon dated February 27, 2023. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The schedules listed in the Index to the Financial Statements and Supplementary Schedules are the responsibility of the Group's management. These schedules are presented for purposes of complying with the Revised Securities Regulation Code Rule 68, and are not part of the basic consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, fairly state, in all material respects, the financial information required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



Narciso T. Torres, Jr.
Partner
CPA Certificate No. 84208
Tax Identification No. 102-099-147
BOA/PRC Reg. No. 0001, August 25, 2021, valid until April 15, 2024
SEC Partner Accreditation No. 84208-SEC (Group A)
Valid to cover audit of 2021 to 2025 financial statements of SEC covered institutions
SEC Firm Accreditation No. 0001-SEC (Group A)
Valid to cover audit of 2021 to 2025 financial statements of SEC covered institutions
BIR Accreditation No. 08-001998-111-2020, November 27, 2020, valid until November 26, 2023
PTR No. 9566006, January 3, 2023, Makati City

February 27, 2023

MANILA ELECTRIC COMPANY AND SUBSIDIARIES
Schedule A: Financial Assets
As at December 31, 2022
(Amounts in Millions Pesos)

Name of Issuing Entity and Association of Each Issue	Number of Shares or Principal Amount of Bonds and Notes	Amount shown in the Statement of Financial Position	Value based on Market Quotation at End of Reporting Period	Income Received and Accrued
Cash and cash equivalents:				
Cash in banks	not applicable	16,966	16,966	80
Cash equivalents	not applicable	38,634	38,634	685
Trade and other receivables:				
Electricity distributed	not applicable	36,926	36,926	-
Energy generated	not applicable	6,486	6,486	-
Service contracts	not applicable	2,421	2,421	-
Nontrade receivables	not applicable	5,756	5,756	-
Debt securities at amortized cost:				
Government securities	various	28,237	27,549	784
Private debt securities	various	9,059	8,573	253
Financial assets at FVOCI:				
Corporate bonds	various	2,196	2,196	113
Ordinary and club shares	various	1,940	1,940	-
Unit investment trust funds	various	4	4	-
Other financial assets:				
Restricted cash	not applicable	4,478	4,478	11
Advance payments to a supplier	not applicable	560	560	-
Short-term investments	not applicable	204	204	-
		153,867	**152,693**	**1,926**

MANILA ELECTRIC COMPANY AND SUBSIDIARIES
Schedule C: Accounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements
As at December 31, 2022
(Amounts in Millions Pesos)

Name of Related Party	January 1, 2022	Additions	Collections	Others	Amount written off	Current	Noncurrent	December 31, 2022
Comstech Integration Alliance, Inc.	131	-	(5)	-	-	126	-	126
Vantage Energy Solutions and Management, Inc.	67	-	(62)	-	-	5	-	5
MRAIL, Inc.	17	-	(7)	-	-	10	-	10
eSakay, Inc.	4	1	-	-	-	5	-	5
Miescor Logistics, Inc.	13	13	(3)	-	-	23	-	23
Meralco Energy Inc.	16	-	(11)	-	-	5	-	5
Meralco Industrial Engineering Services Corporation	13	8	(5)	-	-	16	-	16
Corporate Information Solutions, Inc.	-	5	-	-	-	5	-	5
Miescor Builders, Inc.	2	4	-	-	-	6	-	6
MSpectrum, Inc.	-	7	-	-	-	7	-	7
Meralco Financial Services Corporation	-	15	-	-	-	15	-	15
Radius Telecoms, Inc.	-	-	-	-	-	-	-	-
	263	**53**	**(93)**	**-**	**-**	**223**	**-**	**223**

MANILA ELECTRIC COMPANY AND SUBSIDIARIES

Schedule D: Interest Bearing Long-term Financial Liabilities

As at December 31, 2022

(Amounts In Million Pesos)

Title of issue and type of obligation	Interest Rate	Amount authorized by indenture	Amount shown under "Current portion of interest-bearing long-term financial liabilities" in the Consolidated Statement of Financial Position	Amount shown under "Interest-bearing long-term financial liabilities - net of current portion" in the Consolidated Statement of Financial Position
Fixed Rate Loans	4.3750%-10.81%	102,063	4,037	59,772
Floating Rate Loans	*6.5000%*		100	9,900
Redeemable Preferred Stock	*10.0000%*		1,467	-
Total			5,604	69,672
Less Unamortized debt issue cost			19	915
Balance at the end of the year			**5,585**	**68,757**

Note: The number of periodic payments of the fixed rate loans are disclosed in Note 16 - Interest-bearing Long-term Financial Liabilities in the Consolidated Financial Statements.

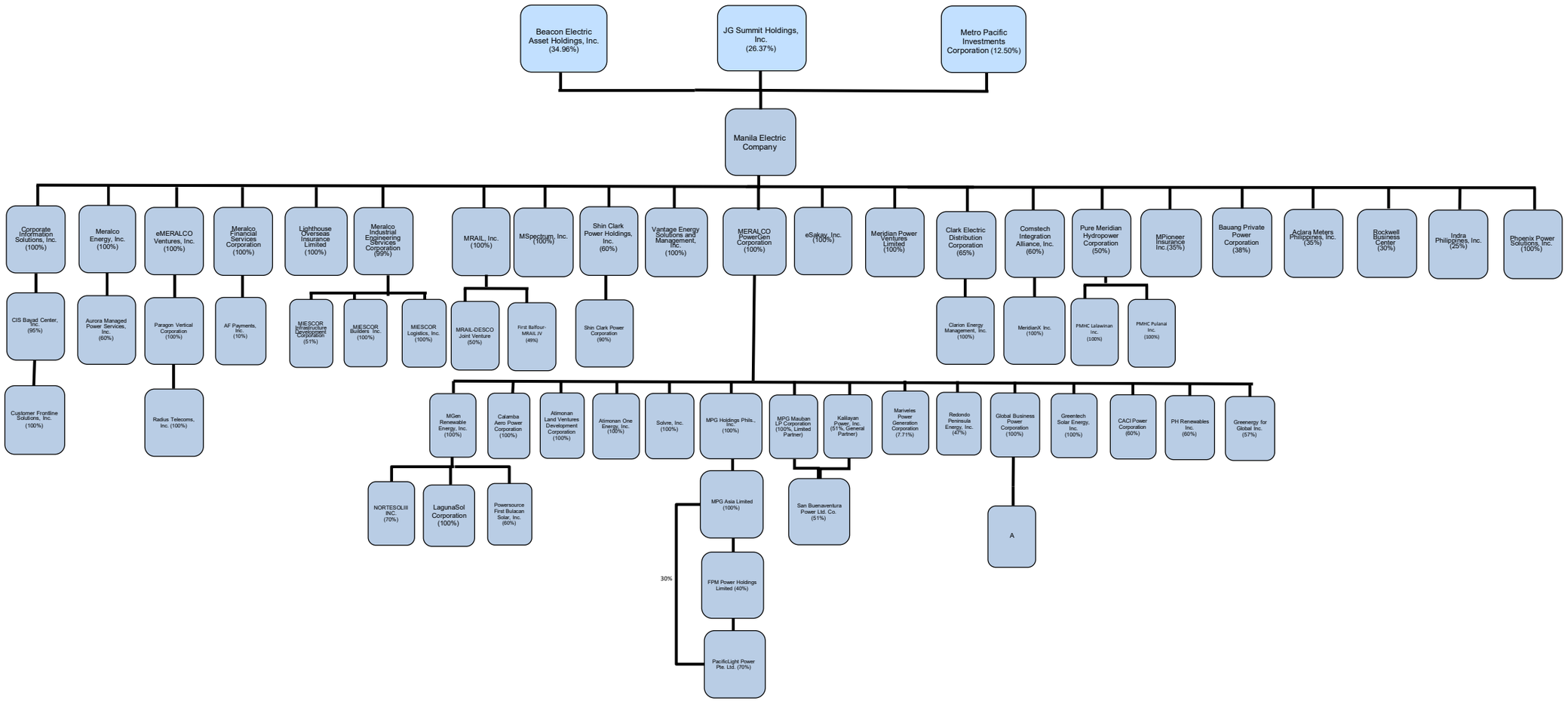
MANILA ELECTRIC COMPANY AND SUBSIDIARIES
Schedule G. Capital Stock
As at December 31, 2022
(Amounts in millions)

Title of Issue	Number of shares authorized	Number of shares issued and outstanding as shown under related balance sheet caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by related parties	Directors, officers and employees	Others
Common Stock	1,250	1,127	-	832	1	294

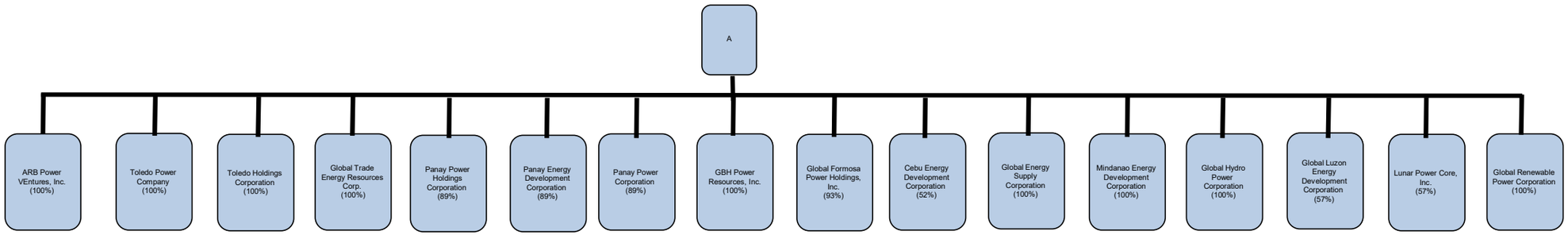
MANILA ELECTRIC COMPANY
Schedule H: Reconciliation of Retained Earnings Available for Dividend Declaration
As at December 31, 2022
(Amounts in millions)

Unappropriated retained earnings, as adjusted to available for dividends declaration as at January 1, 2022	₱	17,803
Add: Net income actually earned/realized during the year		21,693
Net income during the year closed to retained earnings		21,693
Add: Non-actual losses		
Movement of deferred tax assets		4,112
Depreciation of revaluation increment on utility plant and others - net of tax		262
Subtotal		4,374
Less: Non-actual/unrealized income net of tax:		
Unrealized foreign exchange gain		(147)
Impact of discounting on certain liabilities		(4,287)
Subtotal		(4,434)
Net income actually earned during the year		21,633
Add:		
Dividends declared during the year		(18,070)
Unapproriated retained earnings available for dividend declaration as at December 31, 2022	₱	21,366

MANILA ELECTRIC COMPANY AND SUBSIDIARIES
Schedule I: Map Showing the Relationships among the Companies within the Group
As at December 31, 2022



MANILA ELECTRIC COMPANY AND SUBSIDIARIES
Schedule I: Map Showing the Relationships among the Companies within the Group
As at December 31, 2021



SGV
Building a better working world

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

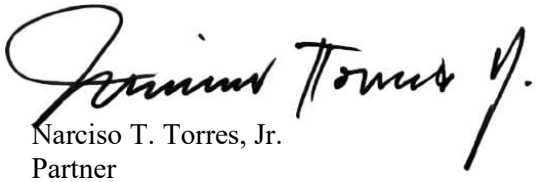
Tel: (632) 8891 0307
Fax: (632) 8819 0872
ey.com/ph

INDEPENDENT AUDITOR'S REPORT ON
COMPONENTS OF FINANCIAL SOUNDNESS INDICATORS

The Stockholders and the Board of Directors
Manila Electric Company and Subsidiaries
Lopez Building, Ortigas Avenue
Barangay Ugong, Pasig City, Metro Manila

We have audited in accordance with Philippine Standards on Auditing, the financial statements of Manila Electric Company and its subsidiaries (the Group) as at December 31, 2022 and 2021, and for each of the three years in the period ended December 31, 2022, and have issued our report thereon dated February 27, 2023. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The Supplementary Schedule on Financial Soundness Indicators, including their definitions, formulas, calculation, and their appropriateness or usefulness to the intended users, are the responsibility of the Group's management. These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRSs) and may not be comparable to similarly titled measures presented by other companies. This schedule is presented for the purpose of complying with the Revised Securities Regulation Code Rule 68 issued by the Securities and Exchange Commission, and is not a required part of the basic consolidated financial statements prepared in accordance with PFRSs. The components of these financial soundness indicators have been traced to the Group's consolidated financial statements as at December 31, 2022 and 2021 and for each of the three years in the period ended December 31, 2022 and no material exceptions were noted.

SYCIP GORRES VELAYO & CO.



Narciso T. Torres, Jr.
Partner
CPA Certificate No. 84208
Tax Identification No. 102-099-147
BOA/PRC Reg. No. 0001, August 25, 2021, valid until April 15, 2024
SEC Partner Accreditation No. 84208-SEC (Group A)
Valid to cover audit of 2021 to 2025 financial statements of SEC covered institutions
SEC Firm Accreditation No. 0001-SEC (Group A)
Valid to cover audit of 2021 to 2025 financial statements of SEC covered institutions
BIR Accreditation No. 08-001998-111-2020, November 27, 2020, valid until November 26, 2023
PTR No. 9566006, January 3, 2023, Makati City

February 27, 2023

MANILA ELECTRIC COMPANY AND SUBSIDIARIES
Schedule of Financial Soundness Indicators
As at December 31, 2022, 2021 and 2020

	2022	2021 - as restated	2020
Current Ratio[1]	0.75 : 1.00	0.86 : 1.00	0.90 : 1.00
Acid ratio [2]	0.66 : 1.00	0.76 : 1.00	0.83 : 1.00
Solvency Ratio[3]	0.13 : 1.00	0.12 : 1.00	0.13 : 1.00
Debt to Equity Ratio[4]	0.95 : 1.00	0.95 : 1.00	0.51 : 1.00
Asset to Equity Ratio[5]	4.74x	5.08x	4.93x
Interest Coverage Ratio[6]	9.84x	9.26x	13.60x
Profit margin Ratio[7]	0.07x	0.07x	0.06x
Return on Equity [8]	0.26x	0.25x	0.21x
Return on Assets[9]	0.05x	0.05x	0.04x
EBITDA Margin[10]	12.18%	14.61%	11.29%

[1] Current ratio is measured as current assets divided by current liabilities.

[2] Acid ratio is measured as current assets minus inventory and prepayments divided by current liabilities.

[3] Solvency ratio is measured as net income plus non-cash expenses divided to total liabilities.

[4] Debt to equity ratio is measured as total debts divided to total equity attributable to equity holders of the parent.

[5] Asset to equity ratio is measured as total assets divided by total equity attributable to equity holders of the parent.

[6] Interest coverage ratio is measured as earnings before interest and taxes, divided by total interest and other financial charges.

[7] Profit margin ratio is computed by dividing net income attributable to equity holders of the parent with total revenues.

[8] Return on equity is measured as net income attributable to equity holders of the parent with total equity attributable to equity holders of the p

[9] Return on assets is measured as net income attributable to equity holders of the parent with total assets.

[10] EBITDA margin is measured as EBITDA divided by total revenues.

EBITDA is measured as net income excluding depreciation and amortization, impairment of noncurrent assets, interest and other financial charges, interest and other financial income, equity in net earnings or losses of associates and joint ventures, foreign exchange gains or losses, mark-to-market gains or losses, provision for income tax and other non-recurring gains or losses, if any.

Manila Electric Company and Subsidiaries

Consolidated Financial Statements
as at March 31, 2023 (Unaudited) and December 31, 2022 (Audited)
And

For the Three Months Ended March 31, 2023 and 2022 (Unaudited)

MANILA ELECTRIC COMPANY AND SUBSIDIARIES
UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	March 31, 2023 (Unaudited)	December 31, 2022 (Audited)
	(Amounts in millions)	
ASSETS		
Noncurrent Assets		
Utility plant, generation plant and others	**₱244,119**	₱243,323
Investments in associates and interests in joint ventures	**33,464**	31,888
Investment properties	**1,494**	1,495
Intangible assets	**21,511**	21,691
Deferred tax assets – net	**22,654**	22,657
Financial and other noncurrent assets	**42,132**	43,920
Total Noncurrent Assets	**365,374**	364,974
Current Assets		
Cash and cash equivalents	**57,946**	55,832
Trade and other receivables	**49,276**	54,683
Inventories	**10,832**	10,629
Financial and other current assets	**29,154**	33,143
Total Current Assets	**147,208**	154,287
Total Assets	**₱512,582**	₱519,261
EQUITY AND LIABILITIES		
Equity Attributable to Equity Holders of the Parent		
Common stock	**₱11,273**	₱11,273
Additional paid-in capital	**4,111**	4,111
Equity reserve	**(111)**	(111)
Employee stock purchase plan	**1,049**	1,049
Unrealized fair value gains on financial assets at fair value through other comprehensive income ("*FVOCI*")	**360**	311
Remeasurement adjustments on retirement and other post-employment liabilities	**7,395**	7,282
Share in remeasurement adjustments on associates' retirement liabilities	**(13)**	(16)
Cumulative translation adjustments of associates	**(26)**	(30)
Cumulative translation adjustments of subsidiaries	**41**	51
Treasury shares	**(11)**	(11)
Retained earnings	**81,396**	85,755
Equity Attributable to Equity Holders of the Parent	**105,464**	109,664
Non-controlling Interests	**14,712**	14,445
Total Equity	**120,176**	124,109

(Forward)

	March 31, 2023 (Unaudited)	December 31, 2022 (Audited)
	(Amounts in millions)	
Noncurrent Liabilities		
Interest-bearing long-term financial liabilities - net of current portion	**₱68,258**	₱68,757
Customers' deposits - net of current portion	**32,246**	31,590
Long-term employee benefits	**3,282**	2,893
Provisions	**12,541**	12,657
Refundable service extension costs - net of current portion	**4,614**	4,653
Deferred tax liabilities - net	**5,383**	5,427
Other noncurrent liabilities	**64,089**	63,450
Total Noncurrent Liabilities	**190,413**	189,427
Current Liabilities		
Notes payable	**28,419**	29,491
Trade payables and other current liabilities	**161,203**	163,902
Customers' refund	**2,895**	2,905
Income tax payable	**203**	92
Current portion of long-term employee benefits	**3,750**	3,750
Current portion of interest-bearing long-term financial liabilities	**5,523**	5,585
Total Current Liabilities	**201,993**	205,725
Total Liabilities	**392,406**	395,152
Total Liabilities and Equity	**₱512,582**	₱519,261

MANILA ELECTRIC COMPANY AND SUBSIDIARIES
UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF INCOME

	Unaudited	
	For the Three Months Ended March 31	
	2023	2022*
	(Amounts in millions, except per share data)	
REVENUES		
Sale of electricity	**₱102,356**	₱83,272
Sale of other services	**3,286**	2,633
	105,642	85,905
COSTS AND EXPENSES		
Purchased power	**78,620**	61,657
Coal and fuel	**4,566**	3,466
Depreciation and amortization	**4,054**	3,279
Salaries, wages and employee benefits	**3,962**	3,976
Contracted services	**2,097**	1,777
Provision for probable losses and expenses from claims	**1,294**	2,383
Taxes, fees and permits	**862**	877
Power plant operations and maintenance cost	**395**	447
Other expenses	**2,534**	1,558
	98,384	79,420
OTHER INCOME (EXPENSES)		
Equity in net earnings of associates and joint ventures	**3,915**	2,115
Interest and other financial charges	**(1,197)**	(1,019)
Interest and other financial income	**738**	432
Foreign exchange gains (losses)	**(304)**	222
Others	**(688)**	(31)
	2,464	1,719
INCOME BEFORE INCOME TAX	**9,722**	8,204
PROVISION FOR (BENEFIT FROM) INCOME TAX		
Current	**1,654**	2,336
Deferred	**(137)**	(608)
	1,517	1,728
NET INCOME	**₱8,205**	₱6,476
Attributable To		
Equity holders of the Parent	**₱8,071**	₱6,381
Non-controlling interests	**134**	95
	₱8,205	₱6,476
Earnings Per Share Attributable to Equity Holders of the Parent		
Basic	**₱7.16**	₱5.66
Diluted	**7.16**	5.66

***** *The 2022 balances were restated to adjust the provision for ECL and related deferred income tax.*

MANILA ELECTRIC COMPANY AND SUBSIDIARIES
UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Unaudited	
	For the Three Months Ended March 31	
	2023	2022*
	(Amounts in millions)	
NET INCOME	**₱8,205**	₱6,476
OTHER COMPREHENSIVE INCOME		
Items that will be reclassified to profit or loss in subsequent periods:		
Unrealized fair value gains (losses) on fair value through other comprehensive ("*FVOCI*") financial assets	**25**	(43)
Cumulative translation adjustments of associates	**4**	–
Cumulative translation adjustments of subsidiaries	**(10)**	(1)
Net other comprehensive income (loss) that will be reclassified to profit or loss in subsequent periods	**19**	(44)
Items that will not be reclassified to profit or loss in subsequent periods:		
Remeasurement adjustments on retirement and other post-employment liabilities	**151**	40
Income tax effect	**(38)**	(10)
	113	30
Unrealized fair value gains on equity securities at *FVOCI*	**27**	19
Income tax effect	**(3)**	(2)
	24	17
Share in remeasurement adjustments on associates' retirement liabilities	**3**	9
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods	**140**	56
OTHER COMPREHENSIVE INCOME, NET OF INCOME TAX	**159**	12
TOTAL COMPREHENSIVE INCOME, NET OF INCOME TAX	**₱8,364**	₱6,488
Total Comprehensive Income Attributable To		
Equity holders of the Parent	**₱8,230**	₱6,393
Non-controlling interests	**134**	95
	₱8,364	₱6,488

***** *The 2022 balances were restated to adjust the provision for ECL and related deferred income tax.*

MANILA ELECTRIC COMPANY AND SUBSIDIARIES

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2023 AND 2022

	Equity Attributable to Equity Holders of the Parent													
	Common Stock	Additional Paid-in Capital	Equity Reserve	Employee Stock Purchase Plan	Unrealized Fair Value Gains (Losses) on Financial Assets at *FVOCI*	Remeasure-ment Adjustments on Retirement and Other Post-Employment Liabilities	Share in Remeasure-ment Adjustments on Associates' Retirement Liabilities	Cumulative Translation Adjustments of Associates	Cumulative Translation Adjustments of Subsidiaries	Treasury Shares	Retained Earnings	Equity Attributable to Equity Holders of the Parent	Non-controlling Interests	Total Equity
	(Amounts in millions)													
At January 1, 2023	**₱11,273**	**₱4,111**	**(₱111)**	**₱1,049**	**₱311**	**₱7,282**	**(₱16)**	**(₱30)**	**₱51**	**(₱11)**	**₱85,755**	**₱109,664**	**₱14,445**	**₱124,109**
Net income	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**8,071**	**8,071**	**134**	**8,205**
Other comprehensive income (loss)	**–**	**–**	**–**	**–**	**49**	**113**	**3**	**4**	**(10)**	**–**	**–**	**159**	**–**	**159**
Total comprehensive income (loss)	**–**	**–**	**–**	**–**	**49**	**113**	**3**	**4**	**(10)**	**–**	**8,071**	**8,230**	**134**	**8,364**
Dividends	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(12,430)**	**(12,430)**	**(100)**	**(12,530)**
Others	**–**	**–**	**5**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**233**	**233**
	–	**–**	**5**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(12,430)**	**(12,430)**	**133**	**(12,297)**
At March 31, 2023	**₱11,273**	**₱4,111**	**(₱111)**	**₱1,049**	**₱360**	**₱7,395**	**(₱13)**	**(₱26)**	**₱41**	**(₱11)**	**₱81,396**	**₱105,464**	**₱14,712**	**₱120,176**
At January 1, 2022	₱11,273	₱4,111	(₱116)	₱1,049	₱502	₱2,681	(₱25)	₱306	₱40	(₱11)	₱75,394	₱95,204	₱10,239	₱105,443
Net income*	–	–	–	–	–	–	–	–	–	–	6,381	6,381	95	6,476
Other comprehensive income (loss)	–	–	–	–	(26)	30	9	–	(1)	–	–	12	–	12
Total comprehensive income (loss)	–	–	–	–	(26)	30	9	–	(1)	–	6,381	6,393	95	6,488
Dividends	–	–	–	–	–	–	–	–	–	–	(11,526)	(11,526)	(100)	(11,626)
Others	–	–	–	–	–	–	–	–	–	–	–	–	10	10
	–	–	–	–	–	–	–	–	–	–	(11,526)	(11,526)	(90)	(11,616)
At March 31, 2022	₱11,273	₱4,111	(₱116)	₱1,049	₱476	₱2,711	(₱16)	₱306	₱39	(₱11)	₱70,249	₱90,071	₱10,244	₱100,315

***** *The 2022 balances were restated to adjust the provision for ECL and related deferred income tax.*

MANILA ELECTRIC COMPANY AND SUBSIDIARIES
UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

	Unaudited	
	For the Three Months Ended March 31	
	2023	2022*
	(Amounts in millions)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱9,722**	₱8,204
Adjustments for:		
Depreciation and amortization	**4,053**	3,279
Equity in net earnings of associates and joint ventures	**(3,915)**	(2,115)
Provision for probable losses and expenses from claims - net	**(3,622)**	(404)
Interest and other financial charges	**1,197**	1,019
Interest and other financial income	**(738)**	(432)
Others	**725**	(3)
Operating income before working capital changes	**7,422**	9,548
Decrease (increase) in:		
Trade and other receivables	**2,522**	(7,400)
Inventories	**(203)**	(189)
Financial and other current assets	**108**	(2,579)
Increase (decrease) in:		
Trade payables and other current liabilities	**(11,698)**	12,159
Customers' deposits	**525**	223
Customers' refund	**(10)**	(3)
Long-term employee benefits	**600**	702
Net cash flows provided by (used in) operating activities	**(734)**	12,461
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to:		
Financial assets at *FVOCI*	**(10,214)**	(10,741)
Utility plant and others	**(4,908)**	(5,732)
Debt securities at amortized cost	**(980)**	(9,405)
Short-term investments	**(227)**	(1,168)
Intangible assets	**(74)**	(143)
Investments in associates and interests in joint ventures	**16**	(226)
Investment properties	**–**	1
Proceeds from maturity of:		
Financial assets at *FVOCI*	**10,227**	10,717
Debt securities at amortized cost	**8,289**	10,508
Short-term investments	**195**	435
Dividends received from associates and joint ventures	**2,332**	–
Interest and other financial income received	**749**	427
Proceeds from disposal of utility plant and others	**153**	132
Increase (decrease) in minority interests	**132**	(89)
Increase in financial and other noncurrent assets	**(853)**	(180)
Net cash provided by (used in) investing activities	**4,837**	(5,464)

(Forward)

	Unaudited	
	For the Three Months Ended March 31	
	2023	2022*
	(Amounts in millions)	
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from availment of:		
Notes payable	**₱200**	₱317
Interest-bearing long-term financial liabilities	**–**	158
Payments of:		
Notes payable	**(1,272)**	(80)
Interest-bearing long-term financial liabilities	**(565)**	(4,960)
Dividends	**(433)**	129
Interest and other financial charges	**(1)**	(1)
Decrease in other noncurrent liabilities	**(55)**	501
Net cash used in financing activities	**(2,126)**	(3,936)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**1,977**	3,061
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**55,832**	55,007
NET UNREALIZED FOREIGN EXCHANGE GAINS (LOSSES)	**137**	(34)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**₱57,946**	₱58,034

***** *The 2022 balances were restated to adjust the provision for ECL and related deferred income tax.*

CERTIFICATION OF INDEPENDENT DIRECTOR

I, **ARTEMIO V. PANGANIBAN**, Filipino, of legal age, and a resident of 1203 Acacia Street, Dasmariñas Village, Makati City, Philippines, after having been duly sworn to in accordance with law do hereby declare that:

1. I am a nominee for independent director of MANILA ELECTRIC COMPANY (MERALCO) and have been its independent director since 2008.
2. I am affiliated with the following listed companies or organizations:

Company/Organization	Position/Relationship	Period of Service
GMA Network, Inc.	Independent Director	2007 to present
Metro Pacific Investments Corp.	Independent Director	2007 to present
GMA Holdings, Inc.	Independent Director	2009 to present
Petron Corporation	Independent Director	2010 to present
Asian Terminals, Inc.	Independent Director	2010 to present
PLDT, Inc.	Independent Director	2013 to present
JG Summit Holdings, Inc.	Independent Director	2021 to present
RL Commercial REIT, Inc.	Independent Director	2021 to present
Jollibee Foods Corporation	Non-Executive Director	2012 to present
Metropolitan Bank and Trust Co.	Senior Adviser	2007 to present
Bank of the Philippine Islands	Member, Advisory Council	2016 to present
DoubleDragon Properties Corp.	Adviser	2014 to present
MerryMart Consumer Corp.	Adviser	2020 to present
For my full bio-data, log on to my personal website: cjpanganiban.com		

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of MERALCO, as provided for in Section 38 of the Securities Regulation Code, its Implementing Rules and Regulations and other SEC issuances.
4. To the best of my knowledge, I am not related to any director, officer or a substantial shareholder of MERALCO.
5. To the best of my knowledge, I am not the subject of any criminal or administrative investigation or proceeding pending in court.
6. To the best of my knowledge, I am neither an officer nor an employee of any government agency or government-owned and controlled corporation
7. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code and its Implementing Rules and Regulations, Code of Corporate Governance and other SEC issuances.

8. I shall inform the Corporate Secretary of MERALCO of any changes in the above-mentioned information within five (5) days from its occurrence.

Done this 6th day of March 2023.

ARTEMIO V. PANGANIBAN
Affiant

MAR 2 1 2023

SUBSCRIBED AND SWORN to before me this ____ day of March 2022, affiant personally appeared before me and exhibited to me his Passport No. P0388884B issued by the Department of Foreign Affairs in Manila on January 24, 2019.

Notary Public
ATTY. CLARENCE T. OCTAVIANO
Notary Public
Pasig, San Juan and Pateros
Issued on January 16, 2023 at Pasig City
Appointment No. 134 (2022-2023)
Roll No. 64772/ IBP No. 293589 01/10/2023 RSM Chapter
PTR No. 0174322 01/16/2023 Pasig City
MCLE No. VII-0001109 10/17/2019
8th Floor Lopez Bldg. Ortigas Avenue, Pasig City

Doc. No. 10 ;
Page No. 3 ;
Book No. III ;
Series of 2023.

CERTIFICATION OF INDEPENDENT DIRECTOR

I, **Lydia Balatbat Echauz**, Filipino, of legal age, and a resident of 836 Torres Street, Barangay Addition Hills, Mandaluyong City, after having been duly sworn to in accordance with law do hereby declare that:

1. I am a nominee for independent director of MANILA ELECTRIC COMPANY (MERALCO).

2. I am affiliated with the following listed companies or organizations:

Company/Organization	Position/Relationship	Period of Service
D&L Industries, Inc.	Independent Director	2017 to Present
Pilipinas Shell Petroleum Corp.	Independent Director	2017 to Present

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of MERALCO, as provided for in Section 38 of the Securities Regulation Code, its Implementing Rules and Regulations and other SEC issuances.

4. To the best of my knowledge, I am not related to any director, officer or a substantial shareholder of MERALCO.

5. To the best of my knowledge, I am not subject of any criminal or administrative investigation or proceeding pending in court.

6. To the best of my knowledge, I am neither an officer nor an employee of any government agency or government-owned and controlled corporation.

7. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code and its Implementing Rules and Regulations, Code of Corporate Governance and other SEC issuances.

8. I shall inform the Corporate Secretary of MERALCO of any changes in the above-mentioned information within five (5) days from its occurrence.

Done this 6th day of March 2023.

LYDIA B. ECHAUZ
Affiant

SUBSCRIBE AND SWORN to before me this MAR 2 1 2023 day of March 2023, affiant personally appeared before me and exhibited to me her 118-039-639-000 issued by the Bureau of Internal Revenue (BIR) as his competent evidence of identity.

Notary Public
ATTY. CLARENCE T. OCTAVIANO
Notary Public
Pasig, San Juan and Pateros
Issued on January 16, 2023 at Pasig City
Appointment No. 134 (2022-2023)
Roll No. 64772/ IBP No. 293589 01/10/2023 RSM Chapter
PTR No. 0174322 01/16/2023 Pasig City
MCLE No. VII-0001109 10/17/2019
9th Floor Lopez Bldg. Ortigas Avenue, Pasig City

Doc. No. 8;
Page No. 2;
Book No. II;
Series of 2023.

CERTIFICATION OF INDEPENDENT DIRECTOR

I, **Pedro O. Roxas**, Filipino, of legal age, and a resident of No. 6 Ipil Road, Forbes Park, Makati City, after having been duly sworn to in accordance with law do hereby declare that:

1. I am a nominee for independent director of MANILA ELECTRIC COMPANY (MERALCO).

2. I am affiliated with the following listed companies or organizations:

COMPANY	POSITION	PERIOD OF SERVICE
1. Roxas Holdings, Inc	Chairman	1982 - Present
2. Roxas & Company, Inc	Executive Chairman	1995 - Present
3. Roxaco Land Corporation	Executive Chairman	1995 - Present
4. Club Punta Fuego, Inc	Chairman	1995 - Present
5. Fundacion Santiago	Chairman	1993 - Present
6. MERALCO	Independent Director	May 2, 2010 - Present
7. CEMEX Holdings, Inc	Independent Director	June 3, 2016 - Present
8. OONA (MAPFRE) Insular Insurance Corp	Independent Director	March, 2018 - Present
9. Brightnote Assets Corp	Independent Director	1999 - Present
10. MPIC	Independent Director	2021- Present

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of MERALCO, as provided for in Section 38 of the Securities Regulation Code, its Implementing Rules and Regulations and other SEC issuances.

4. To the best of my knowledge, I am not related to any director, officer or a substantial shareholder of MERALCO.

5. To the best of my knowledge, I am not subject of any criminal or administrative investigation or proceeding pending in court.

6. To the best of my knowledge, I am neither an officer nor an employee of any government agency or government-owned and controlled corporation.

7. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code and its Implementing Rules and Regulations, Code of Corporate Governance and other SEC issuances.

8. I shall inform the Corporate Secretary of MERALCO of any changes in the above-mentioned information within five (5) days from its occurrence.

Done this _th day of March 2023.

PEDRO O. ROXAS
Affiant

SUBSCRIBE AND SWORN to before me this ____ day of March 2022, affiant personally appeared before me and exhibited to me his Philippine Passport No. P0388893B issued by DFA Manila on 24 January 2019.

Doc. No. 9;
Page No. 3;
Book No. III;
Series of 2023.

ATTY. CLARENCE T. OCTAVIANO
Notary Public
Pasig, San Juan and Pateros
Issued on January 16, 2023 at Pasig City
Appointment No. 134 (2022-2023)
oll No. 64772/ IBP No. 293589 01/10/2023 RSM Chapter
PTR No. 0174322 01/16/2023 Pasig City
MCLE No. VII-0001109 10/17/2019
9th Floor Lopez Bldg. Ortigas Avenue, Pasig City

REPUBLIC OF THE PHILIPPINES)
PASIG CITY) S.S.

SECRETARY'S CERTIFICATE

I, WILLIAM S. PAMINTUAN, a duly elected, qualified and incumbent Assistant Corporate Secretary of the Manila Electric Company (MERALCO), a private corporation duly organized and existing under and by virtue of the laws of the Republic of the Philippines, do hereby certify that:

At the regular meeting of the Board of Directors of the Company held at its principal office on January 30, 2023, at which meeting a quorum was present, the following resolutions were approved and that said resolutions are in full force and effect on the date hereof:

> "RESOLVED, that the Board of Directors authorize and approve, as it hereby authorizes and approves, the conduct of virtual Annual Stockholders' Meeting (ASM) on May 30, 2023, that is, through remote communication or other alternative modes of communication in accordance with the Securities and Exchange Commission (SEC) Memorandum Circular No. 6 (2020) imposed by the President of the Philippines to minimize undue exposure of the public, in this event the Company's stakeholders, to COVID-19."
>
> "RESOLVED, AS IT IS HEREBY RESOLVED, that the Company's stockholders of record be allowed to participate in the Annual Stockholders' Meeting and to exercise their right to vote upon any agenda item, through remote communication, or *in absentia,* and for this purpose, their remote or *in absentia* participation be considered in the determination of quorum."
>
> "RESOLVED, FINALLY, that the Corporate Secretary or any Assistant Corporate Secretary of the Company be, as he is hereby authorized to furnish under the seal of the Company certified copies of the foregoing resolutions to any firm, corporation, or government office or agency which may lawfully require the same in connection with the execution or implementation of the foregoing resolutions.

IN WITNESS WHEREOF, this Certificate was signed this 22nd day of February 2023 at Pasig City.

WILLIAM S. PAMINTUAN
Assistant Corporate Secretary

22 FEB 2023

SUBSCRIBED AND SWORN to before me this _____ day of February 2023, affiant exhibiting to me his Taxpayer Identification Number (TIN) 146-473-562 issued by the Bureau of Internal Revenue (BIR) as his competent evidence of identity.

Doc. No. 99;
Page No. 105;
Book No. XXV;
Series of 2023.

ATTY. CORNELIO MANUEL DC. DICCION
Notary Public
Pasig San Juan and Pateros
Issued on May 19, 2022
Appointment No. 62 (2022-2023)
Roll No. 45053/ IBP No. 293402, 1/10/2023 RSM Chapter
PTR No. 17#307 1/11/2023 Pasig City
MCLE No. VII-0011747 10/17/2019

MERALCO

REPUBLIC OF THE PHILIPPINES)
PASIG CITY) S.S.

CERTIFICATION

I, **WILLIAM S. PAMINTUAN,** of legal age, Filipino, in my capacity as the duly elected and incumbent Assistant Corporate Secretary of **MANILA ELECTRIC COMPANY ("MERALCO"),** a corporation duly organized and existing under Philippine laws, with principal office at the Lopez building, Ortigas Avenue, Barangay Ugong, Pasig City, Metro Manila, and with SEC Reg. No. PW-102, do hereby certify under oath that MERALCO has no directors or officers, connected with any government agencies or instrumentalities.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the corporate seal of MERALCO at Pasig City, Philippines, on this 22 MAR 2023 day of March 2023.

WILLIAM S. PAMINTUAN
Assistant Corporate Secretary

SUBSCRIBED AND SWORN to before me this 22 MAR 2023 day of March 2023 in Pasig City; affiant, William S. Pamintuan, exhibited to me his Passport no. P2095480B valid until May 4, 2029.

Doc. No. 31;
Page No. 8;
Book No. XXVI;
Series of 2023;

ATTY. CORNELIO MANUEL III E. LICHA
Notary Public
Pasig San Juan and Pateros
Issued on May 30, 2022
Appointment No. 62 (2022-2023)
IBP No. 293602 01/10/2023 RSM Chapter
PTR No. 174397 01/16/2023 Pasig City
MCLE No. VII-0001097 10/17/2019